

PD-ABE-009

AGRICULTURAL POLICY ANALYSIS PROJECT, PHASE II

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76795

MOZAMBIQUE

**PRIVATE SECTOR SUPPORT PROGRAM
(656-0208/0218)**

EVALUATION

March 1992

**APAP II
Technical Report No. 124**

Prepared for

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**Agricultural Policy Analysis Project, Phase II
A.I.D. Contract No. DAN-4084-Z-00-8034-00**

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LIST OF TERMS

Acronyms

ASDI	Swedish International Development Agency
AERU	Agricultural Enterprise Restructuring Unit
AGRICOM	State Enterprise for Agricultural Marketing
BoP	Balance of Payments
CBP	Capacity Building Program
cif	cost, insurance, freight
CIP	Commodity Import Program
CPSP	Country Program Strategic Plan
DFA	Development Fund for Africa
ERP	Economic Rehabilitation Program
ESRP	Economic and Social Rehabilitation Program
FAO	United Nations Food and Agriculture Organization
FY	Fiscal Year
GCPI	Gabinete de Coordenação de Programas de Importação
GDP	Gross Domestic Product
GRM	Government of the Republic of Mozambique
IBRD	International Bank for Reconstruction and Development (World Bank)
IMF	International Monetary Fund
INIA	Instituto Nacional de Investigação Agrária National Agricultural Research Institute
LOP	Life of Program/Project
LTC	Land Tenure Center
MA	Ministry of Agriculture
MIS	Management Information Systems
MSC	Mercado Secundário de Cambio (Secondary Foreign Exchange Market)
MSU	Michigan State University

NGO	Non-Government Organization
NPA	Non-Project Assistance
PAAD	Program Assistance Approval Document
PSR	Private Sector Rehabilitation
PSSP	Private Sector Support Program
PSS/TA	Private Sector Support/Technical Assistance
PVO	Private Voluntary Organization
REDSO	Regional Economic Development Support Office
SMP	Swiss Monitoring Program
SNAAD	System for the Non-Administrative Allocation of Foreign Exchange
TA	Technical Assistance
USAID	United States Agency for International Development Mission to Mozambique
UTRE	Unidade Técnica para a Reabilitação das Empresas (Technical Unit for Enterprise Restructuring)
WB	World Bank

Glossary

ambulante	itinerant trader
capulana	brightly colored cloth of about two meters long used as a skirt, to carry babies, etc.
chapa cem	semi-formal public transport using small trucks
comerciante	trader
lojista	shopkeeper
metical	Mozambique currency; US\$1 = 1,900 meticals at the MSC rate

PREFACE

This evaluation was undertaken for USAID/Mozambique by an Abt Associates Inc. team engaged through the Agriculture Policy Analysis Project (Phase II). The evaluation is based on field work in Mozambique in November 1991. This final report incorporates USAID/Mozambique's comments on an earlier draft.

We thank Julie Born, USAID/Mozambique Project Officer, who provided overall direction and substantive guidance. In addition, her organization of and access to project documentation was invaluable to the team. We appreciate as well the important input of Mission management, making clear A.I.D. context and interests. The entire Mission staff was extremely cooperative and provided excellent support.

We, of course, take full responsibility for this report.

**John D. Miller
Tony Davis
Daniel Gustafson
Stahis Panagides**

A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office <u>A.I.D./Mozambique</u> (ESP _____)		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY ____ Q ____		C. Evaluation Timing Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>	
D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)					
Project No.	Project / Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
656-0208	Private Sector Support Program	FY 89	6/93	\$53,440	\$53,440
656-0218	Private Sector Support Technical Assistance Project	FY 90	6/93	\$3,000	\$2,500

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director	Name of Officer Responsible for Action	Date Action to be Completed
Action(s) Required <ol style="list-style-type: none"> 1. Continue support to monitor prices and constraints to production and marketing. 2. Work for greater institutionalization of MSU activities within the Ministry of Agriculture. 3. Monitor and influence credit and banking sector developments to support agricultural development. 4. Develop a program of non-project assistance that concentrates on making operational the policy decisions undertaken during PSSP, removing obstacles that constrain the full impact of economic liberalization, and promoting efficient functioning of marketing networks. 5. analytic studies should be undertaken: (a) the possible price depressing effects of food aid; (b) the growing presence of commercial itinerant traders (comerciantes ambulantes) and how they can/should be supported (credit, organization, training); (c) the role of women as the primary agricultural producers, and the impact of policy change on their lives, including regional variations. 	USAID USAID USAID USAID USAID	on-going 1992-93 on-going 1992-93 1992-93 1992 1992-93

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation:			(Month)	(Day)	(Year)
			Jan. - March		1992
G. Approvals of Evaluation Summary And Action Decisions:					
	Project/Program Officer	Representative of Recipient/Grantee	Evaluation Officer	Mission or AID/W Office Director	
Name (Typed)	Cheryl McCarthy	Ministry of Agric.	Charles North	Julius Schlotthauer	
Signature					
Date					

ABSTRACT

(Evaluation Abstract) Do not exceed the space provided

USAID is supporting the Government of the Republic of Mozambique (GRM) policy reform in the food and agriculture sector through the Private Sector Support Program (PSSP), a \$53.4 million, three-year non-project assistance activity. USAID is also providing \$3 million of technical assistance for research and related assistance in support of the PSSP policy reform agenda. The purpose of the PSSP policy reform agenda is to improve incentives for private sector agricultural production and marketing in order to enhance the private agricultural sector's production and income. An evaluation to assess the scope, focus, progress, and impact of the Program was undertaken in November 1991. A team of four experts reviewed relevant documentation and interviewed USAID staff, GRM officials, and others in Maputo. Site visits were carried out in peri-urban areas of Maputo and in the Quelimane and Mocuba areas. The major findings and conclusions are:

The PSSP has been able to identify and effectively address a selected set of policy constraints to private sector agricultural production and marketing. The PSSP is a well conceived program with realistic policy objectives, and responds to the country's development (as opposed to emergency) needs. Virtually all the targets specified in the policy reform agenda have been met by the government. Nevertheless, the full impact of these reforms will only be felt over the long term. Benefits of the new policies remain dependent on the cessation of the war, and numerous obstacles continue to impede the recovery and development of the country's agricultural production and marketing system.

Agricultural price policy reforms have been successful in eliminating the fixed price system and removing the illegality of selling above the government price although the new floor price system serves the function of a reference price rather than as a true government price support. USAID has correctly emphasized its concern with not only the fact and pace of state farm divestiture but also its quality. All the agriculture commodities recently procured through the Commodity Import Program (CIP) have been imported through private agents and thus have stimulated the growth of this sector. The funds expended for technical assistance represent a sound beginning for institution and capacity building. Policy dialogue has been influential in achieving progress in economic liberalization policies. However, the GRM is an unequal partner, lacking the quantitative and qualitative policy and technical capacity to develop its own strategy.

The evaluators concluded that the PSSP is central to the Mission's Country Program Strategic Plan and is consistent with Development Fund for Africa (DFA) objectives. It is consistent and supportive of the GRM and World Bank and other donor programs, and is seen as an element in the larger context of structural adjustment. USAID should continue support to monitoring prices and constraints to production and marketing, increasing attention given to those constraints that limit the impact of price incentives on production and the efficient functioning of markets. USAID should develop a new program of non-project assistance that concentrates on making operational the policy decisions undertaken during PSSP, removing obstacles that constrain the full impact of economic liberalization, and promoting efficient functioning of marketing networks.

COSTS

I. Evaluation Costs

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Abt Associates Inc. (Agricultural Policy Analysis Project, Phase II)		DAN-4084-Z-00- 8034-00	\$107,999	656-0218
John D. Miller		Order No. 019	1,551	656-0510
Tony Davis			<u>109,550</u>	
Dan Gustafson				
Stahis Panagides				
2. Lending/Office Professional Staff Person-Days (Estimate) <u>20</u>		3. Borrower/Grantee Professional Staff Person-Days (Estimate) <u>0</u>		

A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

I. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)

Address the following items:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/Mozambique	Date This Summary Prepared: December 1991	Title And Date Of Full Evaluation Report: Mozambique: Private Sector Support Program December 1991
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Introduction and Context. Mozambique's 1.5 to 2 million family farm units and 3,000 commercial farmers have suffered greatly from the distorted colonial economic base, the failed policies of state control in the years following independence, and the disruptions caused by war. The Government of the Republic of Mozambique (GRM) has embarked on the reorientation and rehabilitation of the overall economic structure. In addressing the specific needs of the agriculture sector, the GRM confronts severe constraints of input availability and rural commercial infrastructure, and a family farm population that remains largely beyond the reach of government technical assistance.

USAID is supporting GRM policy reform in the food and agriculture sector through the Private Sector Support Program (PSSP), a \$53.4 million, three-year non-project assistance activity. USAID is also providing \$3 million of technical assistance for research and related assistance in support of the PSSP policy reform agenda.

The purpose of the PSSP policy reform agenda is to improve incentives for private sector agricultural production and marketing in order to enhance the private agricultural sector's production and income. The reform agenda targets: (i) agricultural pricing policy; (ii) divestiture of state farms; (iii) private agricultural sales and service; (iv) access to foreign exchange; (v) private marketing channels; and, (vi) petroleum importation and marketing.

An evaluation to assess the scope, focus, progress, and impact of the Program was undertaken in November 1991. A team of four experts reviewed relevant documentation and interviewed USAID staff, GRM officials, and others in Maputo. Site visits were carried out in peri-urban areas of Maputo and in the Quelimane and Mocuba areas.

Findings. Virtually all the targets specified in the policy reform agenda have been met by the government, and USAID support and program activities have evolved in a responsive manner to the impressive progress made in the policy reform process. Nevertheless, the full impact of these reforms will only be felt over the long term. Benefits of the new policies for the country's population remain dependent on the cessation of the war, and numerous obstacles continue to impede the recovery and development of the country's agricultural production and marketing system.

The PSSP has been able to identify and effectively address a selected set of policy constraints to private sector agricultural production and marketing. The PSSP is a well conceived program with realistic policy objectives, and responds to the country's development (as opposed to emergency) needs.

Pricing Policy. Agricultural price policy reforms have been successful in eliminating the fixed price system and removing the illegality of selling above the government price although the new floor price system serves the function of a reference price rather than as a true government price support. There is evidence of a positive response to the price incentives on the part of producers, although the removal of price restrictions on inputs and consumer goods has meant that overall producer terms of trade may have worsened in the short run. The Ministry of Agriculture/Michigan State University (MA/MSU) work on prices and changes in the agricultural economy at the field level has been important in identifying impact and remaining obstacles that inhibit effective price incentives, and should continue to receive high priority.

