AN EVALUATION OF THE

MOZAMBIQUE

PRIVATE SECTOR REHABILITATION III PROGRAM

GRANT NUMBER 656-K-601B

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TABLE OF CONTENTS

I. Introduction

This evaluation sought to assess the impact of the third phase of the Private Sector Rehabilitation Program (PSR III). The Program Assistance Approval Document (PAAD) for PSR III stipulates that an evaluation of the CIP shall be conducted 16 months after the signing of the grant agreement in June 1986. The Office of the AID Representative in Maputo (OAR/Maputo) scheduled the evaluation and developed a scope of work for an evaluation team to undertake the following tasks:

A. Evaluate the general objectives of the program.

B. Evaluate the impact of the inputs on private sector development, transport and marketing.

C. Recommend modifications or additions that will increase the impact (to be incorporated into the PAIP for the fifth phase, CIP 601D).

D. Assess the management of the CIP, both on the part of AID and GPRM.

E. Evaluate appropriateness of commodity mix.

F. Identify policy reform issues to incorporate into PAIP.

G. Suggest changes/evolution of program.

H. Other duties as assigned.

The evaluation methodology and schedule and team composition are attached as Annexes A and B, respectively.

II. Program Background--Private Sector Rehabilitation III (656-0201B)

A. Rationale and Purpose

The Private Sector Rehabilitation Program was initiated in September 1984 and marked the first development-related effort of the United States and the Government of the People's Republic of Mozambique (GPRM). Overall, the program is intended to support the GPRM's policy initiatives in revitalizing private sector activities, especially in food production, and encouraging its expanding cooperation with the West.

The PSR III Program is the third phase of AID's bilateral involvement in Mozambique. The purpose of the program has consistently been support for the private agricultural sector to encourage increased production through the importation of vitally needed inputs and equipment. The CIP provides foreign exchange for the importation of presently unavailable agricultural commodities for private sector farmers and raw materials for the local manufacture of commodities needed in the agricultural sector. As in Phases I and II, the primary justification for the Phase III program remains support for the GPRM's policy trend toward private sector development by providing resources which will help these new policies succeed and by encouraging movement toward a market economy.

B. Commodity Import Program (CIP)

The lack of foreign exchange and the low priority accorded private sector agricultural production in Mozambique after independence resulted in few inputs being available to private farmers and in stagnating or declining production. The few available agricultural inputs were allocated to state farms. The inability of the state farms to provide the country's food requirements, as well as other factors--such as inappropriate economic policies, drought, floods and insurgency--created a food crisis situation. The AID CIP provides inputs to the private agricultural sector in an attempt to help alleviate the food crisis in the Maputo area, and at the same time, stimulate the recovery of private farmers and agricultural production in specific target areas in southern Mozambique.

Under the CIP, AID finances the foreign exchange costs of agricultural inputs, machinery and equipment unavailable in the local market for distribution to the private sector. Four phases of the commodity import program have been designed in Mozambique: PSR I, authorized in FY1984 for $6.0 million, has been concluded and evaluated; PSR II, authorized for $12.0 million in FY 1985, has also been concluded and evaluated; PSR III, authorized for $9.57 million in FY 1986, is essentially completed and is the subject of this evaluation. CIP IV, the final phase in the four-year program has been designed and is currently being implemented.

The priority geographic areas initially identified for assistance included the Green Zones (fertile farm areas) surrounding Maputo city and the Chokwe region (about 200 kilometers north of Maputo) along the Limpopo River in Gaza province. Later, under CIP II, the Xai-Xai district in Gaza Province was also included. These three geographic areas continue to be supported under CIP III.

C. CIP Composition

The commodity list for all three phases of the Private Sector Rehabilitation Program (PSR) has been essentially the same. These commodities have included fertilizer, seeds, farm tractors and spare parts, irrigation pumps, hand tools, ox-drawn equipment, trucks, and spare parts. In the second phase (PSR II) fuel and some raw materials (specifically, zinc sheets, nylon, plastics for irrigation pipes, and natural rubber for inputs to selected private manufacturing firms) were also included. A limited amount of seeds, fertilizer, and hand tools were financed for areas in central Mozambique affected by the drought.

Phase I and Phase II of the PSR program included funds for technical assistance to help Mozambique meet critical needs in training and in the advisory services required for private sector development and increased food production. (These activities were evaluated in March 1987). The FY 1986 PSR III is strictly a CIP and did not include a technical assistance component.

III. Political and Economic Background

A. Political Background

Mozambique gained independence in June 1975, after almost five centuries of Portuguese colonial rule. The Front for the Liberation of Mozambique (FRELIMO), which had waged a ten-year guerrilla war against the Portuguese, assumed power as the sole legal party. The GPRM follows a socialist, centrally planned economic model. The party apparatus closely parallels and oversees the governmental structure. FRELIMO's leader, Samora Machel, who became President in 1975, served in that capacity until his death in an airplane crash in October 1986.
At its Fourth Party Congress in 1983, FRELIMO called for greater emphasis on pragmatic policies. These included price liberalization and a shift in policy emphasis from state farms to small holder family agriculture, from heavy to light industry, and from major new investments to rehabilitation and maintenance. Private enterprise was to be given greater encouragement, and a foreign investment code was enacted in 1984. Several major U.S. corporations have signed protocols with the GPRM to pursue various projects in mining, fisheries, and in the production of steel products. Mozambique also expanded its cooperation with the West by joining the World Bank, the International Monetary Fund (IMF) and the Lome Convention in 1984.

In March 1984 Mozambique and South Africa signed the Nkomati Accord that called on both countries to respect their respective territorial sovereignty. However, a major insurgency which continues to be waged by the Mozambican National Resistance (RENAMO) poses a progressively more serious threat to security and development.

The new President, Joaquim Chissano, who had been the country's Foreign Minister since independence, has been responsible for overseeing the more non-aligned stance and for the improvement in relations with the West. He is a moderate, pragmatic nationalist who has pledged to continue this process.

Thus relations between the U.S. and Mozambique have improved greatly in recent years. Since late 1982 there has been substantial agreement on issues of joint concern. Mozambique has been supportive of U.S. efforts to bring about Namibian independence. In the United Nations and other international fora, Mozambique has demonstrated a more receptive attitude towards the U.S. position on key issues. As a member of the Front Line States and the Southern Africa Development Coordinating Conference, Mozambique is viewed as having a stabilizing influence in the region.

Mozambique is strategically located and endowed with largely untapped economic potential, particularly in agriculture, energy, and minerals. Its transport routes provide vital outlets to the sea for neighboring landlocked states. If it continues to provide a moderating, stabilizing influence, Mozambique will play a pivotal role in regional attempts to resolve Southern Africa's political and economic problems.

B. Economic Background

Economic activity in Mozambique declined severely from 1980 through 1986. Even though the downward trend of incomes was reversed in 1986 and positive growth is expected in 1987, the various available measures indicate that aggregate real income in 1986 was less than 68% of its 1980 levels. In addition, per capita incomes have declined by over 50% from 1980 through 1986 and are expected to remain constant or decline slightly in 1987.

Since 1980 Mozambique's external balance of payment position can best be described as a major disaster. Ex-ante overall balance of payments deficits have risen from $32 million in 1980 to $542 million in 1986. The financing of these deficits has led to the reduction of the country's foreign reserves from $268 million (4 months of imports) in 1980 to $55 million (1 month of imports) at the end of 1986. In addition, over $1.1 billion in debt arrears were accumulated over this period. These massive deficits have occurred despite a one-third decline in the level of merchandise imports from $800 million in 1980 to $543 million in 1986. The overall deficits arise from the following developments:

- A contraction in exports of goods and services of over 45%;
- An increase of over 300% in scheduled debt service (excluding arrears) which have resulted in debt

service to export ratios of 100% or more since 1982; and

-- An increase in non-interest service expenditures of more than 78%.

The structure of Mozambique's balance of payments presents a number of structural anomalies which represent major problems for resolving the country's external imbalance:

-- Since 1982 current debt service before debt relief has exceeded total exports by as much as 175%, a fact which is expected to continue through 1990;
-- Including previously accumulated debt arrears, total debt service obligations have exceeded total exports by as much as 500%.
-- Donor assistance (excluding debt relief) which equalled $35.50 per person in 1986 has consistently financed roughly 60% of total imports; since 1982 these flows have been twice the level of Mozambique's total exports; and
-- Despite the high level of donor assistance, total imports have exceeded total exports plus donor assistance by up to 20% since 1983.

These factors indicate an extreme dependence on external financing which must be overcome if the Mozambican economy is to become viable. For the period 1987 through 1990, balance of payments estimates and projections based on highly optimistic assumptions concerning export performance and donor assistance flows indicate a continuation of major ex-ante overall deficits of more than $300 million per year before debt relief. Even after debt relief, annual financing gaps of $50-$60 million are expected for the out-years 1988-1990. Thus, further accumulation of debt arrears and/or a reduction in estimated imports should be expected.

Another problem which has plagued Mozambique's economy has been its internal financial situation. Due to large budget deficits and parastatal losses, the broad money supply has risen at unacceptable levels since 1980. This has placed extreme pressures on domestic prices which have increased at an annual rate of at least 20% to 25%. Given the extreme rigidity and lack of adjustment in "official" prices, the policies have resulted in shortages in official markets and significantly higher prices in parallel markets.

Beginning in early 1987 the GRPM announced and began the implementation of a new Economic Recovery Program (ERP) for the period 1987-1989 which is designed to address the macroeconomic and sectoral policies which have constrained the performance of the economy. This new policy thrust has received the support of both the IBRD and IMF. The principal objectives of the ERP are to restrain the decline in the economy, re-establish economic growth, and stabilize the country's internal and external financial situation. The general approach of the ERP is to reduce the influence of centralized administrative controls in the economy by allowing market forces to play a greater role in determining the allocation of resources, income and performance of economic units and individuals.

IV. Implementation of the CIP

A. Relationship of the Commodity Import Program (CIP) to the Office of the AID Representative/Maputo (OAR/Maputo)

The CIP is an integral part of the overall mission program that, along with food and disaster assistance, places AID in the category of a major donor in Mozambique. As one of the major components of U.S. assistance provided to Mozambique, the CIP is a program which can be a basis for substained dialogue with GPRM officials on price liberalization, increased private sector involvement, and economic reform measures. While OAR/Maputo has responsibility for the management of the CIP, technical and related expertise is provided by other AID missions. For example, agricultural consultation needed for the design and implementation of the CIP was provided by the agricultural staff of REDSO/ESA in Nairobi, and now from USAID/Mbabane. Legal and financial accounting assistance is provided on an on-going basis by USAID/Mbabane.