State Farm Divestiture. USAID has correctly emphasized its concern with not only the fact and pace of divestiture but also the quality of divestiture. However, farm divestitures to date do not reflect the application of a coherent plan or process, and transfer of land ownership to the private sector is still not allowed. The current GRM priority appears to be to stop the budget drain caused by state farms, rather than to increase productivity by putting land in the hands of private producers.

Private Agriculture Sales and Service. All the agriculture commodities recently procured through the Commodity Import Program (CIP) have been imported through private agents and thus have stimulated the growth of this sector. Within USAID's policy objectives of supporting private sector rural commercial infrastructure, the CIP imports represent an important element.

Foreign Exchange. PSSP has been successful in supporting the introduction and use of the secondary market for foreign exchange and has played a useful role in assessing alternative market-based allocation mechanisms. USAID should be commended for adhering to market-based principles in the pricing and allocation of foreign exchange and for being suitably cautious in not joining the System for the Non-Administrative Allocation of Foreign Exchange (SNAAD). The \$53.4 million worth of CIP procurements has had a direct positive effect on Mozambique's balance of payments. The generation and use of counterpart funds have also contributed positively to the GRM budget situation, although the net effect on the budget is difficult to determine.

Private Marketing Channels. The inclusion of marketing issues in the policy reform agenda demonstrates USAID's awareness of the necessary steps subsequent to policy formulation to make policy changes effective. Progress has been made in deregulating commercial transactions.

Petroleum. The inclusion of petroleum in the agenda and CIP eligibility, although motivated by U.S. interest in responding to the GRM's request under special circumstances, diluted the focus on the agricultural sector, and precluded the purchase of up to \$10 million of commodities more directly related to agriculture.

Technical Assistance. The funds expended for technical assistance represent a sound beginning for institution and capacity building. The objectives and activities of the assistance have appropriately evolved from snapshot monitoring toward capacity building and policy implementation support. The technical assistance now in place through resident specialists, short-term support, research, and training is already making an important contribution, for example, by providing market information that has been useful in improving policy decisions.

Commodity Import Program. The CIP has been well managed within USAID, and has effectively met its objectives under the PSSP. The CIP was correctly chosen as a sector-targeted means -- within overall macroeconomic liberalization and adjustment -- for reinforcing agricultural policy reforms under the PSSP. The impacts of the CIP are difficult to measure definitively, but available evidence suggests that it has had the desired effect. End-use monitoring should be improved.

Expanding the commodity eligibility list has been important, and the commodities imported under the CIP are valuable inputs to a functioning private agricultural sector. The CIP is the appropriate disbursement mechanism given USAID reporting requirements and existing capacity of the GRM and banks; it also supports the agriculture focus of PSSP.

Policy Dialogue. The Policy Reform Agenda is internally consistent and generally adhered to by the GRM. Policy dialogue has been influential in achieving progress in economic liberalization policies. However, the GRM is an unequal partner, lacking the quantitative and qualitative policy and technical capacity to develop its own strategy. USAID can say, and has indeed reported to Washington, that agricultural pricing policy has been liberalized, that state farm divestiture is underway, and that important progress has been made on each agenda item.

Monitoring. Responsibility for monitoring and documenting the end use of program commodities resides with the USAID commodity field monitor, who is virtually the only USAID representative able to travel with some regularity to the field. To date, however, the monitor's role has been restricted; he is unable to do more than spot checking. USAID's efforts to monitor and assess PSSP impacts at the farm level -- income, production, responsiveness to policies and incentives, etc. -- rely mainly on second-hand sources. In this difficult and complex development environment, reliable, complete, and regular information upon which to base decisions is at a very high premium.

Main Conclusions. The PSSP is central to the Mission's Country Program Strategic Plan and is consistent with Development Fund for Africa (DFA) objectives. It is consistent and supportive of the GRM and World Bank and other donor programs, and is seen as an element in the larger context of structural adjustment.

In spite of the significance of the economic policy reforms carried out over the past several years, the implementation of each of the agenda items (i.e., making them operational), beyond the policy decisions themselves, continues to be essential to increasing agricultural production and rural incomes, and providing the environment conducive to commercial and family farm development.

Main Recommendations/Current Program. USAID should continue support to monitoring prices and constraints to production and marketing, increasing attention given to those constraints that limit the impact of price incentives on production and the efficient functioning of markets.

USAID should work for greater institutionalization of MSU activities so that this capacity becomes a routine part of Ministry activities, even after the program ends. This experience should also be used to help the Ministry develop a new agricultural information system.

USAID should monitor and influence credit and banking sector developments to support agricultural development. As credit is increasingly becoming a constraint to access to foreign exchange and imports, USAID should begin to give attention to credit issues as they relate to market structure and access to foreign exchange for the agriculture sector. This is also timely because financial sector reforms and counterpart funds are increasingly becoming central issues in current donor/GRM dialogue.

USAID should continue its assistance on the mechanics of state farm divestiture and consider broadening the set of issues it addresses to include, for instance, the assumption of debt and other liabilities, valuation, sales and marketing.

USAID should support efforts to develop a market rate foreign exchange allocation mechanism for the period after rate unification in March 1992.

Main Recommendations/New Program. USAID should develop a new program of non-project assistance that concentrates on making operational the policy decisions undertaken during PSSP, removing obstacles that constrain the full impact of economic liberalization, and promoting efficient functioning of marketing networks.

The new program should seek the goal of increased agricultural production and incomes through enhancing the role of the private sector (commercial and family farmers, and market agents). The new program should support policies and actions that promote (a) an enabling environment for private investment (including on-farm) and new entrants in agricultural production, marketing, and processing (e.g., access to credit and foreign exchange, institutional support of the private sector, regulatory framework); (b) improved production technology for crops and livestock and access to productive inputs (including land) and equipment (pumps, implements, seeds, etc.); (c) marketing and processing infrastructure (distribution, storage, transportation, information, plant and equipment); and (d) improved institutional capacity in support of the agricultural sector.

The means to implement these program elements are sustained technical assistance and an agriculture sector specific Commodity Import Program. Any new policy reforms should be designed to be operationally-oriented and build upon reforms addressed in the PSSP.

Other Recommendations. The CIP mechanism should continue to focus on the agriculture sector and in direct support of the policy reforms being adopted as part of the new program. However, as the policy areas addressed by the program broaden and become more operational, the range of eligible commodities should increase.

The CIP disbursement mechanism, as currently administered (i.e., USAID acting as banker), should continue until there is evidence that the local banking and foreign exchange management system is able to administer a CIP to USAID's reporting and accounting standards.

As the emphasis of policy reforms shifts from the policy framework to making policy decisions operational, donors need to recognize a number of important implications: (a) the client organizations for donor assistance and interaction will shift from the policy ministries, which were the appropriate entities under PSSP, to the line ministries such as agriculture and commerce; (b) the pervasive and debilitating capacity constraints of government will be even more critical as the shift moves to line ministries; (c) the nature of technical assistance overall needs to shift its emphasis as an implementation orientation is adopted; and (d) donors, including USAID, should augment their own capacity for macro and agricultural economic analysis.

ATTACHMENTS

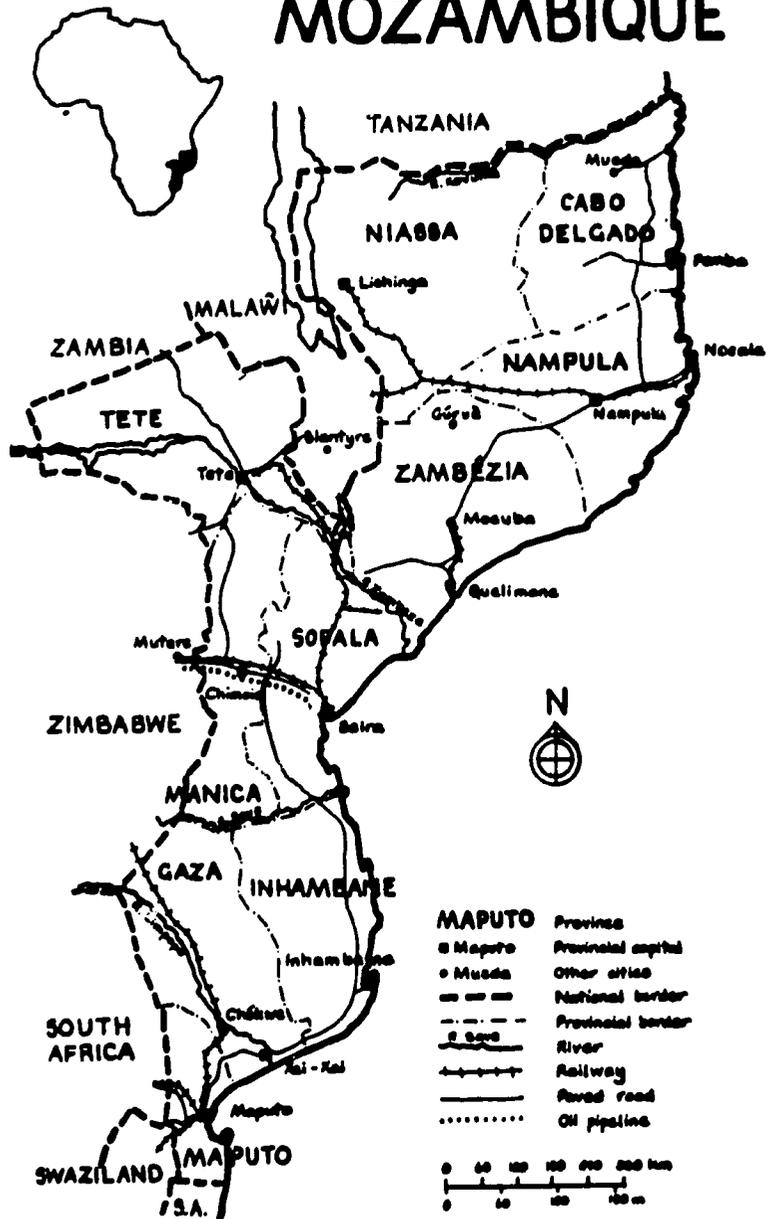
✓ Attachments (List attachments submitted with the Evaluation Summary: always attach copy of full evaluation report, even if one was submitted or; attach studies, surveys, etc., from "on-site" evaluation, if relevant to the evaluation report.)

Evaluation in its entirety

COMMENTS

I. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

MOZAMBIQUE



1. INTRODUCTION TO THE PRIVATE SECTOR SUPPORT PROGRAM

Against the backdrop of colonial era distortions, failed statist policies, economic collapse, and the severe disruptions of an ongoing war, the Mozambican Government has embarked on major economic policy reforms and the reorientation and rehabilitation of the country's economic structure. USAID has supported this effort through the Private Sector Support Program (PSSP), which targets specific policy reforms in the agricultural sector. These reforms are designed to create an enabling environment for private sector agricultural production and marketing through market driven price incentives, deregulation of commercial activities, removal of administrative controls, and improved access to land.

Virtually all the targets specified in the policy reform agenda outlined in the PSSP have been met by the government, and USAID support and program activities have evolved in a responsive manner to the impressive progress made in the policy reform process. Nevertheless, the full impact of these reforms will only be felt over the long-term, benefits of the new policies for the country's population remain dependent on the cessation of the war, and numerous obstacles continue to impede the recovery and development of the country's agricultural production and marketing system. In reviewing the program and the economic policy reforms carried out over the past several years, it is important to recognize the significance of the changes that have taken place while at the same time not losing sight of the dramatic challenges that remain, as these policy decisions are transformed into improved well being for the people of Mozambique.

This chapter discusses the Mozambique context and its influence on the development of the PSSP, provides an overview of the program, its evolution and role in the Mission's strategy, and describes the methodology employed by the evaluation team.

1.1 Mozambique Context

The fundamental and extremely daunting constraints that confront the country and inhibit the translation of agricultural sector reforms into increased production and welfare must be kept in mind.

- The continuing war situation in Mozambique has been the single most retarding force on development. It prevents free movement of people and goods, has created a huge number of displaced persons, has eroded local and foreign investor confidence, and has led to a severe decline in production and exports and the resulting dependence on emergency aid. Even when peace comes, however, serious questions will remain on such issues as: the extent of national economic integration; what to do with the mass of demilitarized soldiers; how to rehabilitate the extensive amount of destroyed physical infrastructure; and how to resolve tenure claims on abandoned or evacuated lands.

- The economically debilitating aspects of the war have directly led to an extreme dependence on emergency aid for both food and balance of payments and fiscal "stop-gap" support. This has rendered development assistance fruitless, or worse. While recently donors and the GRM have tried to simultaneously pursue emergency and sustainable development objectives, the major effects of these efforts will not be manifest until some time after Mozambique is at peace.
- It must constantly be remembered what a radical and wholesale transition Mozambique is attempting to effect, in shifting from a Marxist, administratively controlled economic orientation of the late 1970s and early 1980s to a market driven economy. This is being attempted over a relatively short period of time -- while the country is at war, is struggling to define a national identity, is trying to put in place new democratic processes, and suffers from an extremely constrained institutional capacity. In addition, it will take considerable time to develop the skills and mentality necessary for the operation of a market economy.
- Institutional capacity is constrained at all levels of government. An insufficient number of skilled personnel and outdated or inappropriately oriented systems exist for carrying out even the most basic functions of government. These capacity constraints are accentuated by the ambitious economic restructuring being undertaken and the myriad demands, reporting requirements, and other stipulations of donors.
- A tremendous resource gap exists that will require the continued heavy reliance on donors for years to come. Exports represent a mere 15 percent of imports and donors contribute some 70 percent to 80 percent of national foreign exchange requirements. Beyond any political or philosophical debate on donor dependency, practical problems arising from donor stipulations have the potential of adding distortions to the economy (e.g., mixed signals among donors, unevenness in the flow of donor funds, tied aid, etc.) and tax the already limited capacity of the government and other institutions.

The legacy that the present economic reorientation and rehabilitation must overcome originates both from failed statist policies after independence in 1975 and from Portuguese colonial rule. This resulted in a distorted economic structure and the destruction of much of the previously existing peasant production and trading systems.

The family farm sector continued to suffer from the policies and priorities of the FRELIMO government after independence. The state sector expanded rapidly after independence with new projects and as farms abandoned by Portuguese settlers fell under state control. The ten-year plan approved in 1981 viewed family farming only as something to be eliminated by the end of the decade. Cooperatives were mentioned as having an important social and political role but priority was given to "accelerated development of the state sector."

The failure of this system, however, was soon evident. By 1983 the Central Committee told the Fourth FRELIMO Party Congress that "the family sector was pushed to one side while state farms grew to excessive size," and the Fourth Congress called a halt to state farm expansion. This recognition coincided with the crisis of the Mozambican economy between 1982 and 1987, exacerbated by the severely deteriorating rural security situation caused by the war. As a 1990 World Bank report puts it, "The most striking feature of Mozambique's economic development in the post-Independence era has been the dramatic collapse of production in the 1982-85 period."¹ Overall GDP fell at an annual rate of around six percent, and real per capita consumption declined at a similar rate. World Bank data indicate that gross agricultural output fell between 1980-86 by about one-third and agricultural GDP by 25 percent.

The data reported by the World Bank study are indeed dramatic. By 1985 cotton and sugar production had fallen to 9 and 16 percent respectively of their 1980 levels. Tea and cashew, which contributed one-third of total exports in 1980, fell to around 30 percent of their 1980 levels. In the early 1970s, domestic marketed production of maize and rice ranged from 150,000 to 230,000 tons per year. In the 1985-88 period this production fell to between 40,000 and 75,000 tons. Maize production fell to half its 1980 level in 1986, and rice fell to half 1980 levels by 1983. Estimates suggest that between 1980 and 1986, the per capita production of the family sector of cassava, maize, rice and sorghum fell respectively by 25, 45, 25, and 40 percent.

In 1980 food aid and commercial imports accounted for around 20 percent and 55 percent respectively of aggregate cereal supply, with domestic marketed supply accounting for the other 25 percent. By 1983-85, food aid accounted for 65-70 percent of aggregate supply, commercial imports 13 percent, and domestic marketed production for barely 20 percent.

The World Bank/IMF supported Economic Rehabilitation Program initiated in 1987 marked the end of this drastic deterioration and in the 1987-89 period GDP grew at an annual rate of five percent. Relative to the earlier collapse, however, even this improvement is extremely modest. In the agricultural sector especially, initial gains in the 1987-89 were impressive, although they have since faltered. Maize production increased at an annual average rate of 32 percent in that period, cashew production increased an average of 8 per cent per year and cotton tripled its production between 1986 and 1989. However, as pointed out above, these gains must be seen in light of the previous collapse and food aid still contributed between 85-90 percent of the total grain supply during those years.

In summary, the 1.5 to 2 million family farm units and the estimated 3,000 commercial farmers have suffered tremendously from the distorted colonial economic base, the failed policies of state control in the years following independence, and the disruptions caused by the war. They confront severe constraints of input availability and rural commercial infrastructure, and remain largely beyond the reach of any form of government technical assistance. Nevertheless,

¹World Bank, Mozambique: Restoring Rural Production and Trade, October 23, 1990.

agricultural producers have responded to improved price incentives (discussed in Chapter 2) and will continue to represent the backbone of the country's economy for the foreseeable future.

1.2 Program Description

The PSSP is a \$53.4 million, three-year non-project assistance activity supporting Government of the Republic of Mozambique (GRM) policy reform in the food and agriculture sector. Along with the non-project assistance, USAID is providing \$3 million of technical assistance for research and related activities in support of the PSSP policy reform agenda, through the Private Sector Support Technical Assistance Project (PSS/TA).

The purpose of the PSSP policy reform agenda is to improve incentives for private sector agricultural production in order to enhance the private agricultural sector's production and income. The policy agenda was developed within the overall context of Mozambique's Economic and Social Rehabilitation Program (begun in 1987) and the Policy Framework Papers of the GRM, World Bank (IBRD), and the International Monetary Fund (IMF).

The PSSP policy agenda includes (as of November 1991) reforms in six areas: (i) agricultural pricing policy; (ii) divestiture of state farms; (iii) private agricultural sales and service; (iv) access to foreign exchange; (v) private marketing channels; and, (vi) petroleum importation and marketing. Exhibit 1 provides USAID's summary of the PSSP policy reform agenda. The latter two reform areas were later additions and not originally incorporated in the program (see 1.3 below).

With PSS/TA funds, three collaborative research programs have been established to assist Mozambican policy makers to acquire and analyze information critical to the liberalization of agricultural pricing and marketing, to the divestiture of state farms, and to the development of an effectively targeted "safety net" for those most vulnerable to food insecurity.

PSSP funds are disbursed through a commodity import program (CIP) which provides foreign exchange assistance for private sector importation of commodities related to agricultural production, processing or marketing, although up to \$10 million of the CIP funding may also be used for importation of petroleum products.

The PSSP is central to the USAID/Mozambique Country Program Strategic Plan (CPSP) and is consistent with Development Fund for Africa (DFA) objectives. PSSP directly addresses two of the four USAID strategic objectives identified for the 1990-92 period: (i) establish a policy environment conducive to private agricultural production and marketing; and, (ii) increase the role of the market in allocating productive resources to private producers.

Exhibit 1 Policy Reform Agenda

Mozambique Private Sector Support Program (656-0208)
Summary of Policy Objectives and Workplan
June 1991 Revision

POLICY AREAS	1988/90	1990/91	1991/92	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATION
1. Agricultural Pricing Policy a. Maize, beans, rice b. Cash crops c. Consumer prices	OBJECTIVE: To maximize the liberalization of the producer pricing system and, for crops where full deregulation may not be presently feasible, institutionalize procedures for basing agricultural prices on world parity.			<ul style="list-style-type: none"> - Price changes and announcements. 	<ul style="list-style-type: none"> - Production increases on family and commercial farms. - Farm income increases on family and commercial farms. - More consistent supply in markets throughout year. 	<ul style="list-style-type: none"> - Production statistics by crop, province, farm type. - Estimated farm income calculated from production functions. - Selected market surveys.
<ul style="list-style-type: none"> - Establish parity producer prices; plan for floor price system. (Note: beans actually moved to floor price in 1989.) 	<ul style="list-style-type: none"> - Move white maize to parity-based producer floor price system; continue parity-based producer floor price for beans; adjust parity-based producer price of rice; assess impact and make recommendations re: rice. 	<ul style="list-style-type: none"> - Adjust producer floor prices to maintain parity base. 				
	<ul style="list-style-type: none"> - Establish parity-based floor price system. 	<ul style="list-style-type: none"> - Adjust floor prices to maintain parity base. 	<ul style="list-style-type: none"> - Adjust floor prices to maintain parity base. 			
		<ul style="list-style-type: none"> - Deregulate consumer price for white maize; assess impact; make recommendations re: beans and rice. 	<ul style="list-style-type: none"> - Deregulate consumer price for rice by January 31, 1992. 			
2. Divestiture of State Farms a. Planning and implementation	OBJECTIVE: To develop and initiate the implementation of a divestiture program (including supporting policies for rational land redistribution, titling and registration) to redistribute state farms to commercial and family farmers.			<ul style="list-style-type: none"> - Declared policies on land redistribution including divestiture and titling procedures. - Development and promotion of divestiture program. 	<ul style="list-style-type: none"> - Farms privatized. - Production increased on divested farms. - Farm income increased. 	<ul style="list-style-type: none"> - Statistics on actual and planned divestitures. - Production statistics by crop in divestiture areas. - Estimates of farm income calculated from production functions and verified by sampling.
<ul style="list-style-type: none"> - Continue case-by-case divestitures of state farms. - Identify issues and policies to be addressed in divestiture program. - Complete terms of reference for additional terms analysis and design of divestiture program. 	<ul style="list-style-type: none"> - Implement analysis program on tenure issues. - Complete general divestiture program design. - Complete design of USAID-financed program for divestiture policy research and analysis. 	<ul style="list-style-type: none"> - Maintain credit and subsidy ceilings for state agricultural enterprises. - Continue divestitures. - Continue analysis of divestiture experience and development of policies and guidelines. - Develop, announce, implement procedures to increase transparency of divestiture process. 				