B. Organization of CIP Office

At the time of the present evaluation, the CIP Office was staffed as follows:

1. Commodity Management Officer (CMO)--Judi Shane

2. Commodity Import Monitor--Ana David

3. Commodity Import End-Use Monitor--Fernando Paixao

4. Secretary--Maria Joao Oliveira

During much of the implementation of Phase III, the CMO was also acting Executive Officer of the Mission. As full staffing is being achieved by OAR/Maputo, CMO has resumed full-time duties on the CIP.

The program has also experienced other personnel changes. One of the CIP Monitors, Mr. Jose Marques, resigned recently. He was replaced by Ms. Ana David in early July. The new monitor has acquired a quick knowledge of CIP program and office procedures as well as use of ADP equipment (particularly Lotus 123).

Mr. Fernando Paixao is an experienced local hire who has been with the program since March 1986. He recently returned from a two months' training program at Oklahoma State University (OSU) where he studied microcomputer applications in agricultural development.

C. Commodity Purchases

1. Interviews with Importers

In addition to a review of the mission CIP files and to detailed conversations with the OAR/Maputo CMO, two members of the evaluation team discussed the procurement process used in the program with eight agencies/businesses which imported $6,443,000 or about 67% of the total value of commodities financed by AID under the program. Of these eight entities, three are privately-owned businesses and five must be classified as public sector entities because they are either parastatal (government-owned and controlled) or 'intervened' firms (companies whose management and control was assumed by the government when the original private owners fled the country around the time of independence). Below is a brief summary of the pertinent information gained in these interviews with the officers of the firms contacted:

a. Entreposto is a 100% privately owned company and the authorized Massey Ferguson dealership for Mozambique. The team interviewed Mr. Hernani Dores da Mata, Director of Technical Services. The company imported farm tractors, tractor implements and spare parts, and 8 ton trucks worth $1,158,890 under the program. This foreign exchange, which represented 23% of the total Foreign Exchange (FX) expenditures of Entreposto in 1986, has had a major impact on Entreposto's business. Although no new employees were hired as a result of the company's participation in the CIP, Mr. Mata stated that improvements in employee productivity were evident since workers were kept busier than would have been the case if the firm had not had access to FX under the program. Mr. Mata stated that he would prefer AID, through the Bank of Mozambique, to make available a foreign exchange credit which Entreposto could use to import Massey Ferguson (MF) tractors, parts and implements which are required/desired by farmers in the AID target zones rather than the process where competitive bids are required and FX for all tractor imports is awarded on the basis of the tender. He stated that the cost of MF tractors would be about the same (+/- 10%) under either allocation system. The team also inspected the company's spare parts stock room. Entreposto maintains records and stock storage separate from their other inventory for the AID-financed parts in order to ensure that the parts are sold only to private farmers who own/operate MF equipment.

b. Facobol, a 100% private company engaged in the manufacture of rubber products, imported $219,740 worth of rubber raw materials for making rubber boots and irrigation hose, and $49,272 worth of plastic boxes to be used for the storage/transportation of vegetables. At this company the team interviewed Mr. Jorge M. Roxo Morgado, director of the company, who stated that the AID-provided FX supported about 20% of the total manufacturing process of his company in CY 1986 and thus had a significant impact on productivity. Mr. Morgado would like to have access to AID FX not only for raw materials (as in the past) but also to finance spare parts for the machinery used in his manufacturing process and for new machinery. Most of the company's machines are over 20 years old.

c. Pendray and Sousa is an 'intervened company' presently 100% controlled and managed by the government. The company is the authorized distributor of Isuzu, Bedford and GM products in Mozambique and received an allocation of $515,000 to import 3 ton trucks and truck spare parts under the program. The team interviewed Mr. Mario Silva, Director, who stated that the AID-provided FX represented about 40% of the total FX to which his company had access in 1986. The firm has employed 8 more people because of the additional business which resulted directly from the CIP. Mr. Silva expressed no preference between the present tendering system and a direct allocation of FX to importers based upon the expressed demand of farmers. He did, however, speculate that the price of an Isuzu 3 ton truck would probably increase about 10% if the tendering process were eliminated.

d. Interquimica is a 100% state-owned and managed enterprise engaged in the importation of fertilizer, pesticides and agricultural chemicals into Mozambique. The firm received an allocation of $1.6 million to finance fertilizer for the program. The team interviewed Mr. Aurelio Chiziane, General Director, who stated that 100% of the FX to which the company had access in 1986 was provided by international donors and that USAID's portion represented about 2/3 of that total. He stated that the program had a tremendous impact on the availability of fertilizer and thus on the production of food in the target areas. The fertilizer procurements were conducted by tenders issued by AID/W which also arranged the shipping. Mr. Chiziane stated that Interquimica received the fertilizer contracted for in the correct quantities and in good condition. He did note that almost 50% of the CIF cost of the fertilizer imported under the program represented the freight cost paid to Lykes Lines.

e. At Tecnica Industrial (TI), a wholly private company, the team interviewed Mr. Victor Gonsalves, the General Manager. The company used $1,136,655 from the program to import 8 Ton trucks, truck spare parts, and farm tractor spare parts and implements. The AID-provided FX represented about 2/3 of the FX available to the firm in 1986. TI employed 2 additional people in their stock room to keep separate records and storage of the spare parts purchased with the AID funds. Mr. Gonsalves stated that he would prefer an FX allocation system based upon expressed farmers' demand for the products that his company represents rather than the tendering system now in use. Referring to the fees that winning bidders must pay to the procurement agent, he described the request for quotations transmitted by Intermecano as the most expensive telexes ever sent. He estimated that there probably would be negligible increases in the cost of tractors and trucks to the farmers if the tendering system were eliminated. Of special note is the fact that TI was, prior to 1975, the largest importer of agricultural seeds in Mozambique. Mr. Gonsalves stated that, given the necessary FX, TI would have no difficulty in again acting as a seed importer and distributor. In addition to his comments about the fee charged by Intermecano, which he felt was unwarranted, Mr. Gonsalves also complained about the low level of service and slow clearance of goods from customs by Intermecano.

f. At Intermecano, the team interviewed Mr. Muinhe Mufahaia, Commmercial Director, and Mr. Rodrigo Oliveira, Director General. The firm is a 100% state-owned enterprise which acts as a procurement services agent and as freight receiving and clearing agent for donor-financed commodities. Sources of the company's $35 - $40 million worth of business in 1986 were grants from Sweden, Japan, the EEC, and the USAID CIP. Mr. Mufahaia stated that the firm charges between 1.75% and 5% of the CIF value of commodities for their procurement and clearing services but that Ms. Judi Shane, the OAR/Maputo CMO, had negotiated fees as low as .5% for the USAID CIP. (A review of the files on procurements handled by Intermecano revealed that their fee was levied not on CIF value but rather on the value of the commodities after they had cleared customs and thus included customs duties and port charges. Normal practice of US procurement services agents is to charge fees on the FAS value of the goods bought. In short, Intermecano's fees are not what Mr. Mufahaia purported them to be - they are considerably higher.)

g. Boror is a 100% public sector entity involved in the importation and distribution of agricultural seed and in the distribution of fertilizer, seed and pesticides throughout the country. The company functions under the direct supervision and control of the Ministry of Agriculture. The team interviewed Mr. Francisco Chilabe, the chief of the Commercial Department. Boror acted as importer and distributor for $1,260,300 worth of seed and distributor for $1,600,000 worth of fertilizer under the CIP. The central office of Boror charged 2.5% of the CIF value of the seeds and 5% of the CIF value of the fertilizer for its services. (The team understood that the local offices of Boror also charged additional fees for picking up the seed from the Boror central office and for acting as the retail outlet for the seed and fertilizer.) AID's CIP-financed transactions amounted to 80% of the agricultural inputs handled by Boror for the southern 1/3 of Mozambique in 1986. Thus fees charged by Boror on the AID-financed commodities provided a significant amount of the company's income. Mr. Chilabe stated that USAID was the easiest (sic) donor with which to work.

h. Maquinag is an intervened private company that is presently controlled/operated by the state. The team interviewed Mr. Eben S. Sengo, Director General, and Mr. Silvino Moreno, Production Manager. The firm which has 600 employees, 580 of whom are involved in production, makes steel furniture and trailers for trucks and farm tractors. Maquinag received an allocation of $250,000 from the CIP to import raw materials necessary to manufacture trailers. This money represented about 30% of the FX to which this company had access during 1986. Mr. Sengo stated that he had experienced no difficulties with the AID program and would like USAID to make additional resources available to his company to finance new equipment and training for some of his production workers. (Most of the firm's production machinery is about 20 years old.)

2. Procurement Process

Generally, the CIP was implemented in a timely manner with a minimum of problems. The CIP III Grant Agreement (656-K-601B) was signed on June 10, 1986 for $9.57 million from the Economic Support Fund. Three commodity Procurement Instructions covering the entire amount of the Grant were issued one day later. Financing Requests again covering the entire amount of money made available by the Grant Agreement were issued on June 17, 1986. Thus within one week of signing, the basic documents setting the structure necessary to begin the actual procurement of commodities were in place.

The team found that the procurement processes used by the OAR/Maputo were consistent with the dictates of AID Regulation 1. With the exception of the purchase of fertilizer, which was accomplished by AID/W under a formal Invitation for Bids, procurements were conducted from Maputo under competitive negotiated procedures with Requests for Quotations used for all purchases above $25,000. The team also noted that the competitive nature of the procurement processes used led to payment of reasonable prices for all goods financed by the program. (The notable exception to this fact is the price paid for ocean shipment of the fertilizer which is no doubt the result of the monopoly position enjoyed by Lykes Lines under the Congessionally-mandated cargo preference law.)

The files and records maintained by the OAR/Maputo CMO are well organized, complete and neat. Members of the team with considerable AID experience were uniformly impressed with the evident superior management of the day-to-day activities of the program.

The performance of the OAR/Maputo CMO is even more praise-worthy considering the difficult environment in which the program was implemented. There is often an unstable security situation in the target areas. "Statist" attitudes seem to pervade the Mozambican bureaucracy at both the central and local level. Moreover, the lack of expertise in many of the staff of the Government institutions with which the OAR must work necessitated more direct AID involvement in the implementation process than is normally required in programs of this type.

It must be noted, however, that the PAAD, reflecting the will of the Congress, states repeatedly that the program should be implemented to the extent possible through private sector entities. The Grant Agreement goes further and limits end-use of the commodities to the Mozambican private agricultural sector, defined as private commercial and family farmers and cooperatives. Still, the team found a high level of public sector involvement in the implementation of the program. Specifically, the procurement of the tractors and tractor spare parts, trucks and truck spare parts, and farm implements were accomplished by a parastatal agency, Intermecano, which issued tenders on behalf of the Government of Mozambique. Intermecano charged fees for its services. (See interview with Intermecano above). Other parastatal agencies were also involved in the procurement and distribution process. Boror was used as procuror of the agricultural seeds and as distributor for the fertilizer financed under the program. Interquimica, also a state-owned enterprise, acted as the importer for the fertilizer. These public sector entities also received fees for the services they performed for the program. In fact, after Interquimica assessed its fee as importer of the fertilizer, the central office of Boror charged an additional 5% of the CIF value to act as distributor, and then the local offices of Boror charged an additional fee to retail the fertilizer to the farmer. The practice of pyramiding fees by these parastatal agencies to administer AID Grant funds is questionable at best.

Since the Fourth FRELIMO congress has decreed that State-owned enterprises which do not make a profit will be dissolved, the pressure to ensure profitability has further increased for managers of the parastatal companies. The AID CIP-provided funds were a significant portion of the business that many of these firms conducted in 1986. It is thus ironic that the effect of the program's use of parastatal entities to act as importers, distributors and/or agents for the CIP may have been to prolong their existence. This certainly is not consistent with the intent of the program as expressed in the PAAD.

It was also noted that government-owned and/or controlled businesses other than those mentioned above acted as importers for commodities financed by the program. The use of some of these firms may well have been justified since in some instances there may not have been a viable private sector alternative. In other cases, the three-ton trucks, for instance, significant cost savings were realized because the parastatal importer underbid its private competition. However, the fact remains that about 60% of the CIP-financed commodities were imported by parastatal entities and the team felt that this level of involvement by state enterprises was not consistent with the private sector emphasis of the program. The chart below lists the 8 private sector and 7 public sector importers and the value of the CIP-financed goods they imported.

Private Sector Importers	Value of Imports	Public Sector Importer	Value of Imports
Entreposto	$1,158,890	Intermecano	$203,580
Tudor	150,000	Pendray & Sousa	515,000
Industrias Metalicas	500,000	Petromoc	900,000
Ignacio de Sousa	10,000	Interquimica	1,600,000
Tecnica Industrial	1,136,655	Boror	1,260,300
Toyota de Mozambique	50,000	Maquinag	250,000
Comel	500,000	Mabor	1,000,000
Facobol	269,012		
TOTAL	$3,774,577		$5,728,880

D. Recommendations

1. That the OAR/Maputo continue attempts to maximize private sector involvement in the procurement process.

It is a common sense notion that unless the commercial infrastructure to support agriculture exists in a given area/country, self-sustaining development of the agricultural sector is not possible. Only private sector firms can be expected to respond rapidly to changes in market conditions and to the demands of the farming sector. Development of the private sector firms which service agriculture is thus probably a prerequisite to sustained development of agricultural production in Mozambique.

Recognizing that in an environment where central planning and "statist" responses to development issues have been the pattern, efforts to exclude public sector entities from the procurement process are not a simple and easy matter. However, the team feels that there are certain areas where public sector involvement in the procurement of CIP-financed commodities can possibly be eliminated.

Two possible avenues of approach present themselves:

a) As noted above, the OAR/Maputo CMO has already had to involve itself in the procurement process to a larger extent than is normally the case in a CIP. In fact, a review of the files in the CMO office leads one to the conclusion that the CMO is already doing most of the work for the public sector procurement services agent, Intermecano. Thus, the fees which are, as noted above, at best questionable could be eliminated if the CMO undertook to complete the procurement of the trucks and truck spare parts, tractors and tractor spare parts, and agricultural implements which heretofore have been procured by Intermecano.

The team feels also that the OAR/Maputo should hold discussions with the Government with the goal of privatizing, to the maximum extent possible and at the earliest possible date, the importation and distribution of seeds and possibly also of fertilizer. As noted above, one private company, Tecnica Industrial, has expressed willingness to undertake the importation and distribution of agricultural seed and fertilizer. The team believes that there are possibly others. There seems to be little need for the continued reliance on Boror and Interquimica and their layered fee structure.

Although there appeared to be good reasons why such importers as Pendray & Sousa were awarded allocations of foreign exchange, i.e. lower cost of the product they offered in a competitive tender, given the explicit intent of the Congress that United States aid to Mozambique be to and through the private sector to the extent possible, the team suggests that the OAR/Maputo CMO justify in a memorandum to the file any award which is made to a government-owned entity.

b) The end-use monitor for the program has recently undergone training in the US in microcomputer applications in agricultural development. The team was greatly impressed with his competence, knowledge and sophisticated/sensitive approach to farmers during field interviews. It may be possible to use his newly acquired skills to identify in detail the felt equipment and agricultural input needs/preferences of farmers and, on the basis of that information, to make allocations to private sector importers to import the necessary inputs. This approach would have the advantage of relieving OAR/Maputo CMO of the requirement to conduct competitive negotiations since many of the importers involved can be expected to have "special supplier importer relationships" with their suppliers.

E. Financial Management Support Services

Financial management support is provided to the CIP on an on-going basis by USAID/Mbabane. In addition to overall assistance provided by the Controller's Office in the issuance of direct Letters of Commitment and related activities, USAID/Mbabane is also responsible for monitoring local currency generations and deposits. With regard to the latter, the USAID/Mbabane accountant (and an assistant) review the activities of a local accountant (hired by OAR/Maputo) who is directly responsible for monitoring local currency accounts.

The evaluation team noted several deficiencies in financial management support services that included the following:

1. The lack of continuous and consistent financial management support services to the CIP. Although the USAID/Mbabane accountant visits OAR/Maputo on a regular basis, the CIP has not benefitted from the services of an on-site local accountant for a number of months. A local accountant was recently hired but her training to date appears to be minimal and has not yet been completed. (It is our understanding that arrangements are being made to complete the training of this accountant in USAID/Mbabane in November).

2. The lack of clearly defined financial management functions, duties, and responsibilities. The evaluation team felt that financial management duties and responsibilities of the visiting technical assistance team from USAID/Mbabane and those of the recently hired local accountant were not well defined. This was a special concern in that the local accountant is responsible for CIP as well as other mission functions (in particular, the Operating Expense (OE) budget). It thus appeared to some members of the evaluation team that, under these circumstances, OE responsibilities took precedence over those involving the CIP.

3. Proper financial reporting systems/mechanisms have not been developed, and consequently, local currency accounts have not been properly monitored. Financial reports are prepared on an ad hoc basis by the technical assistance team from USAID/Mbabane. These reports are not prepared in accordance with any standard format, and (judging on the basis of examples accessible to evaluation team) they contained a number of inaccuracies that limited their utility. Lastly, there are no procedures for dealing with importers who are in arrears in local currency deposits and who continue to participate in the CIP.

4. The evaluation team also felt that the current _modus operandi_ of the visiting team from USAID/Mbabane created an undue administrative burden on an already overburdened OAR/Maputo CIP staff. In our view the visiting team should work more closely with the local accountant and re-define her job description to include responsibilities for routine administrative tasks currently handled (for the most part) by the CIP staff i.e. coordination of visits by outside technical assistance teams, setting up appointments with local GPRM officials (at the time of the evaluation, the local accountant had not yet been introduced to local government counterparts) and the preparation of standard financial reports on a regular basis.

F. Recommendations

1. That the training of the local accountant be completed as soon as possible. Such training should include a review of the overall objectives of financial management support services provided to OAR/Maputo, with special emphasis on the duties and responsibilities of the local accountant under the CIP.

2. That the responsibilities of the local accountant include routine administrative duties involving the coordination of CIP activities with local government counterparts, visits by outside technical assistance teams, and preparation of financial reports.

3. That financial reporting on local currency accounts be prepared on a regular basis and in accordance with an agreed upon format. Moreover, procedures should be established for monitoring accounts of 'delinquent' importers, i.e., local importers in arrears in payments to local currency accounts who continue to participate in the CIP.

V. CIP Impact on the Agricultural Sector

A. Agricultural Sector Background

Since independence, agricultural production has not only failed to keep pace with population growth, but actually declined in absolute terms in 1982, and, even more sharply in 1983. From 1975 to 1981 agricultural export earnings increased but have declined since. Major agricultural exports dropped in volume by 71 percent from 1980 to 1986. As shown in the table below marketed production of major export crops such as sugar, tea and citrus continue to decrease. Marketed production of both maize and rice, the second and third most important food crops (cassava being the most important food crop although negligible quantities are actually marketed), were in 1983 at 67 percent and in 1986 at 37 percent of their 1980 marketed levels.

Table

Mozambique Marketed Production of Major Crops 1980-86
(in thousands of metric tons)

	1980	1981	1982	1983	1984	1985	1986
Cashews	87.6	90.1	57.0	18.1	25.3	30.4	40.1
Sugar	170.2	177.7	125.8	73.7	39.3	25.0	16.8
Cotton	64.9	73.7	60.7	24.7	19.7	5.7	10.8
Tea	90.2	99.2	109.7	51.1	59.8	25.0	6.4
Copra	37.1	54.4	36.6	30.7	24.8	24.0	28.6
Citrus Fruits	37.3	36.7	38.1	33.5	24.6	31.5	20.2
Maize	65.0	78.3	89.2	55.8	82.6	58.6	21.5
Rice	43.6	28.9	41.3	17.1	19.1	17.9	19.0

Source: Statistical Information 1986, National Directorate of Statistics, GPRM

In 1979 a heavy cyclone affected the northern provinces, and in January 1984 another cyclone caused extensive damage in the south. Starting in January 1981, four years of prolonged droughts have caused widespread problems in the south and central portion of the country. Rainfall in the 1982/83 season was at levels between one-fourth and two-thirds of the previous 30 year average. Climatic conditions have generally returned to normal although in some areas drought conditions prevailed during the 1986/87 season. This would suggest that the continuing decrease in marketed production results from either shortages in input supplies, lack of transport or a further deterioration of the security situation in the producing areas. The latter reason is probably a major cause.