Mozambique Private Sector Support Program (656-0208)
 Summary of Policy Objectives and Workplan
 June 1991 Revision

POLICY AREAS	1989/90	1990/91	1991/92	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATION
<p>3. Private Ag. Sales and Service</p> <p>a. For importers/distributors</p> <p>b. For end users</p>	<p>OBJECTIVE: To demonstrate the effectiveness and viability of private sales and service networks for providing agricultural inputs to commercial and family farmers throughout the country.</p>			<ul style="list-style-type: none"> - Percentage of private companies/traders participating in program. - Elimination of "credential system" for end users. 	<ul style="list-style-type: none"> - Wider and better access to agricultural inputs. - Expansion of privatization. 	<ul style="list-style-type: none"> - Statistics on numbers of private importers and dealers by input type and province. - Sampling of farmer attitudes toward supply networks. - Sampling of dealers to assess constraints to expansion.
	<ul style="list-style-type: none"> - Continue private importation and distribution of all A.I.D. commodities; expansion for lubricants and limited spares. 	<ul style="list-style-type: none"> - A.I.D. commodity imports fully private (except for petroleum); plan to privatize ag-related public enterprises. 	<ul style="list-style-type: none"> - Maintain private import/distribution of AID-financed commodities (ex. petroleum). - Continue privatization of ag-related state enterprises. 			
	<ul style="list-style-type: none"> - Replace GOM administrative allocation system with direct private sales. 	<ul style="list-style-type: none"> - Maintain. 	<ul style="list-style-type: none"> - Continue direct private sales to end users. 			
<p>4. Access to Foreign Exchange</p> <p>a. Allocation mechanism</p>	<p>OBJECTIVE: To establish a process of testing foreign exchange allocation options that will increase the access of private entrepreneurs in the agricultural sector to foreign exchange and institutionalize market signals as an allocation mechanism.</p>			<ul style="list-style-type: none"> - Implementation of FX allocation options agreed upon with donors. - Range of eligible OGL sectors and volumes of FX increased. 	<ul style="list-style-type: none"> - Increased access to foreign exchange at market-determined price. 	<ul style="list-style-type: none"> - Survey of OGL users to determine private sector access. - Trends in official and parallel exchange rates.
	<ul style="list-style-type: none"> - Establish limited trial of OGL system. 	<ul style="list-style-type: none"> - Evaluate effectiveness of OGL trial (with IBRD with USAID follow-up). - If trial is generally successful, modify and expand eligible sectors under OGL; otherwise formulate new options. 	<ul style="list-style-type: none"> - Establish "negative list" for imports at official exchange rate; move non-traditional exports to MSC. - Unify official and MSC exchange rates by March 1992. - Develop plans for market-based allocation/pricing of FX following unification. 			

Mozambique Private Sector Support Program (656-0208)
 Summary of Policy Objectives and Workplan
 June 1991 Revision

POLICY AREAS	1989/90	1990/91	1991/92	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATION
5. Private Marketing Channels a. Movement of commodities b. Wholesaling c. Licensing	OBJECTIVE: To reduce restrictions on competitive private sector trade and transportation serving agricultural producers in Cabo Delgado, Nampula, and Zambezia provinces.			- Announcement and promotion of deregulations.	- Increased number of active traders and transporters. - More consistent supply of commodities in markets throughout the year. - Increased producer access to consumer goods and other "incentive" commodities. - Improved food balances between deficit and surplus production areas.	- Sampling of traders/transporters/farmers. - Market surveys. - Sampling of farmers.
	- Repeal regulatory restrictions on inter-district and inter-provincial movement of agricultural commodities. - Open district wholesaling opportunities to any licensed trader desiring to compete. - Analyze licensing requirements for private marketing agents at all levels to assess disincentive effects.	- Assess impact. - Assess impact. - Complete analysis and take steps to simplify licensing requirements to encourage new competitors.				
6. Petroleum Importation and Marketing a. Pricing b. Deregulation	OBJECTIVE: To promote increased and more reliable access to selected petroleum products at import parity prices based on the secondary market exchange rate.			- Announcement and promotion of price changes and deregulations.	- More consistent supply of and access to petroleum products nationwide. - Private sector importation and distribution of avgas.	- Sampling of farmers, transporters, traders, and industries. - Sampling of importers/distributors. - Trends in prices of diesel and gasoline.
		- Maintain consumer price for gasoline at or above import parity at the MSC rate and continue to adjust consumer price of diesel to reflect exchange rate and international price changes. - Complete analysis and implement recommendations for deregulating import, distribution, and pricing of avgas. - Analyze import and distribution of petroleum products to identify further measures to support a more efficient market for them.				

1.3 Program Evolution

The PSSP is the follow-on to USAID's Private Sector Rehabilitation (PSR) program which comprised a CIP totaling \$52.255 million disbursed between 1984 and 1988, and a realistically modest set of policy reforms given what was feasible at that stage of Mozambique's economic and political development. PSSP constitutes a more robust set of policy reforms, adds targeted, supporting technical assistance, and includes a broader based CIP.

The PSSP has itself evolved considerably over its three year life, as USAID has reacted to the changing needs of the GRM and progress in policy reform. Program evolution has affected all three elements of PSSP -- the number and nature of the policy reform areas, the emphasis and composition of technical assistance, and the main criteria and level of funding of CIP disbursements. A summary is provided in Exhibit 2.

The policy reform agenda of PSSP has evolved considerably over the last three years as well. While the basic objectives of the original four policy areas (pricing policy, divestiture of state farms, private sales and service, and access to foreign exchange) have remained constant, the associated benchmarks have been modified from time to time to reflect the realities of the changing environment.

More significantly, as it became clear that changes in pricing policy without concomitant improvement in marketing structure would not be effective, a fifth policy area was added in July 1990 with the objective of reducing restrictions on competitive private sector trade and transportation serving agricultural producers in Cabo Delgado, Nampula and Zambezia provinces. At the same time, an additional \$10 million of authorized and obligated funds were added to the life of program (LOP) funds.

In May 1991, a sixth policy area was added, petroleum importation and marketing, which had as its objective the promotion of increased and more reliable access to petroleum products at import parity prices based on the secondary market exchange rate.

The inclusion of this sixth area was in direct response to GRM's heightened need for petroleum imports in the wake of the Gulf War crisis, the ending of previously concessioned petroleum contracts with the Soviet Union, and the GRM's desire to have some CIP funds expended on petroleum imports; no additional funding was added as a result of incorporating this reform area.

The technical assistance funds were initially authorized at \$1.5 million but subsequently increased to \$3 million (LOP) in March 1991. The technical assistance has been flexible in responding to changing circumstances. Technical assistance has evolved from its original "snapshot" monitoring approach to a more long-term and continuing presence that supports the policy change process.

Exhibit 2

**Private Sector Support Program and Technical Assistance:
Evolution of Program**

Date	Private Sector Support Program				Technical Assistance		
	PAAD:0209		ProAg:0208		PP:0218		ProAg:0218
Aug-89	Orig.	Auth. \$13.55m	Orig.	Oblig. \$13.55m	Orig.	Auth. \$1.5m	
Jun-90	Am. 1	Auth. \$12.5m					(FY90) Oblig. \$0.598m: various contracts
Jul-90	Am. 2	Auth. \$10.0m; added mktg. policy reform	Am. 1	Oblig. \$12.5m			
			Am. 2	Oblig. \$10.0m			
Jan-91			Am. 3	Revised terms for generation & use of counter- part funds			
Mar-91					Am. 1	Increased auth. by \$1.5m (\$3.0m LOP)	
May-91	Am. 3	Auth. CIP financing of petrol. & added petrol. policy ref.	Am. 4	Add petrol. to list of CIP--eligible commods. & add petrol. reforms to policy agenda			
Jun-91	Am. 4	Auth. \$17.39m					Orig. ProAg. Oblig. \$1.902m
Jul-91			Am. 5	Oblig. \$17.39m			

Note: All PSSP PAAD related funds have been authorized and obligated, and total \$53.44 million; of the \$3.0 million authorized for technical assistance, \$2.5 million have been obligated.

Implementation of the CIP has evolved substantially under PSSP, primarily reflecting changes in Mozambican policies affecting access to foreign exchange and import controls. The CIP has expanded commodity eligibility, lifted some end-use restrictions, used a newly created secondary market exchange rate for CIP transactions, expanded eligibility to all ten provinces of Mozambique and added \$10 million above the originally planned CIP funding level.

The USAID Mission intends that a new multi-year activity, to be developed and authorized in FY92, will integrate project assistance and non-project assistance under the DFA and PL-480 Title III (food aid) resources to promote continuing policy reform, policy implementation, and private sector investment in food and agricultural production and marketing.

1.4 Evaluation Methodology

The main objectives of this evaluation were to determine if PSSP was a well-conceived program and the extent to which it was well executed and has had the desired impacts, and to provide suggestions for the design of a proposed next phase of USAID support to the food and agriculture sector. The evaluation team's terms of reference are presented in Annex A.

A team of four experts was fielded in Mozambique for a two week period in November 1991. The team comprised an evaluation specialist/team leader, a macroeconomist, an agricultural policy analyst, and an agricultural economist.