One of the few bright spots in the national food production situation continues to be the availability of fresh produce in the local Maputo (and Chimoio, Nampula and other) markets. The selection of fresh produce includes most items found in any southern African vegetable market. Free market forces are evidently at work since the initial high vegetable prices declined in response to increased market supply and changes in demand factors.

Phase III of the Private Sector Rehabilitation (PSR) program continues to focus on the agricultural sector and on certain target areas assumed to have the greatest potential. Private sector farmers continue to be faced with the problem of few production resources, such as equipment, spare parts and other production inputs. Most of the pre-FY 1984 agricultural equipment (tractors, plows, seeders, cultivators and trucks) in the private sector are out of service or have reached the end of their effective life. Additionally, all private sector farmers, including family farmers, are faced with shortages of basic hand tools, fertilizer and seed. Agricultural support industries, such as food processing, equipment manufacture and rubber and plastic manufacturers are operating at fractions of their installed capacity due to lack of imported raw materials and shortages of spare parts.

The commodities imported under the PSR program are having a significant impact on agricultural production, but fall far short of meeting the needs even within the specific target areas. The overall demand for agricultural equipment and inputs far exceeds the current supply due in part to the overvaluation of the Metical. The PSR program continues to be one of the few sources of agricultural inputs and equipment for private sector farmers in the targeted areas.

1. The Target Areas

During the evaluation it was possible to interview farmers in two of the target areas. These farmers had received either trucks, tractors, motorcultivators, seed, hand tools or other inputs. Specific data on quantity or value of production was not solicited during the interviews but information of a general nature on the amount of land planted and/or whether this area had increased from the previous year was obtained.

For this evaluation the term private farmers refers to private commercial farmers, family farmers, and cooperatives. Family farmers are subsistence farmers producing primarily for self-consumption or for barter with other family farmers. Private commercial farmers gear their production to commercial sale and are cognizant of fluctuations in prices and quantities being offered in the Maputo and surrounding markets. Cooperatives produce for both the commercial market and the consumption needs of their members. Most cooperative members are also family farmers in that they have their own family plots where they produce for self-consumption.

Nationally, there are an estimated 7,000 private commercial farmers, 25 percent of them in the program target areas, who produce 5 percent of the agricultural production and 15 percent of the agricultural exports. The family farmers account for 70 percent of production and 20 percent of agricultural exports, mainly cashews, with state farms producing 25 percent of production and 65 percent of agricultural exports. Cooperatives are unimportant from a national production perspective, but comprise a significant portion of the farm area in the Maputo Green Zones.

Table

Demographic and Land Characteristics of the Target Areas

Zone and Sector	Number	% Total	Average Farm Hectares	Total Hectares	% Total
Maputo Green Zones					
Private Commercial Farmers	300	2	15	4,500	37
Family Farmers	12,400	54	0.5	6,200	52
Cooperative Members	10,000	44	N/A	1,300	11
State Farms	0	0	0	0	0
Maputo Province					
Private Commercial Farmers	150	0.2	46	6,900	11
Family Farmers	80,000	97	0.5	40,000	65
Cooperative Members	2,100	3 N/A	2,000	3	
State Farms	13		1,000	13,000	21
Gaza Province					
Private Commercial Farmers	1,173	1	11	12,738	15
Family Farmers	113,092	96	0.5	56,500	68
Cooperative Members	4,000	3	N/A	4,338	5
State Farms	10		1,000	10,000	12

During the last several years, there has been a reduction in the amount of land farmed by the state in Gaza Province. The GPRM continues to make more land available to private farmers, both from the redistribution of land from state farms and the development of new land.

Of the private farmers who had received equipment in the two areas visited, there was a marked increase in the area planted. Nearly all of these farmers noted an increase in vegetable and maize production when supporting inputs accompanied the equipment. In other words, without seed and fertilizer there would have been little change in production attributable to the equipment alone. Most farmers noted that the increased availability of inputs contributed significantly to increased production even under the current low market prices and the variable weather conditions.

The evaluation team did not visit Xai-Xai due to bad weather and security conditions.

a. Maputo Green Zones

The Maputo Green Zones, an agricultural area surrounding Maputo city, is the major supplier of food for the urban and outlying markets of the capital city. Production of export crops in this area is limited to cashews and all other production is either for self-consumption or for commercial sale.

Agricultural output continues to increase in the Maputo Green Zones for several reasons. First, farm infrastructure is improving as more industrial-type commodities (cement, rubber hose, steel pipe, fencing materials, etc.) are becoming available to this sector. Structures for confining livestock (pigs, goats) and poultry (chickens, ducks, geese and turkeys) are being renovated or constructed. Irrigation/water systems are being installed that are sophisticated and efficient. Second, although the area under production continues to increase (part due to expansion of older holdings and part due to the continuing influx of approximately 300 people per day coming into the Maputo area), emphasis at least for vegetable production is being placed on intensifying the production process. This methodology is more-labor intensive and efficiency is gained in planning and developing the various cultural practices used in the production process. In addition, the utilization of inputs, such as seed, water and fertilizer, are minimized in that only what is needed is used/applied and therefore little is wasted in nonproductive areas. Third, the supply of essential agricultural inputs (seed, fertilizer) is more reliable due to various donor programs. Obtaining seed is no longer a problem; however, obtaining specific varieties of seed will continue to be troublesome for some time to come. Part of the problem is being solved by the farmers producing their own seed. Again, seed production was considered to be nonexistent in the past years in this area. Fourth, the machinery and hand tools provided by donors fit the needs of the farmers in this area. Future CIPs should continue to provide resources for motorcultivators, water pumps, rubber hoses and boots, plastic boxes, sprayers and other hand tools to help meet the increasing demand for these items in this area.

The most notable problem encountered is transport. Now that sufficient commodity is reaching the market, market prices are low, making it extremely difficult for the farmer to use commercial transportation to haul his produce to market when in the end he may not even receive the transport cost. Therefore, farmers continue to request that trucks be provided through the program that are large enough to meet their needs and at the same time allow transport to take place at levels where only the variable cost of transport (cost of fuel and driver) are recovered from the sale of commodities. The importance of truck size should be noted. Although smaller trucks may be more efficient to maneuver in the Green Zones, the cost of making three trips as opposed to one is significant in determining whether or not to market a commodity. In addition, the fuel rationing system does not compensate for tonnage but mainly for distance. Thus, the more commodity that can be carried on each truck, the more commodity that will be marketed.

The distribution of seed also needs to be tightened up. Allocation of seed seems to be done on a generic name basis. However, most areas require specific varieties of seed because some varieties are not produced in certain locations. This has not been taking place, and thus, for example, melon seed has been allocated to the Green Zones which is generally not used by the farmers. Conversely, other seeds imported under CIPs which are suitable/desired for this area are being allocated to other areas where growing conditions are less suitable.

b. Chokwe Region

Chokwe is an impressive irrigated area with over 30,000 hectares under irrigation. There are approximately 125,000 residents (25,000 families) in the area. After independence and the exodus of many Portuguese, the state took over most of the abandoned irrigated land in Chokwe and developed large state farms. Production levels dropped sharply after independence due primarily to the failure of state farms to reach production expectations and unfavorable weather conditions.

A transformation in agricultural productivity by the private farmers is continuing in Chokwe. A number of factors have contributed to this transformation: good weather, the hard work of the private farmers and the availability of agricultural equipment and inputs. Although official marketed production in the Chokwe area increased only slightly during the past year, output from family farms and private commercial farmers continues to expand. The family farmers continue to produce over 80 percent of the maize, mainly for subsistence, while the private commercial farmers produce approximately 65 percent of the vegetable production and 40 percent of the rice production. Although the majority of the agricultural production in the Chokwe area takes place under irrigated conditions, weather conditions play an important role in production. The amount of rain during the productive period (land preparation to harvest) has a significant impact on the commodity produced, especially in areas in the irrigation scheme where obtaining water is marginal. Farmers interviewed indicated that favorable weather conditions existed during the past year and the early rain encountered during the visit was a good sign for the upcoming year.

The private farmers in the Chokwe area are experienced farmers, many having farmed in the area for over 10 years. They project a sense of pride and understanding/knowledge in their efforts which is often not the case where there is government intervention/control imposed on the production process. Although the family farmers in an Agrarian House scheme in the Chokwe area had not, in general, been as successful as other producers (for the most part this is due to the marginal land where they are located), a positive work ethic prevails as well as a sense of competitiveness. All of these farmers are striving to increase production and are succeeding in spite of the difficult environment in which they must operate and the limited resources available to them.

The allocation/distribution of equipment, seed, fertilizer and other inputs is determined by the local district agricultural officer, a Ministry of Agriculture representative. His assessment is based principally on farmers' plans and their willingness to cooperate with government officials. Under conditions where market forces have not prevailed, this method has been satisfactory. Now that there is considerable surplus production in the area and farmers are finding it difficult to sell all their production, the decision to make an investment in new equipment and unknown/untried varieties of seed will be based on much different criteria. Since the last evaluation, some farmers, especially marginal farmers, have not had sufficient resources to pay for the new equipment. Credit is not a solution to this problem since it is not possible for the farmer to have a positive rate of return on his investment. Additionally, the farmer is faced with oversupply and low prices in the market which force him to minimize costs of production, maximize production (i.e., need to produce more if returns per unit are lower) and produce a high quality product. Therefore, farmer decisions will play an increasing role in the seed allocation/distribution process.

Shortages of equipment and other agricultural inputs continue to prevail in the Chokwe area. The shortage of motorpumps in the older producing areas and new land, outside the irrigation scheme, is critical and will limit long term expansion of production in the area. Supplies of seed and fertilizer are available. However, preferred varieties of seed are often not available or are late in arriving, and the quantities of fertilizer received are sometimes not sufficient. In other cases, the right type of fertilizer for a particular crop is not available.

B. Interviews with Farmers

1. Chokwe - Deputy Director of UDA Mr. Mausse and the Deputy Director of the Private Farmers Mr. Jose Santos

At the first meeting with the UDA officials, the evaluation team discussed several areas of interest. These included a review of the allocation process for commodities, types/definition of farmers receiving equipment, and the status of the different varieties of seed. During this meeting the itinerary for the Chokwe visit was also discussed and agreed upon.

The Deputy Director of UDA (DD/UDA) briefly summarized the allocation process as one in which the criteria are based on area, need, willingness of farmers to assist other farmers, and finally, on ability to pay. The equity issue was discussed in some detail with the team. However, this was only the tip of the iceberg when one considers the underlying conditions such as contracts and/or agreements between the farmer and UDA requiring the farmer to work a given amount of time on other farmers' land; growing contracts where a farmer was allocated, say, 200 kilograms of garlic seed and the farmer is then expected to provide 50 kilograms of the production to the state. This understates what is considered to be a cooperating farmer for the CIP.

The DD/UDA noted several changes in the distribution process that resulted from the devaluation of the Metical, and the resultant inability of certain farmers to pay for imported goods. From an economic point of view, this is the first instance where pricing has played a part in the allocation process and indicates that the UDA allocation process is not necessarily distributing equipment based on any productive output criteria. In other words, under the UDA allocation scheme, many marginal farmers have probably obtained equipment that will not recoup the initial investment now that the agricultural commodity markets are being flooded with goods and prices for agricultural products have declined sharply. So far, at least in the Chokwe area, 4 tractors and 1 truck have had to be reallocatd. Reallocation was made to farmers in the same area, although ability to pay was probably the determining factor. The DD/UDA again re-stated the criteria: types of needs in each area, farmers' cooperation, and so forth. However, his lack of conviction in the efficacy of this selection process was evident from the discussion.

2. Boror - Director Mr. Chuni

The team met the Boror Director to discuss the allocation of agricultural inputs. The discussion focussed on seed and the problems encountered in its allocation. Afterwards, the team visited seed and fertilizer warehouses. UDA makes allocations to individual farmers based on the needs indicated in the farmer's annual plan. Therefore, distribution is not "free" and, "the farmers can not hoard seed to speculate on future availability." In other words, UDA decides what the farmer is going to produce, and which farmer is going to receive CIP-financed seed. (However, the allocation system does not seem to work efficiently since several farmers had excess seed.)

Several complaints received by Boror about the quality of seed were noted: 1) Cans were reportedly mislabeled because the seed did not produce fruit which resembled the picture on the can; 2) The factories are not receiving the tomatoes, claiming that the quality is not good; and, 3) "This variety of seed has never been grown in this area, so why is this the only seed Boror carries?" Again, many of the complaints are attributable to quickly changing economic conditions associated with agricultural production. Prices have dropped in most markets due to oversupply and now the farmers are faced with a lack of markets for a large portion of their production. However, seed prices for 86/87 increased 500 percent from 85/86 and for 87/88 by 1000 percent. In the short-run this condition will not improve. However, as secondary markets (such as food processing, canning, and freezing factories) open or are geared to increased production, most of the non-marginal farmers will continue to do quite well.

The Boror Director also noted that some of the seed, namely onions and potatoes, were received late.

The general feeling from this visit is that Boror is an integral part of UDA and does not operate in any way as a separate entity. The conditions associated with allocation of seed and other inputs are certainly not necessary in order to meet the goals of the program. To change this situation will entail sustained policy dialogue with appropriate high level officials, since the team felt that local UDA/Boror officials are only acting on orders passed down to them.

3. Chokwe: Barrage area - Private Farmer Mr. Mario Sibia

This farmer has 20 hectares, all irrigated. His equipment inventory includes a thresher, a tractor (MF 290) and an old motor pump (4 cylinder). He is helping the family sector around his area with the tractor and the pump.

Comments on commodities:

Potatoes - The seed was not good, but what grew, produced well. Farmer would like to keep part of production for seed but does not have appropriate storage facilities.

Tomatoes - The farmer receives 60 - 70 Meticais per kilogram at the farm. Transport to Maputo is priced on a per truck rate (100,000 Meticais for a 3 or 5 ton truck) regardless of the amount of commodity involved. He indicated that the marigold variety was not good for transport as it gets soft and spoils easily.

Onion - There was little seed available when it was time to plant and even at that the only variety was Red Creole which is not easy to market. He indicated a preference for Texas Grano.

Beans - He plants butter beans only.

Maize - He uses the Kalahari variety.

This farmer has sufficient production to warrant a truck allocation. In addition, he indicated the there would be no problem in obtaining sufficient funds to finance both a truck and a pump. (The team does not feel comfortable with UDA's imposing conditions on a farmer of this size because, as the Meticais become 'near and dear,' the farmer shouldn't have to use his investment to help other farmers. Why should the commercial farmer provide welfare to family farmers?)

4. Chokwe: Guija area - Private Farmer Mr. Inacio Novela

This farmer has 25 hectares (12 hectares in 1986), all irrigated, a motor pump (Deutz 3 cylinder - 6") and a tractor (MF 290). He has been farming in this area for about six years and also has a retail store in Guija. He employees 37 workers (18 male, 19 female), whereas one year earlier he employed 16 workers.

General comments: Production is increasing in the area because of the increased number of tractors (5 in 1987, 2 in 1986) to work the land. Soil is very productive and with irrigation most crops can be produced. However, transport of commodities from the area is difficult due to the security situation. This farmer purchased a 10 ton truck in South Africa 2 years ago which is used to transport commodities to Maputo. He makes two trips per week depending on how quickly products can be marketed. This farmer felt that tomato seed received (Roma variety) was not the variety indicated on can label.

Problems: He could use boxes and more backpack sprayers. He also indicated that some farmers have difficulty transporting inputs (diesel, fertilizer) from Chokwe to Guija due to the lack of small vehicles etc. - and would thus like to see a distribution center located in Guija.

5. Chokwe: Nwachicoluane area - Private Farmer Mr. Alberto Sono

This farmer has 16 hectares of irrigated land and 100 hectares of dryland. He has 2 tractors (a Ford rehabilitated with CIP spare parts; a MF 265 [from CIP I] which looks used/misused); a motor pump, thresher, and a truck (Toyota 1 1/2 ton with 111,000 kilometers). He produces only cereals - rice, maize/rice. He has problems with transport about three months out of the year. He would be willing to transport for other farmers if he had a larger truck. He would also like a motor pump (6") to irrigate rice from a drainage canal, for cultivation on a dryland area. (This practice is not recommended for three reasons: 1) This farmer's land is within the irrigation scheme which is currently being poorly maintained, thus creating problems in all areas where the system operates marginally, at best. 2) Using water from a drain will add to the salinity problem in this area. 3) With the increased level of production in the area the marginal productivity gained would not warrant the investment). He further commented that rubber boots could have higher tops for the farmers who produce rice. He also indicated that, in general, production was better this year than last.

6. Chokwe: Nwachicoluane-area Director of Private Farmers

In this area there are 170 private farmers with 4 hectares each in the irrigated scheme. Most of these farmers have land outside the irrigation scheme in dryland conditions. Some have other areas in the irrigated scheme where they produce vegetables. However, most of the land in the irrigation scheme in this area produces only rice. Good farmers' rice production yields are approximately 7 metric tons per hectare using the C4 variety over a 145 day growing season. This area is highly susceptible to salinity problems.

7. Chokwe: Nwachicoluane area-Agrarian House Director, Luthern World Relief (LWR) Project Director and 10 family farmers

The Agrarian House is a state-established and controlled agricultural area for family farmers where each participating family farmer has 1 hectare. The Nwachicoluane area Agrarian House land is located within the irrigation scheme. The land that has been allocated to this project is marginal at best; salinity problems are evident on observation. These farmers have received bicycles, sprayers, plows and harrows for animal traction, seed and fertilizer. Main crops produced are rice, maize and beans.

General Comments: These units are not conducive to moving from subsistence to commercial agriculture. Lutheran World Relief participation tends to reinforce a welfare mentality instead of developing private initiative. Production is slightly above subsistence levels within the unit. Surplus production as reported by farmers tends to be sporadic and of insufficient quantity to be readily marketable. Bicycles are allocated on a "reward" basis to "cooperating" farmers. For the most part, farmers indicated an unwillingness to change from their 3 main crops. They plant what the government tells them to plant.

Problems: Shortages of spare parts, tires and tubes for bicycles (indicative of the poor quality of bicycle being supplied). The harrows for animal traction plows were also reported to be a major problem. Additional backpack sprayers are also needed, along with protective clothing, gloves, masks, rain gear, boots and overalls (these family farmers are feeding themselves and their families but they apparently are not making enough money to clothe themselves.

8. Chokwe: Nwachicoluane area Private Farmer Mr. Agostinho Mapulasse

This farmer has 22 hectares total with about 12 hectares (marginal land) within the irrigation scheme. He received a tractor under Phase III of the CIP. He pays MT 100,000 per truck load for transport to Maputo.

Comments on Commodities:

Rice - He produced 1.4 metric tons per hectare; bad problems with water.

Tomato - Campbell variety sells well; Roma variety not selling since factory/processor closed due to "lower" quality.
Onion - Texas Grano; planted late. (We wondered where he got seed).

Cabbage - The seed came late which resulted in very little production.

Garlic - He has no problems since he is multiplying seed and expects 500 kilograms. It is interesting that he obtained garlic seed outside the government distribution channel.

General Comments: This farmer is young and energetic and, although he has farmed on his own only since 1983 (after working for a state farm), he seems quite capable of carrying out a given production plan. In some sense, he may be under outside pressure to prevent him from expanding. However, he is ambitious enough that he will probably circumvent this outside influence.

9. Chokwe: Chiguidela area-Private Farmer Mr. Raul Poeira

This farmer has 104 hectares and is currently farming an additional 19 hectares that belong to LOMACO. He has received two trucks (3 ton from CIP I and 8 ton from Phase III) and two tractors (a MF from CIP I which he uses with the private farmers and a Ford from CIP II) from the USAID program.

Comments on Commodities:

Rice - He farms approximately 80 hectares.

Maize - He has no problems getting seed.

Potatoes - 6 hectares produced 13 metric tons - seed was of very poor quality.

Tomatoes - He farms 15 hectares, producing 35-40 metric tons per hectare; seed originally from Portugal (preferred variety); keeps own seed from one season to another.

Onion - He planted Red Creole this year because Texas Grano (preferred) seed was late; he has hard time selling Red Creole and it does not store well.