In Maputo, the evaluation team conducted a series of interviews with USAID staff, GRM agriculture, economic, and financial sector officials, representatives from other donors and private voluntary organizations (PVOs), and contracted technical assistance staff. A list of contacts is provided in Annex B. The team also reviewed the extensive written material and documentation available at the USAID Mission on PSSP and other written materials available from other donors on selected issues relating to PSSP (e.g., foreign exchange management, counterpart funds generation and uses, institutional capacity building).

Team members conducted site visits to peri-urban locations of Maputo, where private family farmers were interviewed, and one member conducted a three-day site visit in the Quelimane and Mocuba areas conducting interviews with family and commercial farmers, local Ministry of Agriculture staff, and private agriculture sales and service providers. However, the continuing security problem in rural areas prevented the team from conducting comprehensive field visits.

At the conclusion of the trip, the team made a presentation of preliminary findings to the Ministry of Agriculture and a more comprehensive presentation to the staff of the USAID Mission. Presentation material and an annotated outline of the evaluation report were left with the Mission.

1.5 Report Structure

The remainder of this report is organized into seven chapters. Chapter 2 focuses on PSSP's overall impact and achievements in the PSSP policy reform agenda. In Chapter 3 an assessment is made of USAID's policy dialogue, monitoring, and its integration with related programs. The role of the technical assistance in supporting program implementation is discussed in Chapter 4 and the impact and effectiveness of the CIP disbursement mechanism is reviewed in Chapter 5. Chapter 6 reviews recent developments in the foreign exchange and banking sectors. Chapters 7 and 8 summarize the team's principal conclusions and recommendations respectively.

2. THE IMPACT OF THE PSSP AND THE POLICY REFORM AGENDA

The PSSP was designed to respond to fundamental development needs of Mozambique brought on less by the enduring emergency and more by an evolving government approach to its role in national economic development. As a consequence, the six policies that are the essence of the PSSP comprise a Policy Reform Agenda with development goals, which if met and sustained, will promote long-term economic growth. This chapter analyzes the substance of those policies; the process by which they are promoted; and their place in the context of Mozambique, USAID's overall strategy, and the concerns of other donors.

Section 2.1 presents an overview of the impact issues of the policy reform agenda. Sections 2.2 through 2.7 discuss each policy, its rationale, current status, and the extent to which it has been followed, implemented, and documented; actions are recommended based on the conclusions drawn. Sections 2.8 through 2.10 discuss other impacts of the PSSP.

2.1 Overview

In discussing progress on the six specific areas of the Policy Agenda, it is important to bear in mind the distinct levels in which the program operates and in which its impact occurs. The most obvious distinction occurs between the policy or bureaucratic arena and the public, rural arena where farmers and agricultural service providers function. Furthermore, within the central government arena it is useful to examine separately the progress made in policy formulation and that made in policy implementation throughout the country.

Different components of the PSS Program address these different levels. For example, the technical assistance of the Land Tenure Center (LTC) aims to inform the policy making process regarding divestiture and land policy; the Ministry of Agriculture/Michigan State University (MA/MSU) work provides market information necessary for price liberalization policy to become operational; and the CIP imports are designed to have an impact on private agricultural sales and service providers.

As would be expected under any circumstances -- and highlighted in the case of Mozambique -- evidence of progress and impact is most easily observed in policy formulation, more difficult to ascertain in policy implementation, and very preliminary and sketchy in the case of impact on production, incomes, and well-being of the rural population. Analysis of all three of these areas and their interaction is necessary for understanding the desired results and the observed impact of the PSS Program.

The evaluation of program impact and its attribution to program activities is often a daunting task. In the case of PSSP, this attribution is made even more complex by the emergency situation of the country, the difficulties that constrain data collection, and the limited government capacity to dedicate resources to any but the most basic and priority services

(discussed in Chapter 1). In addition, the PSS Program must be seen in the context of the larger government reform effort, building on a process that began at least as far back as 1983. As such, the policy agenda objectives represent the continuation of previous and ongoing policy dialogue, are situated within the overall evolution of GRM economic policy, and are consistent with the general structural adjustment program. In this regard, USAID is one among many players. Nevertheless, the opinion was uniformly expressed by those interviewed for this evaluation that overall reform progress has been greater due to USAID involvement, of which the PSS Program forms a significant part.

The difficulty in demonstrating the linkage between the program and impact in the economy at large appears to have been recognized from the very start of the PSSP, evidenced, for example, by the relatively modest nature of expected policy impact indicated in the PAAD (i.e., "to maximize the liberalization of agricultural prices..., to develop and initiate the implementation of a divestiture program..., to demonstrate the effectiveness and viability of private sales and service..., to establish a process of testing foreign exchange allocation options..., and to reduce restrictions on competitive private sector trade..."). According to these criteria, the Program has been successful in the sense that prices have been liberalized, a divestiture program has been initiated, private sales and service networks have been demonstrated to be effective, etc. The changes in policy, that is, in the decisions and decrees themselves, are impressive; the PSSP Policy Agenda has generally been adhered to by the GRM, and the changes have often exceeded the timetable originally set. The more important challenge, however, is to document evidence of impact that these changes might already have had on the agricultural economy and on the lives of Mozambican agricultural producers.

2.2 Agricultural Pricing Policy

The first item of the PSSP policy agenda relates to freeing agricultural prices, stating the objective as follows: To maximize the liberalization of the agricultural pricing system and for crops where full deregulation may not be presently feasible, institutionalize procedures for basing agricultural prices on world parity. This policy objective has been an integral part of the PSS Program from the start and has not undergone any modification. The objective has been clear: liberalize agricultural prices to stimulate production, in response to the disastrous effects of the government's attempt to regulate fixed producer prices.

2.2.1 Price Liberalization

In terms of policy formulation, the GRM has complied with the objectives set out in the policy agenda and described in detail in the letters of intent. Fully liberalized producer prices are now in effect for sorghum and some types of beans. In June 1990 the producer price of domestic maize was moved from a fixed to a "floor price" (discussed below), and in November 1990 the producer price of rice also moved from a fixed to a floor price, bringing prices to what USAID estimated as approximately 90 percent parity of cif Maputo imports, calculated at the official (although somewhat overvalued) exchange rate. Consumer prices for domestic maize,

peanuts and beans have likewise been fully liberalized, with the consumer price for rice still fixed.

A "floor price," in general terms, is one that a government guarantees to producers by serving as the buyer of last resort. This process is often administratively complex and fiscally costly, a seemingly poor policy alternative for Mozambique where administrative, fiscal, and infrastructure (storage, processing, etc.) capacity is severely constrained. In the case of Mozambique, however, the government does not yet have the capacity to serve as the buyer of last resort, making the floor price in reality no more than a reference point within the context of very limited market information.

This position appears to have been understood by the GRM and the USAID Mission from the start, and was chosen for several reasons. A major advantage of the floor price over the previous fixed price (which was also beyond the capacity of the government to fully implement and control) was that selling above the government price ceased to be an illegal activity. Even though most producers had circumvented the previous fixed price system, the importance of removing the illegality of market transactions should not be underestimated. Likewise, although a floor price set at the wholesale level may appear to make more administrative sense, this choice was rejected in order to get the government agricultural marketing agency (AGRICOM) out of the marketing chain. Within this rationale, the floor price system appears to have been useful as an incremental step in moving the system in the desired direction, with minimum administrative and financial cost, while retaining some (politically palatable) price protection for the producers within the newly liberalized system (although only in the form of a reference price rather than as a true guaranteed price).

With regard to the floor price system, MA/MSU project staff expressed concern about the level of understanding in the field of the concept and of its difference from a fixed price. Although it is probably correct that there is insufficient understanding, conversations with producers and traders in Zambezia Province indicated a clear understanding that the price set by the government was a minimum and that producers would only sell below it if desperate, that higher prices were allowed, and that greater competition was leading to higher prices for cashews (currently being harvested). Doubt was expressed that prices much above the minimum would be paid for maize and rice, however, and the minimum price appears to mark a relatively narrow band or reference point. In this sense, the reference price may be significantly different from a true market clearing price and the market information system will need to monitor this point closely.

2.2.2 Impact of Pricing Policy on Production

The translation of price liberalization into production increases depends on a series of intervening variables and operational constraints. Four issues are particularly critical in Mozambique's case: the extent of national economic integration in light of the war, the effect of massive amounts of food aid, producer terms of trade, and the market structure. The first

of these relates to the extent to which policy decisions can have an impact on economic behavior under present circumstances. The evaluation team was initially concerned with whether or not rural producers participate sufficiently in the money economy of the country to allow a rational linkage between economic policies in Maputo and rural producers. There are two parts to the answer: 1) there is national economic articulation; all evidence indicates that, in spite of everything, economic policy changes will be felt in rural areas; and 2) the continued insecurity of rural areas remains an overwhelming constraint to production increases; economic policy decisions pale in comparison in their impact on many peasant farmers.

Qualitative evidence of this articulation is seen by the presence of South African canned beer sales throughout rural areas. Quantitative evidence comes, for example, from the MA/MSU survey of three districts in Nampula Province, where between 75 and 91 percent of producers sold and/or bought food crops, and between 53 and 84 percent only sell. Reports indicate that after a period in which barter exchanges dominated rural areas, money exchanges have returned as the norm. Average amounts sold, however, remain very small -- only 400 kg/family for all crops, in the MA/MSU study area. Similarly, the Swiss Monitoring Program (SMP) survey in Cabo Delgado indicated that 53 percent of households in the survey area increased the amount of land they cultivate over the last agricultural year. Seventy percent of those surveyed reported that they increase production of commodities when producer prices increase (90 percent of those by increasing area cultivated.)

Opinions consistent with these findings were also expressed by producers, traders, and Ministry of Agriculture staff during a visit by an evaluation team member to the Mocuba and Nicoadala Districts in Zambezia Province. The limits of economic policy to influence producer decisions -- in light of the ongoing war -- especially in the more vulnerable family sector were also constantly expressed. Until producers are free to return to their land the impact of economic policy on production, although important in the long run, will be severely limited.

The effect of food aid on producer prices was not specifically addressed in this evaluation, but given the emergency situation of the country the topic cannot be neglected. Common sense would indicate that the preponderance of food aid to the total cereal consumption of Mozambique will necessarily depress producer prices regardless of the cross price elasticities of demand. In attempting to accommodate the objectives of vital food aid and attractive producer prices, however, it appears that the timing and management of food aid distribution are the most important areas of concern. This topic is discussed in more detail in section 2.10.