General Comments: This farmer is very progressive. Given the opportunity/latitude he would probably adjust his cropping pattern in response to market demands and not government priorities. He owns a Fiat tractor that is not operable due to lack of spare parts. Bandits attacked village within last 3 weeks and he has recently relocated his wife and children where they would be safe. He farms prime land that is very fertile.

Problems: Potato seed doesn't come on time, it is not the preferred variety and it is of poor quality. Could use more fertilizer. Encountered transport difficulties until he received last (8 ton) truck. UDA considered requesting him to sell first truck before he would be allowed to obtain the second truck. Irrigation scheme has cut off water for the last two months (this area is at the far end of the irrigation system). He has surplus production which he is unable to sell.

10. Chokwe: Chiguidela area-Private Farmer Mr. J. Veloso

This farmer has 34 hectares in the irrigation scheme and has received, with his partner, a MF tractor from CIP I.

Comments: This farmer was with Mr. Poeira when we interviewed him. He land is also prime, very fertile, but has also not had water from the scheme during the last two months. He remains tense and distracted (probably as a result of the encounter with the bandits), and indicated that the area was not free from future attacks. This farmer has a lot of experience and know-how and should be considered as a good source for production information such as seed varieties, fertilizer needs, and so forth.

11. Chokwe: Chiguidela-area Private Farmer Mr. Fernando Santos

This farmer has 10 hectares in the irrigation scheme, has received an eight ton truck from CIP II and has been farming only since 1984. Before becoming a farmer he was in the army.

Comments on Commodities:

Rice, Maize - has no problems

Tomato - grows Roma variety and a Portugese variety (Carlos Jota), which is preferred; claims to have received two types of the Roma variety; observing tomatoes in field did not confirm claim

General Comments: This farmer is an "expert" with 3 years of experience. We consider him to be marginal at best and do not think he will survive as a farmer as market forces take effect. He would like to have another tractor. Presently, he has an old tractor he obtained from the state farm, but with 10 hectares he does not need it. He seems more oriented to providing services as a commercial operator (in the areas of transport and tractors) than in utilizing the equipment as a farmer.

12. Chokwe Deputy Director of UDA Mr. Mausse, and the Deputy Director of the Private Farmers, Mr. Jose Santos

This meeting was called to discuss UDA's interpretation of the impact of the program, allocation and distribution problems, and preliminary thoughts on future programs. This meeting was over three hours long, interesting, and covered a wide range of topics.

UDA feels that optimum tractor use is achieved when a tractor is used on approximately 130 hectares a year. This is not a "private sector" concept, since the private farmer/owner should determine what, how, and when the equipment in which he has made an investment will be used. Coverage among the private commercial farmers, cooperatives and agrarian units appears to be satisfactory on the surface, but complete end-use monitoring must be completed in the near future.

The late arrival of seed has been a problem, but past transport problems have been resolved. This was discussed in some detail since previous visits to Boror in Maputo indicated that Boror/UDA in Chokwe was unable to pick up their seed allocation due to a shortage of funds. This discussion developed into a continuing dialogue on the allocation procedure used for seeds. UDA's developing a seed list based on the farmer's intentions on a generic seed basis is not acceptable. Therefore, future CIPs must wrestle with the seed allocation problem and find a "private sector" distributor.

Additional allocation problems have arisen during the past year. For example, of the 24,000 galvanized sheets allocated to the Chokwe area, a distributor (Manuel Nunes), on instructions from the MOA in Maputo, delivered part of the amount allocated for Chokwe to another area. Again, this reflects government intervention in the distribution process.

Distribution of motor pumps was also discussed. UDA's intention is to distribute the new pumps to farmers with old pumps, or to farmers in old areas of production (outside the irrigation scheme). On the surface this seems to meet the program objectives. However, this should be followed up with field visits shortly after the pumps are distributed.

There is a need to continue importing bicycles under the program to provide transport for private and family farmers. They could use at least 500 or more immediately along with spare parts, tires and tubes. We recommend that USAID not consider providing additional vehicles of any kind (bicycles, motorcycles, jeeps, etc.) to any government agency for monitoring, extension, transport or any other activities associated with the program. (These allocations were made under CIP II, FY 1985, only).

Back pack sprayers, rain gear and protective clothing are in short supply. The allocation process for these items is much the same as for other commodities - the farmer is not able to obtain these items freely from the distributor. He must obtain government authorization before he can obtain such commodities.

UDA would like USAID to consider small mills for grinding grain in various "depots" in the area outside Chokwe. We do not recommend consideration of this option. Instead, OAR might contact NGO's working in the area to provide such equipment.

13. Chokwe: Mabalane area Private Farmer Mr. Manuel dos Santos Pedro

This farmer has 48 hectares in the irrigation scheme. Under various CIPs he has received a MF tractor, an eight ton truck, a three ton truck (which he was requested to sell by the government before he could receive the eight ton truck) and a 2 1/2 ton truck. This farmer is experienced, having farmed in the Chokwe area since 1968).

Comments on Commodities:

Rice, Maize - There were no problems with rice.

Tomato - Campbell round fruit; likes Portuguese Carlos Jota variety better than the Roma variety.

Onion - He planted Texas Grano from last year's stock of seed. (Again, we wondered where the seed came from?)

Potato - He planted 2 hectares but had problems with rotting seed.

General Comments: This farmer indicated he didn't have any arrangement for either the trucks or tractor to provide assistance to other private farmers. After visiting several farmers in the area, it is obvious that this farmer has received much more equipment than he can realistically utilize. With all the available transport, he is probably considered to be a commercial transporter. He usually makes 3 trips per week to Maputo. However, since the factory processor has not been operating, he now makes only 2 trips. He indicated that he would like to keep part of his potato production for seed, but that it was too hot in Chokwe to store the potatoes. Even though this farmer is in the irrigation scheme, he is having a water problem due in part to the deterioration of the infrastructure which is poorly maintained. OAR/Maputo should insist that none of the CIP-financed motor pumps be allocated or distributed within existing government-operated irrigation schemes.

C. Summary and Recommendations

The significant increase in farmer production and transport availability has led to increases in the quantity and types of agricultural commodities in the Maputo and surrounding markets, and to a lowering of prices. In addition, these commodities have been of a higher quality than in previous years.

Faced with these changing market forces, farmers' decisions to make investments in new equipment, seeds, fertilizer and other agricultural inputs will be based on criteria that will allow them to minimize costs, maximize production and produce a higher quality product that is competitive in the market place. The current system of allocation/distribution for CIP-financed commodities will need to be modified to meet these changing conditions.

Additional equipment as well as seed and fertilizer will continue to be necessary in the CIP target areas for farmers to reach their production potential. Private sector farmers continue to face the problem of limited production resources such as tractors, plows, seeders, cultivators and trucks. Furthermore, private sector farmers face shortages of basic hand tools, fertilizer and seed. Agricultural support industries such as food processing and equipment manufacturers are operating at a fraction of operating capacity due to the lack of imported raw materials and shortages of spare parts. Thus, although the commodities imported under the PSR program have had a significant impact reflected in increased production, lower prices and so forth, these commodities still fall far short of meeting needs even within the specific target areas of the program.

The evaluation team thus recommends the following:

1. That at present funding levels the follow-on PSR program continue to pursue similar objectives involving the provision of CIP-financed inputs in the same target areas. The program is far from reaching a 'saturation point' and, as suggested above, there is still plenty of absorptive capacity and high demand in the target areas for additional CIP inputs.

2. That the program composition remain essentially the same. In particular, we would not recommend additional 'new' components such as technical assistance to the private agricultural sector in the target areas. The evaluation team was uniformly impressed by private farmers' knowledge of farm equipment and their self-sufficiency and resourcefulness in repairing and maintaining this equipment.

Lastly, the evaluation team noted that, although the present CIP staff is adequate for implementing a CIP at current funding levels, an expansion of the program beyond present funding levels and/or into new target areas would imply a reconsideration of current staffing requirements and a comprehensive review of the security situation and its possible impact on program objectives.

VI. POLICY DIALOGUE

The policy dialogue in connection with the PSR CIP has not taken the explicit form of requiring policy changes prior to disbursement of funds, nor has it incorporated covenants requiring studies in key policy areas. Instead, the program as a whole can be viewed as a demonstration that the private sector is both a capable and an efficient producer and distributor of goods. The provision of agricultural inputs to private sector farmers has provided the means to demonstrate that private producers respond when provided with required inputs. In terms of distribution, the PSR CIP should progressively increase the percentage of resources being both imported and distributed through the private sector.

Finally, the design and evaluation processes utilized with the

PSR CIP have provided significant opportunities for technical discussions concerning selected macroeconomic and agricultural sector policies. These discussions, however, have been constrained by the relative lack of policy analysis for these discussions. In addition, the lack of continuity of outside technical personnel resulted in a nonproductive rehashing of topics previously discussed, thereby further limiting the scope of the dialogue.

A. Effect of Pricing and Subsidies

One of the major issues surrounding the PSR CIP through all its phases has been the pricing of high-value capital equipment financed by the program, i.e., trucks, tractors, tractor implements, and motorcultivators. While concerns have ranged over a wide area, all have their source in the extreme overvaluation of the Metical. Due to this overvaluation, the official price of the imported commodities is less than the true economic value of the commodity. As a result, the recipients of the commodities receive an implicit subsidy. The potential problems arising from such an implicit subsidy include (but are not limited to) the following:

1) Potential diversion of commodities across borders in order to capture this subsidy in the form of foreign exchange;
2) Allocation of capital equipment to less efficient producers, although to date there has been no evidence of this;
3) The promotion of an excessively high capital/labor ratio in domestic production.

In Phase I of the PSR CIP this issue was identified, and surcharges ranging from 25% to 65% were imposed on the high value capital items. In the second phase of the program this surcharge was increased to 100% and 150%. Following the January 1987 devaluation of the Metical, however, the surcharges were eliminated in Phase III and Phase IV of the program. Given the lags in the delivery of high-value capital equipment, OAR/Maputo practice has been not to apply surcharges on any equipment arriving after the January 1987 devaluation. Since none of the high-value capital equipment under Phase III arrived prior to February 1987, no surcharges have been levied for high-value capital equipment procured under Phase III of the CIP.

The table on the next page presents an analysis of the effective subsidy on each dollar of commodities imported under the PSR CIP, as well as the effect of the surcharges on this subsidy. For purposes of the analysis three sets of exchange rates are utilized which roughly correspond to the official and parallel exchange rates when equipment financed by the PSR CIP arrived.

The analysis takes into account the normal marketing costs of the equipment (67% of the CIF value at the official rate) to find the effective cost in Meticais of one US dollar spent for equipment. Without surcharges this value corresponded to Mt 66.80/US$ for Phases I and II, Mt 334/US$ following the January 1987 devaluation, and Mt 668/US$ following the June 1987 devaluation. These effective rates correspond to an implicit subsidy to the foreign exchange provided of 95.5%, 72.2%, and 25.8%, respectively. After the surcharges negotiated between OAR/Maputo and the GPRM are applied to this effective rate, the implicit subsidy rates were reduced to 92.7% to 94.4% for Phase I, and 88.9% to 91.1% for Phase II. For the Phase III equipment brought in between February 1987 and June 1987, the implicit subsidy rate was 72.2%, while equipment arriving after June 1987 is being implicitly subsidized at a 25.8% rate.

These implicit subsidy rates imply that those individuals who acquired capital equipment under the PSR CIP received a bargain. For example, a tractor that cost $10,000 delivered to Maputo was effectively sold (i.e., after marketing costs and surcharges) for $560.00 under Phase I, $890.00 under Phase II, and $2,780.00 or $7,420.00 under Phase III.

To effectively eliminate the implicit subsidy under the PSR CIP, the surcharges would have needed to be 2,145.5% (compared to 25%-65% or 100%-150%) under Phases I and II, and either 259.3% or 34.7% (compared to 0.0%) under Phase III.

Special Note: The figures in the Table below were prepared for analytical and illustrative purposes and are not meant to imply that private sector farmers are involved in illegal parallel market activities.

Analysis of Effective Subsidy Due to Overvaluation

	PSR CIP PHASE:			
	I	II	III-A	III-B
Official Exchange Rate	40.00	40.00	200.00	400.00
Parallel Exchange Rate	1500.00	1500.00	1200.00	900.00
Marketing Costs	67.0%	67.0%	67.0%	67.0%
Effective Cost (Mt/US$)	66.80	66.80	334.00	668.00
Implicit Subsidy (Mt/US$)	1433.20	1433.20	866.00	232.00
Implicit Subsidy Rate	95.5%	95.5%	72.2%	25.8%
Surcharge Rates:				
Small Trucks	65.0%	150.0%	0.0%	0.0%
Large Trucks	60.0%	150.0%	0.0%	0.0%
Tractors & Equipment	25.0%	100.0%	0.0%	0.0%
Motorcultivators	25.0%	150.0%	0.0%	0.0%
Effective Cost/US$:				
Small Trucks	110.22	167.00	334.00	668.00
Large Trucks	106.88	167.00	334.00	668.00
Tractors & Equipment	83.50	133.60	334.00	668.00
Motorcultivators	83.50	167.00	334.00	668.00
Implicit Subsidy (Mt/US$):				
Small Trucks	1389.78	1333.00	866.00	232.00
Large Trucks	1393.12	1333.00	866.00	232.00
Tractors & Equipment	1416.50	1366.40	866.00	232.00
Motorcultivators	1416.50	1333.00	866.00	232.00
Implicit Subsidy Rate:				
Small Trucks	92.7%	88.9%	72.2%	25.8%
Large Trucks	92.9%	88.9%	72.2%	25.8%
Tractors & Equipment	94.4%	91.1%	72.2%	25.8%
Motorcultivators	94.4%	88.9%	72.2%	25.8%
Surcharge to Eliminate Effective Subsidy	2145.5%	2145.5%	259.3%	34.7%

B. Allocation and Pricing

The ultimate objective of the allocation and pricing policy in the CIP is to allow farmers with the productive capacity and income potential to purchase agricultural equipment at market determined prices. For Phase III, government officials decided which districts and which farmers within those districts would receive CIP-financed equipment. Direct allocations of equipment purportedly are based on local officials' knowledge of which farmers have the best productive records, can use the equipment effectively and have demonstrated ability to farm. However, this evaluation team points out that one of the important criteria in the allocation process consists in farmers making an agreement to cooperate with local officials in providing contract services to other farmers in the area. Based on the recent field interviews and observations, the current allocation system is conditioned by government intervention and control, and therefore tends to have a negative impact on private sector development.

C. Seed

Without seed there would not be any agricultural production. However, with poor quality and/or the wrong varieties and/or types of seed, the private farmers will be unable to utilize their scarce resources efficiently, resulting in production at subsistence rather than surplus levels.

As already noted, farmer complaints/comments on seed varied significantly from those posed by the seed importer (Boror). Now that market forces are becoming a primary factor in the farmers' decision process in deciding what to produce (when demand in the market place was far in excess of the supply of agricultural produce, anything produced by the farmer could be marketed at a price) and the farmer is unable to market all his production at any price, the farmer must assess his resources and determine which commodities he has a comparative advantage in producing. Vegetables are no longer considered generically, but are considered by specific type and variety. Therefore, it is important that the farmer receive, for example, the Roma variety of tomato instead of the marigold variety which the farmer has found to be not marketable in the past.

D. Recommendations

1. OAR/Maputo should continue its practice of not utilizing policy-related conditions precedent to disbursement of funds.

First, compared to the total value of donor assistance being provided to Mozambique, the amounts provided through the PSR CIP and subsequent programs is small. Thus, the idea that these funds can be used to leverage major policy change is not reasonable. Second, the staffing of OAR/Maputo and the current and foreseen availability of regional technical support for a policy-conditioned program would not allow for an effective design or implementation of such a program. The knowledge and analytical base does not exist in Maputo.

2. OAR/Maputo should begin the process of developing the knowledge and analytical base for an improved understanding of the policy constraints on the future expansion of private activity in the agricultural sector. The development of joint OAR/Maputo-GPRM studies could be included as covenants in future agreements if desired.

Based upon the evaluation team's observation, while there is still room for commodities in support of private sector agriculture , GPRM policies may soon be limiting the effective expansion of private sector activities. The current economic recovery program is designed to correct or begin correcting the major macroeconomic policy distortions in Mozambique's economy. As these major policies are adjusted, the impact of unfavorable sectoral policies will be much more evident and may significantly affect the impact of future programs. Given the currently weak knowledge base, it is imperative that OAR/Maputo begin developing an understanding of the sectoral and sub-sectoral policies affecting agriculture.

3. OAR/Maputo should consider obtaining the services of members of the present evaluation team to assist in the design of the follow-on PSR CIP.

Members of the present evaluation team are familiar with the overall development context in Mozambique and have in-depth knowledge of the specific issues relating to the CIP. Their participation in the design of the follow-on CIP could contribute to a more consistent policy dialogue on issues raised in the present and previous evalutions of the CIP.

VII. Use of Counterpart Generations

There are three key IMF targets which need to be considered in the programming of OAR/Maputo counterpart generations:

1) Budgetary Limits, especially the Current (non-investment) Defict excluding grants;
2) Domestic credit to the Government; and
3) Domestic credit to the rest of the economy.

The IMF program places credits on either the level or net change in these items. In the case of budgetary limits the targets are expressed in terms of a specific level, while the domestic credit targets are expressed in terms of the net expansion of credit.

OAR/Maputo's use of counterpart generations must be conducted in such a way so as not to aggravate the problems of meeting these targets. The following recommendations are based on this principle.

A) The preferred option is to 'sterilize' the counterpart generations, i.e. make no use of the funds except for contributions to the Trust Fund account.

B) OAR/Maputo should not use counterpart funds for the creation or support of any credit program. First, the establishment or support of a credit scheme would be likely to generate problems in meeting the targets for the domestic credit expansion. Second, while nominal interest rates have been increased, interest rates applicable to credit remain negative in real terms. Provision of credit at negative real interest rates is counter to AID policy and would lead to the decapitalization of the credit program.

C) Use of Counterpart Funds for GPRM Budgetary Support

1) The first question which must be answered is whether the use of counterpart funds for GPRM budget support would be in compliance with Congressional intent regarding the U.S. assistance program in Mozambique. The following guidelines should be used if the legal opinion is that budgetary support is consistent with Congressional intent:

a) Any budgetary support should be in the form of a grant attribution to specific elements of the budget. Such attributions should be implemented by means of a counterpart grant agreement.

b) Support of Current Budgetary Expenditures. The use of counterpart funds for the financing of current expenditures must be considered in two parts.

i. For current expenditures already included in the budget the provision of counterpart funds would reduce the GPRM's recourse to domestic credit financing. It would not affect the current deficit excluding grants. Thus, this form of counterpart use would be consistent with the IMF program targets.

ii. For current expenditures not already in the budget, i.e. a supplemental budgetary expenditure, the provision of counterpart funds would ensure that no additional recourse to domestic credit financing would be required. Such an increase in expenditures, however, would increase the current budget deficit excluding grants unless an equivalent reduction in current expenditures is made in a separate line item. Thus, this form of counterpart use would generally not be consistent with the total IMF program targets.

D) Support for Investment Budgetary Expenditures.

Attribution of counterpart funds for the financing of an item in the investment budget would either reduce the need for, or be neutral with respect to the need for budgetary recourse to domestic credit financing. Provision of such investment funding should utilize the following procedures:

i. The GPRM should provide information concerning the project for OAR/Maputo review. This information should include a description of the project, evidence that the project is currently included in the budget, the total cost of the project, and the currently comitted funds, by source, for the project.

ii. OAR/Maputo should review this information for the project's consistency with OAR/Maputo's program goals. Currently identified funding sources should be examined to ensure that U.S. counterpart funds are not being commingled with Eastern bloc assistance. Finally, if the U.S. dollar equivalent of the requested counterpart funds for the activity exceeds some predetermined level, further information demonstrating the financial and economic viability of the project should be requested and reviewed.

E) If counterpart funds are utilized to finance a service for the private sector, these funds should be granted to a private entity to use as seed funds for the initial establishment of the service. The grantee should be required to establish a fee structure sufficient to cover operational costs and to ensure the further operation of the service.

VIII. Conclusions and Summary of Recommendations

The evaluation team concluded, on the basis of its findings, that the third phase of the PSR program achieved its general objectives and purpose. As in previous phases, CIP III continues to provide inputs to the private agricultural sector and is thereby helping to alleviate the food crisis in the Maputo area and stimulate the recovery of private farmers and agricultural production in specific target areas in southern Mozambique.