In spite of the price liberalization, there is considerable doubt that the overall terms of trade of producers have improved at this time. An important point raised consistently by those interviewed related to the high prices of inputs and consumer goods, leading to the belief that producer prices have risen less than the consumer price index experienced by those same

producers.² This issue is related, of course, to the effect of food aid distribution and to the high transportation costs and other effects of the war on rural commerce. Although data are very sketchy, the important point is that the real producer price of staple crops may not have risen much -- and may have declined -- in the period following the removal of fixed prices. Finally, the decree removing fixed prices means little where there is a market structure with very few buyers, limited market information, and other bureaucratic, economic, and physical infrastructure constraints that inhibit the functioning of agricultural markets. The PSS Program was astute in recognizing the constraints that became more evident as the reform process evolved. Both the redirection of the technical assistance component of the Program and the inclusion of private marketing channels in the policy agenda are examples of this recognition and response (discussed in separate sections below).

In light of the security situation of the country, the relatively recent policy change decrees relating to agricultural prices and marketing, and the numerous obstacles to private sector activity, have the policy decisions in Maputo, promoted and supported by the PSSP, had an effect on agricultural production? Although data are extremely limited, there is evidence that the market incentives have been felt in rural areas. Existing evidence supports the idea that there has been some supply response to price signals and the availability of goods, although still at an incipient stage. A recent journal article by Steven Kyle of Cornell University, for example, examined production data through 1989 and concluded that "it is clear that the restoration of price and material incentives for agricultural production has been effective in terms of supply response."³ Although the elasticity of marketed supply with respect to the real price cannot be calculated with any certainty given the paucity of data, "it is clear that the response of maize and rice marketings to the policy package implemented in 1987 has been positive." (Kyle goes on to state that the most important lessons of the Mozambican experience are that progress will take a long time, more time than is commonly allowed in planning reform programs; that price reforms "work" in the sense of promoting marketed surplus, but there are limits to the response that can be expected on the basis of prices alone; and that market-based solutions cannot work where markets are non-existent or poorly functioning.)

Similarly, in spite of the continued problems, the visit to Zambezia Province indicated that relatively large production increases may be forthcoming this year. The Provincial Agricultural Officer believes that an increase of 30 to 40 percent is possible, due to improved security in the Province, better climate conditions so far this year (the agricultural year runs from August to July), and improvements in market infrastructure (more buyers, somewhat better prices, somewhat better transport). Based on preliminary data on cashew sales in the districts

²The foreign exchange devaluation policy compounds the adverse effects on rural terms of trade by increasing costs in local currency of imported inputs.

³Economic Reform and Armed Conflict in Mozambique, World Development, Volume 19, Number 6, pp 637-649, 1991.

visited (the only crop harvested so far this year), for this crop at least, following a very poor crop last year, the increase should be even more dramatic.

2.2.3 Agricultural Information Base

Although Kyle is very cautious in his use of agricultural production data, it is probably less reliable than even his use would allow. At present, it is simply not possible to quantify the impact of the program on aggregate agricultural production. Even with adequate data, the ability of a supply response study to attribute production increases to the PSS Program (as opposed to overall policy reform) would be very limited. In the case of Mozambique today, the data do not exist to even attempt this.

However, the capacity that does exist for analyzing producer response to price incentives on a sample basis is contained in the MA/MSU project. USAID is to be commended for recognizing and supporting this need. (The SMP, although useful, is based on yes/no, better/worse information, not on quantitative data). A follow-up study of the three districts included in the original survey would permit quantitative analysis of production response (in the survey area) and should be considered in future funding.

The existing agricultural information system is based on a centralized planning framework in which the quantities marketed through government channels form the basis of key estimates. With the collapse of government control over production and marketing, the information system is woefully out of touch with reality and cannot serve its purpose. The complete revamping of the Ministry of Agriculture's agricultural information system should be given attention, perhaps as part of the PSSP technical assistance.

Statistics on agricultural production are grossly inadequate. Information on production is not collected. Food production moving through official channels, even when that was the only legal alternative, seldom captured more than ten percent of marketed agricultural production for most crops. Many provinces do not report their situation, and what they do report is incomplete. Production that moves through the parallel market is not known though it must have been very significant in the years prior to the introduction of the market liberalization. The Louis Berger study reported that at present (1991) "between 60 percent to 80 percent of all donated maize is being sold in the parallel market."⁴ More recently preliminary results of the MSU/MA survey show that only three percent of the 1990-91 maize harvest was purchased by AGRICOM, the state agricultural marketing agency. The latest AGRICOM report estimates that of the total marketed non-perishable agricultural products (maize, rice, sorghum, dry cassava, beans, groundnuts, sunflower, copra, cashew), only about one fourth moved through it, a likely

⁴Louis Berger International, Making the Transition to a Market Economy: Commercial Food Aid and U.S. Yellow Maize in Mozambique, USAID/Mozambique, August 1991.

overestimate.⁵ Though these estimates are likely to be unreliable, the trend of reduced participation of AGRICOM in the marketing of agricultural production is confirmed from various sources and it is the consequence of the growing importance of private marketing channels.

Since the availability of data on agricultural production/rural income levels is likely to remain limited for some time, it is advisable to identify other indicators of easier compilation that can be used as proxies. Possibilities that come to mind in this regard include: canned beer imports, maize flour millings, bicycle production and imports, capulana production, cashew exports, and food imports (commercial plus food aid). Although each of these has its limitations, all are linked in one way or another to the agricultural sector and have the potential of providing data through a relatively few collection points. These ideas for proxy variables are offered simply as possibilities that come to mind or that came out of interviews during the evaluation. All would need to be carefully analyzed before being used, but our sense is that relatively simple indicators could be developed that would provide a reasonable indication of general trends.

In summary, the GRM has complied with the price liberalization policy agenda objectives. There has been evidence of corresponding producer response although this has been severely constrained by other factors such as the war, producer terms of trade, and other market structure barriers. In the coming years attention should shift from the policy formulation stage of price liberalization to the implementation or operationalization stage, addressing constraints that limit the impact of price incentives on production.

2.3 Divestiture of State Farms

The objective under this policy reform was "to develop and initiate the implementation of an action plan (including supporting policies for rational land redistribution, titling, and registration) to redistribute state farms to commercial and family farmers." The objective was modified in Amendment 2 to eliminate the "action plan" and replace it with "a divestiture program." As stated in Amendment 2 (p. 6), "the new policy matrix, which drops reference to an action plan specifying individual divestitures, incorporates the concept of a divestiture program which is policy-based and consistent with the need to approach each divestiture on a case-by-case basis."

Success to date has been moderate. The Government continues to divest state farms and comply with credit and subsidy restrictions on state and parastatal enterprises. The state farms that have not yet been the object of restructuring (through joint ventures or management contracts) or divestiture (through a variety of approaches) are effectively closed (e.g., work force without salaries, production ceased). While these actions comply with some of the agreed reform benchmarks, much less progress has been made in the areas of land tenure and related

⁵AGRICOM, Balanco de Comercialização Agrícola até 30/09/91 Campanha 1990/91.

issues, and the development and execution of a transparent and rational plan for state farm divestiture.⁶

USAID's technical assistance (TA) support in this policy area addresses one of the toughest issues in farm divestiture -- land -- and should be commended for doing so. The TA has undertaken a considerable amount of effective groundwork -- both written and in "educating" GRM officials in key land tenure concepts/practices. In addition, the TA supported an effort that was nearly successful in including a private land ownership provision in the new constitution which came into effect in November 1990. This provision was not enacted, however, and as a result, to date none of the divestitures of state farms have included the actual transfer of ownership of land to private hands. This points to the complex technical and political nature of the land tenure question in the country, and to the need for technical assistance in sorting out the issues. The evolution and current status of the work of the Land Tenure Center in this regard is discussed in Chapter 4.

Progress in this policy agenda area is impeded by:

- the GRM's lack of clarity on its objectives for divestiture: it is apparent that divestitures to date have been more motivated by the need to stop the financial hemorrhaging created by the state farms than by concerns for longer term economic benefits which may result from the increase in productivity brought about from putting land in the hands of private producers;
- the ad hoc fashion with which divestiture has been conducted: divestitures have been largely handled on a case-by-case basis, reflecting the complexities of the existing tenure status (Portuguese claims, "intervened" enterprises, abandoned or dormant state farms, squatters, etc.), the lack of basic, reliable data on the farms being divested, or the mere lack of a coherent, transparent plan; and,
- the large number of (capacity constrained) government entities which have a role in land divestiture: farm divestiture is the joint domain of a number of entities including, for example, the provincial governments, the Ministry of Agriculture, the Secretariat for Cotton, and the Ministry of Finance.

USAID has rightly refocused the modus operandi of technical assistance to a longer term, more continual approach, and is emphasizing the importance and usefulness at this time of the

⁶Available information indicates that of 109 state farms and related enterprises on the Ministry of Agriculture's list in September 1988, only 90 remained in October 1990; as of June 1991, 37 of those 90 had been "divested," either wholly or in parts, through joint (private-GRM) ventures or through sale or lease to, or de facto occupation by, small to medium private operators or family farmers. It is probable that other divestitures have occurred which are not yet documented by the Ministry, and there are also a number of transactions still under negotiation.

transfer of land use rights as opposed to the transfer of land ownership as a means to achieving state farm divestiture objectives.

USAID has correctly emphasized the concern with not only the extent and pace of divestiture but also the quality of divestiture (as reflected in the security of tenure and extent of land rights received by recipients of divested land). However, the quality of divestiture also incorporates a number of non-land related factors.

It is recommended that USAID continue to promote this direction on land-related issues to facilitate the divestiture of state farms and create an enabling environment for privatized farms, and hence increased production and productivity. Thus, additional assistance could focus on non-land related issues as well:

- a. appropriate and systematic valuation (financial and economic) of state farms, including appropriate provisions for the assumption of existing debt;
- b. clarification and strengthening of institutional arrangements for state farm divestiture, perhaps by clarifying the role of the various "interested" entities, and by strengthening assistance to the newly-formed Agricultural Enterprise Restructuring Unit (AERU) in the Ministry of Agriculture or other relevant entities; and,
- c. creating an enabling environment to facilitate the acquisition of state farms by local and national investors (by assisting with access to credit or improved provisions for management buy-outs and employee share ownership), and to foster a more conducive business environment for the farms once they are privatized (thus increasing the attractiveness of buying them).

2.4 Private Agricultural Sales and Service Networks

The third item on the policy agenda relates to support of private sector agricultural input or service providers, and has the objective of demonstrating "the effectiveness and viability of private sales and service networks for providing agricultural inputs to commercial and family farmers throughout the country." It was hoped that the provision of these imports would allow for private agricultural sales and services to reach a level of farmers not served previously. The major program activity in support of this objective has been the CIP mechanism for importation of agriculture-related goods, and presently all PSSP CIP imports take place through private agents (with the exception of petroleum). Also with the exception of petroleum, the goods imported were linked to the agricultural sector, either for production as in the case of tractors, seeds, and other inputs, or for transport in the case of trucks. As mentioned above, this item of the policy reform agenda targeted impact in the field, on rural producers and private sector agricultural sales and service providers, rather than on policy formulation and implementation per se. The implications of the CIP procedures and their relation to foreign exchange policy is discussed in Chapter 5.

Within USAID's policy objectives of supporting private sector commercial infrastructure serving the rural areas, the CIP imports represent an important element. The impact of these imports is difficult, if not impossible to quantify, although it appears that they have contributed in stimulating both rural traders and commercial farmers. Although evidence of actual use of the CIP imports is largely anecdotal, it seems highly probable that most of the CIP agricultural imports have been used productively in private sector agriculture, with the probable exception of the smaller trucks which appear to be the vehicle of choice for semi-formal public transportation, known as *chapa cem*.⁷ Although the direct beneficiaries have been very limited in number, there is evidence of a wider circle of indirect beneficiaries, through the use of the trucks, tractors, and other inputs. Increased rural trade has been made possible in part through the importation of CIP financed trucks. In this regard, non-price incentives (i.e., the increased availability of basic consumer items such as dried fish, cooking oil, soap, etc.) may be even more important in stimulating marketed production surpluses than price liberalization.

The impact of the imported inputs on the family farm sector is, however, indirect at best and most likely extremely limited given that the use of modern inputs by this sector remains extremely low. Since this segment is responsible for most (an estimated 86 percent) of domestic food production, the impact of the CIP imports on production will necessarily be extremely limited. There is no reason to expect significant increases in aggregate production from this component of the program at this time. The impact on commercial agricultural producers has likely been much greater, and although this segment of producers is small, its growth will be vital in the rehabilitation of the country's rural productive capacity when peace comes.

The District Director of Agriculture of Mocuba, for example, put it succinctly: the constraint to increased agricultural production in his district is first the war, then trucks and tractors. He believes the USAID program has been important in bringing in both of the latter. At least in Zambezia Province, the CIP commodities appear to have brought net increases in both trucks and tractors, rather than simply replace old equipment. Entrepoto, the Zambezia Province distributors of both Mercedes Benz trucks and Massey Ferguson tractors, provided interesting insight in this regard. The manager reported that all the tractors in his Province went to first-time buyers (he knows this because of the maintenance and operation training his firm provides) and the trucks all went to owner-operators who have one or at most two vehicles. All the trucks and tractors his firm imported through CIP have been sold. None of either group has been destroyed by the war.

Perhaps half a dozen eight-ton MB trucks bearing the USAID logo were observed carrying agricultural production in Quelimane and Mocuba during the three-day visit to Zambezia Province (one three-ton truck with the USAID logo was seen in Quelimane and others in Maputo, all working as a *chapa cem*, carrying passengers). With regard to tractor use by

⁷The *chapa cem* operators may provide the only means of public transportation between the cities and rural areas, and so may contribute to the overall rural commercial infrastructure, even though it is not agriculture per se.

family producers, the group visited in Licuari, Nicoadala District knew the price of having a private tractor owner prepare their land; they thought it abusively high. There is, in any case, an established market for small producers buying tractor time.

In addition to PSSP support for private sector sales and service networks through the CIP mechanism, the GRM with World Bank support has initiated the process of privatizing agriculture-related parastatals or "intervened" firms, (MECANAGRO, agriculture equipment; INTERQUIMICA, agrochemicals; INTERMECANO, trucks and tractors; ENACOMO, sugar import/export; BOROR, distribution of agrochemicals and seeds; STEIA, equipment importation). In summary, both program activities and announced GRM policy have been consistent with the objective of strengthening private sector agricultural sales and service networks, while the state run competitors have been in decline.

2.5 Access to Foreign Exchange

The objective under this policy reform is "to establish a process of testing foreign exchange allocation options that will increase the access of private entrepreneurs in the agricultural sector to foreign exchange and institutionalize market signals as an allocation mechanism."

Implementation of foreign exchange reform^s has grown increasingly complex during the PSSP period. This is due in part to unsuccessful early attempts to find a workable market-based allocation mechanism (i.e., the SNAAD). In addition, the still unresolved conflicts between the emphases of the World Bank and the IMF have further complicated the process of developing a clear strategy leading to market-based allocation and pricing of foreign exchange. Compounding these complexities are the extreme imbalance between imports and exports, the preponderance of donor supplied foreign exchange which is provided in a tied form with various restrictions and stipulations, the debilitated commercial banking sector, and the increasing pressures created by a credit crunch and the poor collection performance of donor counterpart fund generations.

USAID's interest in the foreign exchange regime development process has been to determine how USAID can most effectively support and influence the debate between the GRM and multilaterals to implement a market-based foreign exchange allocation regime -- and has operated at multiple levels: (a) "behind the scenes" policy dialogue interaction on foreign exchange issues as they relate to macro structural adjustment and management; (b) foreign exchange reforms which are explicitly a component of the PSSP reform agenda and which relate to some extent to the needs of the agricultural sector; (c) support for specific foreign exchange mechanisms via the choice of exchange rate used for CIP conversions, and (d) recommendations to the U.S. Executive Directors of the World Bank and IMF. A more detailed discussion of (a) and (c) above are provided in Chapters 5 and 6 on the CIP mechanism and foreign exchange; the PSSP reform agenda component is the focus of this section but cannot be treated totally independently of other aspects of the issue.

Despite all of the above complexities, the GRM has met the specific PSSP benchmarks with the expansion of its Open General License experiment (SNAAD), the creation of a market-based secondary foreign exchange market (MSC), and has made some headway in establishing a negative list for imports traded at the official exchange rate and in moving non-traditional exports to the MSC.

PSSP itself has been successful in supporting the introduction and use of the secondary market for foreign exchange and has played a useful role in assessing alternative market-based allocation mechanisms. The MSC exchange rate has provided a useful benchmark for an equilibrium exchange rate for the economy and serves as a reference point in the devaluation of the official exchange rate. Institutional limitations of the MSC have precluded channeling donor assistance directly through this market, but USAID has indirectly supported the MSC by applying the secondary market exchange rate to the CIP.

PSSP should also be commended for adhering to market-based principles in the pricing and allocation of foreign exchange, and for being suitably cautious in not joining the SNAAD.

The directness of the link between this policy reform area and the agricultural focus of the PSSP is difficult to demonstrate concretely, with the exception of the agricultural inputs supplied under the CIP at the MSC rate.

As the gap between the official and secondary market exchange rates narrows (currently five to ten percent) and their unification is planned for March 1992, the pricing of foreign exchange ceases to be the critical issue. Developing and institutionalizing a market-based allocation system for the post-unification period is now the key issue. Consensus has yet to be reached, but will be of central concern to the GRM and the multilaterals in the coming months.

It is recommended that USAID continue to monitor closely the liberalization of the foreign exchange regime so that it can respond quickly and appropriately to positive developments, especially once a market-based allocation system is developed, tested and proven in the post-unification period.

As credit is increasingly becoming a constraint on access to foreign exchange and imports, USAID should now turn its attention to credit issues as they relate to market structure and access to foreign exchange for the agriculture sector.

Attention in the follow-on PSSP program should also address exchange rate, terms of trade and other issues as they relate to the promotion of agricultural exports in addition to the import of agricultural inputs.

Continuing consideration should be given to channeling USAID assistance through a sector cash grant, but not before truly market-based systems are in place and proven. In

addition, it is recognized that USAID does not have a primary mandate to engage in program-supported dialogue on macroeconomic issues.

2.6 Private Marketing Channels

With the progress in agricultural price policy formulation, restrictions on commerce and transportation drew attention as barriers to the practical implementation of economic liberalization. As a result, the fifth area of the policy agenda was added in the PAAD Amendment Number Two in July 1990. Its objective is "to reduce restrictions on competitive private sector trade and transportation serving agricultural producers in Cabo Delgado, Nampula, and Zambezia Provinces." As mentioned above, the inclusion of marketing issues in the policy agenda demonstrates USAID's awareness of the necessary steps subsequent to policy formulation to make policy changes effective.

Progress in deregulating commercial transactions has been considerable, although in practice many obstacles remain that inhibit competition and market entry. Restrictions on inter-district trade had been removed in practice in some provinces and districts in 1990, and announcement of the deregulation of agricultural marketing was published by the GRM in June 1991, removing restrictions on inter-provincial and inter-district trade of agricultural commodities and allowing open district wholesaling opportunities to any licensed trader. The market structure for processing, such as milling, remains restrictive and in few hands. Despite formal freeing of nearly all retail food prices it appears regulations and lack of competition are major impediments to agricultural marketing.

The impact of increased rural commerce is important not only for improving producer price incentives, but for facilitating non-price incentives as well. The lack of rural consumer staples such as dried fish, soap, oil and other products, and the withdrawal of rural producers from the money economy were widely perceived in the mid-1980s. The return of these goods, traded on a money basis, is a good indicator of the improvements in market activity made since then. These improvements, however, are only meaningful in terms of the near total collapse of commercial activity in the years following independence, and should not be mistaken for absolute improvements in rural standards of living or production which remain significantly below levels attained as recently as 1980. In fact, even with a steady annual growth rate of four percent, the country would only re-attain the 1980 per capita income level in 2015 (assuming a population growth rate of 2.6 percent per year).

Evidence of the impact of the deregulation is given by the MA/MSU research in Nampula Province. The survey found that some provincial and district wholesalers have responded aggressively to the liberalized environment, entering for the first time into agricultural commodity trading and inter-provincial trade. Similarly, conversations with traders, farmers, and district officials in Zambezia Province during the evaluation corroborated the changes that have taken place in allowing freer market entry, removing obstacles, and giving official sanction to inter-district and inter-provincial trade.