The target group -- consisting of private farmers in the Green Zones around Maputo and in the Xai-Xai and Chokwe target areas -- continues to receive much desired/needed agricultural supplies, equipment and related inputs. These commodities are having a significant impact in increasing agricultural production (reflected to a large extent in local food markets in Maputo and in the other target areas), although they still fall far short of meeting current needs even within the specific target areas. The PSR program thus continues to be one of the few sources of agricultural inputs and equipment for private sector farmers in the target areas. Furthermore, private manufacturing firms which relied on CIP resources for a significant amount of foreign exchange costs received raw materials in a timely basis; the materials had a significant, positive impact on the firms' productivity; and the manufactured goods contributed to a positive impact on the private agricultural sector in the target areas.

The evaluation team also concluded that, on the whole, the CIP was implemented in a timely manner and with a minimum of problems. The procurement process used by OAR/Maputo was consistent with AID Regulation 1, and goods were procured at reasonable prices. Moreover, members of the evaluation team were impressed with the superior management of the day-to-day activities of the program despite the difficult environment in which the program was implemented and the inadequacy of financial management support services provided by USAID/Mbabane.

It must be noted, however, that although the PAAD stipulates that the program is to be implemented to the extent possible through private sector entities, the team still found a high level public sector involvement in the implementation of the program and questionable practices involving the allocation of CIP-financed inputs and the charging of fees by public sector entities for implementing the AID grant. This suggests that the degree of public sector participation in the CIP will continue to be one of the principal items on the policy dialogue agenda for some time to come.

In conclusion, we offer the following summary of the principal recommendations that emerged from the present evaluation:

1. It is recommended that OAR/Maputo continue its attempts to maximize private sector involvement in the procurement process. To this end, OAR/Maputo may wish to consider the following two approaches:

a) That OAR/Maputo undertake to complete procurement of trucks, tractors (and spare parts) and other agricultural equipment previously procured by parastatals. Alternatively, possibilities for the importation of seeds and fertilizer through local private companies might also be explored.

b) The recently acquired skills of the end-use monitor might be used to identify equipment and agricultural needs and, on the basis of this information, make allocations of foreign exchange to private sector importers to allow them to import the necessary inputs.

2. With regard to financial management support functions, the following is recommended:

a) That the training of the local accountant be completed as soon as possible. Such training should include a review of the overall objectives of financial management support services provided to OAR/Maputo, and specifically, the duties and responsibilities of the local accountant vis-a-vis the CIP.

b) That the responsibilities of the local accountant include routine administrative duties involving coordination of CIP activities with local government counterparts, visits by outside technical assistance teams, and preparation of financial reports; and,

c) That financial reporting on local currency accounts be prepared on a regular basis and in accordance with an agreed upon format. Moreover, procedures should be established for monitoring accounts of 'delinquent' importers i.e., local importers in arrears in payments to local currency accounts who continue to participate in the CIP.

3. In view of the continuing need for production resources and the high demand in the target areas for additional CIP inputs, it is recommended that, at present funding levels, the follow-on CIP continue to pursue similar objectives in the same target areas. In this context, it should also be noted that an expansion beyond present funding levels and/or into new target areas would imply a reconsideration of current staffing requirements and a comprehensive review of the security situation and the impact of the latter on program objectives.

4. With regard to policy dialogue, the following is recommended:

a) That OAR/Maputo continue its practice of not utilizing policy-related conditions precedent to disbursement of funds. Compared to the total value of donor assistance provided to Mozambique the amounts provided through the PSR CIP are small, and thus the idea that these funds can be used to leverage major policy change is not reasonable. Furthermore, staffing of OAR/Maputo and availability of regional technical support for a policy-conditioned program would not allow for an effective design or implementation of such a program.

b) That OAR/Maputo begin the process of developing the knowledge and analytical base for an improved understanding of the policy constraints on the future expansion of private sector activity in the agricultural sector. The development of joint OAR/Maputo-GPRM studies could be included as covenants in future agreements if desired.

c) That OAR/Maputo consider obtaining the services of members of the present evaluation team to assist in the design of the follow-on CIP. Evaluation team members are familiar with the overall development context in Mozambique and have in-depth knowledge of specific issues relating to the CIP. Their participation in the design of the follow-on CIP could contribute to a more consistent policy dialogue on issues raised in the present and previous evaluations.

5. OAR/Maputo's use of counterpart generations should be conducted in such a way as to be consistent with IMF targets in Mozambique. The following recommendations are made with this principle in mind:

a) The preferred option is to 'sterilize' local counterpart generations, that is, to make no use of these funds except for contributions to the Trust Fund account.

b) OAR/Maputo should not use counterpart funds for the creation or support of any credit program.

c) The use of counterpart funds for GPRM budgetary support should be in the form of a grant attribution to specific elements of the budget. Such attributions should be implemented by means of a counterpart grant agreement.

d) The use of counterpart funds to finance current budgetary expenditures should be considered in two parts:

i. For current expenditures already included in the budget the provision of counterpart funds would reduce the GPRM's recourse to domestic credit financing. It would not affect the current deficit excluding grants and thus, this form of counterpart use would be consistent with IMF program targets.

ii. For current expenditures not already in the budget, the provision of counterpart funds would ensure that no additional recourse to domestic credit financing would be required. Such an increase in expenditures, however, would increase the current budget deficit excluding grants unless an equivalent reduction in current expenditures is made in a separate line item. Thus, this form of counterpart use would generally not be consistent with the total IMF program targets.

e) Support for investment budgetary expenditures should utilize the following procedures:

i. The GPRM should provide information concerning the project for OAR/Maputo. This information should include a description of the project, evidence that the project is currently included in the budget, the total cost of the project and the currently committed funds, by source, for the project.

ii. OAR/Maputo should review this information for project consistency with OAR/Maputo's program goals. Currently identified funding sources should be examined to ensure that U.S. counterpart funds are not being commingled with Eastern bloc assistance. Finally, if the U.S. dollar equivalent of the requested counterpart funds for the activity exceeds some pre-determined level, further information demonstrating the financial and economic viability of the project should be requested and reviewed.

f. If counterpart funds are utilized to finance a service for the private sector, funds should be granted to a private entity to use as seed funds for the initial establishment of the service. The grantee should be required to establish a fee structure sufficient to cover operational costs and to ensure the further operation of the service.

Annex A

Evaluation Methodology

The methodology utilized by the team is based on criteria established in the scope of work, general guidance for the PSR III CIP evaluation, as contained in the Private Sector Rehabilitation PAAD (656-0201B), and on the evaluation process outlined in Evaluation Guidelines for NonProject Assistance: Commodity Import Programs (CIPs) and CIP-Like Activities.

Data for the analyses were derived from a review of commodity inputs and end-use monitoring documents prepared by OAR/Maputo CIP Monitor and CIP End-Use Monitor, and stored in a computer data base. This systematic collection of input and end-use monitoring data was initiated as a result of the CIP I which noted the need for a more formal method of measuring the economic effects of the program.

An orientation and briefing on CIP III was provided by the OAR/Maputo Commodity Management Officer during the first week of the evaluation. The evaluation team also reviewed and analyzed documents provided by OAR/Maputo Commodity Management Officer and conducted interviews with beneficiaries of the program in the Maputo area, including farmers in the Green Zones, private importers and distributors and GPRM officials. During the second week the team made a field visit to Chokwe in Gaza Province. The team was unable make its scheduled trip to Xai-Xai due to adverse weather and security conditions.

The economist submitted his findings to the project development officer and left at the end of the second week of the evaluation. The remainder of the team remained to complete research activities and prepare a draft report for OAR/Maputo.

The team held a meeting in the middle of the third week of the evaluation to present preliminary findings and to discuss final recommendations before submission of its draft report to OAR/Maputo. Both the recently arrived AID Representative and the Charge at the Embassy were briefed on the findings and recommendations.

Annex B

Evaluation Schedule and Team Composition

The evaluation was scheduled and conducted August 17 - September 4, 1987. The evaluation team was comprised of the following:

Alfredo Cuellar, Project Development Officer (Team Leader)

Richard Harber, Economist, USAID/Lusaka

David R. Martella, Agricultural Development Officer, USAID/Mbabane

Robert Bruce Stader, Commodity Management Officer, REDSO/ESA

In addition, Ana David, CIP Monitor, OAR/Maputo, and Fernando Paixao, CIP Field Monitor, OAR/Maputo, assisted in the evaluation by scheduling interviews, providing program data and analyses, and by providing valuable insights on the implementation of the CIP in Mozambique.

OAR/Maputo Commodity Management Officer Judi Shane provided overall orientation and invaluable guidance to the evaluation team.

ANNEX C

The following tables show the status of local currency deposits under CIP I, II, and III, as of August 31, 1987.

STATUS OF ACCOUNTS
AS OF AUGUST 31, 1987
(In meticais)

CIP - FY 1984

	Special Account	Trust Fund
Billings	254,200,286.16	5,084,003.78
Deposited (receipts)	250,688,776.95	5,013,773.60
Accounts receivable	3,511,509.21	70,230.18

CIP - FY 1985

	Special Account	Trust Fund
Billings	680,036,023.00	23,801,259.74
Deposited (receipts)	652,877,236.00	22,850,702.20
Accounts receivable	27,158,787.00	950,557.54

CIP - FY 1986

	Special Account	Trust Fund
Billings	810,134,194.67	28,354,696.55
Deposited (receipts)	71,255,050.50	2,493,926.50
Accounts receivable	738,879,144.17	25,860,770.05

Note: Tables included in Annex C were prepared by visiting technical assistance team from USAID/Mbabane.

SURCHARGE DEPOSITS

The surcharge was discontinued after the first devaluation in February 2, 1987.

Cumulative total deposits for CIP I, II, III, and Surcharge

	Special Account	Trust Fund
CIP I - FY 1984	250,688,776.95	5,013,773.60
CIP II - FY 1985	652,877,236.00	22,850,702.20
CIP III - FY 1986	71,255,050.50	2,493,926.50
Surcharge	171,960,062.50	

Cumulative Totals 1,146.781,125.95
30,358,402.30

Trust Fund deposits continue to be utilized for OAR/MAPUTO's in-country administrative costs. The Commodity Management Office (CMO) has been requested to justify a request to increase the Trust Fund percentage from 3.5% to 7%.