The MA/MSU study in Nampula reported the appearance of a new class of rural itinerant traders (*ambulantes*). In spite of being a new type of marketing agent working against obstacles of bureaucratic hostility, war, and lack of infrastructure, in the area studied they managed to purchase 39 percent of the beans, 20 percent of maize and rice, and 69 percent of cassava marketed in 1991 -- no small feat. Rural shop keepers (*lojistas*) still accounted for 80 percent of purchases of maize and rice in the area of the survey, with the exception of cassava where *ambulantes* dominate. *Ambulantes* paid higher prices than *lojistas* (+26 percent maize, +12 percent beans, +10 percent cassava and rice, +20 percent cashew), with the exception of peanuts (-19 percent). The MA/MSU survey data also indicate that the increased competition has not been sufficient to induce *lojistas* to pay more than the floor price for maize and beans, nor have they challenged the dominant market position of the established traders in the survey area. The question is whether these traders represent new entrants or are employees or subcontractors of established traders; this issue will be addressed in future MA/MSU survey activities.

Similarly, articles in recent *Tempo* (a Mozambican news magazine) issues report on the lifting marketing constraints at the wholesale level in Cabo Delgado Province and its impact on production, thus reflecting the widespread visibility of the measures. These issues were evident in a visit to Mocuba District in interviews with one recent entrant into the itinerant trader ranks and several commercial producers. The new *ambulante* had obtained a trading license, was currently buying cashews from farmers in the district and planned on doing the same for maize. According to her, and others in the town, the obligation to sell products to the government wholesale warehouse only applied to operations financed by the local branch of the Bank of Mozambique, with no restrictions on trade financed by private capital.

The MA/MSU survey indicated, however, that considerable barriers to entry continue to exist at the district wholesale level. These barriers reinforce monopsonistic market structures that prevail in many rural areas and have reduced improvements in rural producers terms of trade. The deregulation of rural commercial trading practices appears to be an area undergoing rapid changes and bears careful attention over the next several years, especially if rural security improves.

The Program has called attention to a number of important areas that go beyond "getting the prices right" and that are required for efficient markets to evolve. The attention given to private marketing channels is an example of Program and government awareness of bottlenecks as implementation evolved and the ability to identify appropriate responses. This is significant in that the original PAAD did not place much emphasis on implementation issues, concentrating instead on policy formulation and on anticipated impact among rural producers and service providers. The evolution of the Program's focus toward the removal of constraints that limit the operationalization of those decisions is to be commended and should form the basis for the next phase of USAID program support for the private sector.

In summary, the removal of restrictions on trade and transportation was identified during the Program as necessary to permit the practical operationalization of the price liberalization policy. The GRM has met the objectives for decreased restrictions on private sector agricultural trade and transportation outlined in the policy agenda matrix and letters of intent, and evidence exists of impact on commercial transactions, including higher prices paid to producers. USAID attention should be maintained on promoting the enabling environment at the provincial and district levels. Increasing priority should be given by both the GRM and USAID to the constraints limiting the impact of the policy decisions as they work through the rural economy.

2.7 Petroleum Importation and Marketing

The objective under this policy reform is "to promote increased and more reliable access to selected petroleum products at import parity prices based on the secondary market exchange rate." This policy item was adopted late in the PSSP program as a quid pro quo for USAID allowing up to \$10 million of petroleum imports under the CIP. This reflected the GRM's heightened need for petroleum imports in the wake of the Gulf War crisis and the closing of historical highly concessional contracts with the Soviet Union.

Some advances have been made in this policy area, although as a recent addition to the agenda it is premature to judge a final outcome. The GRM's May 15, 1991 Letter of Intent describes the Government's policy on liberalization of petroleum importation and distribution. As stated therein and discussed in PAAD amendments three and four, consumer prices of gasoline and diesel will be monitored quarterly, gasoline prices will be adjusted as necessary to ensure that they continue to reflect import parity at the secondary exchange rate, and the consumer price of diesel is to reflect exchange rate and international price changes. Furthermore, the GRM has agreed to undertake an analysis and act upon its recommendations leading to the liberalization of aviation fuel imports, distribution, and pricing. This is the first GRM step in permitting direct private sector importation of petroleum products.

While efforts at liberalizing the petroleum importation and distribution sector are in and of themselves appropriate policy reforms, problematic issues arise in terms of:

- Whether a direct link between these petroleum products and the improved functioning of the private sector in agricultural production and marketing can be made, as conceived in USAID program documents.⁸ The link is possible in the case of diesel fuel, unlikely in the case of gasoline, and not apparent in the case of aviation fuel.

⁸Amendment No. 3 states "The purpose of the PSSP is to improve incentives for private sector agricultural production in order to enhance the private agricultural sector's production and income. The PSSP as previously amended addresses five fundamental constraints to private agricultural production -- prices, land access, availability of inputs, availability of foreign exchange, and market access -- through policy reform.... In direct support of private sector agriculture, PSSP funds have been disbursed through a Commodity Import Program (CIP) to finance critical inputs: trucks, farm equipment, irrigation equipment, spare parts for these, and fertilizers and seeds."

- The crowding out of \$10 million worth of "truer" agricultural imported inputs by the importation of petroleum products dilutes the agricultural focus and impact of the CIP.
- Only limited private sector participation in broader petroleum markets can realistically be expected in the short-term, due to the necessary economies of scale enjoyed by the parastatal sector, the ability of this sector to buy forward contracts and price competitively, and the likelihood that the only major viable private sector competition would come from foreign investors/companies.

On the other hand, the CIP facility for agriculture-related commodities was stalled because of lack of demand at the exchange rate used for CIP transactions. At the same time, the inclusion of petroleum increased USAID's leverage on economic liberalization and the PAAD amendment rationale was based on using petroleum as a wedge to begin the deregulation of this sector, and not on a link between petroleum and agriculture.

In its decision to include petroleum products in future CIP programs, USAID must consider the different goals of balance of payments support, policy reform, and the development of the agricultural sector. It is recommended that petroleum products be included as part of the CIP if a decision is made by USAID that the CIP need not be agriculture sector focused and instead should concentrate on achieving the greatest policy reform impact per dollar of assistance.

2.8 Market Information and Policy Decisions

Although the incorporation of market information into government decision making was not specifically contemplated in the Policy Reform Agenda, PSSP has had such an impact. Activities fostered by PSSP have allowed market information to play a role in policy making. Support provided by the PSSP through the MA/MSU market information project has been important in getting market information used in the decision making process of the government. The monthly market information bulletin is used in weekly government-donor Food Aid Subcommittee meetings to factor market information into the decision making process; this was not done previously. This has implications both for food aid decisions, and for its impact on government participants in seeing how the market works, and why they should pay attention to it. In light of the command-oriented experience of many government staff, this new insight may prove to be very important in the long run.

2.9 Gender

Given the lack of data on domestic food production in the family sector, conclusions relating to the impact of the program on gender issues are not possible. In reviewing the program documents and other related information, however, an interesting finding was reported in the SMP that in secure areas where family farmers are operating their plots, female labor is used to full capacity, leading to the conclusion that increases in production will have to come

from increased technology (in spite of the availability of land) and from reduction of male underemployment. This is true, of course, for those rural women who are still on their land. This, and other gender related issues, should be included in future survey research undertaken by the MA/MSU team and other technical assistance supported by the program.

2.10 Food Aid

The U.S. food aid program support to Mozambique amounted to 109,000 metric tons of yellow maize in 1990-91. The food aid program has a three-fold objective: more effective safety net, liberalization of commodity markets, and reduction of the government's role in food distribution. The description of the program, its accomplishments, problems and recommendations for its future are analyzed in the recent report Making the Transition to the Market Economy: Commercial Food Aid and the U.S. Yellow Maize in Mozambique.

Food aid has a direct bearing on the PSSP because of its dominant role in the economy and political life of Mozambique. Food aid, its management, pricing and distribution policies, and the timing of its arrival greatly influence the food market and the rest of the economy. To the extent that food aid contributes to depress agricultural prices, the two programs, PSSP and food aid, may be working at cross purposes.

Reportedly the consumer price of maize reached 1,000 meticaïs per kilo in November 1991 in the open market as compared to the government price of 120 meticaïs to distributors. The excessive rents realized by the few intermediaries in the distribution of food aid in such circumstances are contrary to PSSP objectives, creating an unfavorable image of liberalization and the market.

The principal finding of the Louis Berger report is that food aid is reaching the poor at a high price because of non-competitive markets and excessive rents. The study also found that between 60 and 80 percent of all donated maize is being sold in the parallel market. The conclusions of a recent collaborative study on household food security in Africa are also pertinent in the case of Mozambique: "...household food insecurity in rural areas persists because people simply do not have access to efficient food markets or the income needed to acquire food."⁹

The difficulty in determining the extent to which food aid is actually reaching the poor is not surprising. The lack of accountability of the official system is well documented in the Louis Berger report. Increased accountability through a more competitive market is the direction to move. The dilemma remains, however. The essential pre-condition to market accountability -- the "sovereign" consumer, a consumer with the income vote or ability to buy -- is mostly absent. An efficient, more competitive market is needed before the policy objectives of PSSP

⁹Ridwan Ali and Barbara Pitkin, Searching for Household Food Security in Africa, IMF/World Bank, Finance and Development, December 1991, p.3.

can be realized. The development of such a market must continue to be a central objective of PSSP.

Food aid as currently programmed and distributed, by depressing domestic agricultural production prices, is working against the strategy and objectives of the PSSP. This is a complex issue and a consequence of prevailing market structure. The recommendations in the recent Louis Berger report on food are consistent with the PSSP objectives. These recommendations include movement toward market liberalization, minimum control of food markets (no market margin controls, no price controls), and privatization of the milling and distribution system with greater market competition.

3. USAID ROLE: POLICY DIALOGUE, MONITORING, INTEGRATION

In managing the PSSP, USAID carries out a policy dialogue process, monitors the PSSP, and coordinates with several other donors in the sector. USAID has attempted to pay attention to the need for program adjustments and a long-range view of ultimate impacts. This chapter examines the nature of USAID's role.

3.1 Policy Dialogue

USAID policy dialogue has been influential in achieving progress in economic liberalization policies, but the specific role of USAID or of PSSP must be seen in light of the overall context of economic reform.

It is important to keep in mind that the Program builds on a process that began at least as far back as 1981 with a merchants' strike, the Fourth Party Congress in 1983, and the GRM's Economic Rehabilitation Program begun in 1987. When structural adjustment and economic reform was initiated with the backing of the IMF, the policy reform environment was more conducive to outside influences; USAID's groundbreaking activities prior to 1987, which acted as a catalyst to the process, deserve considerable credit.

USAID promotes the Policy Reform Agenda through several means that together comprise its "policy dialogue" with the GRM. Policy dialogue is supported by a) the infusion of funds for the purchase of commodities regarded as important to the implementation of those policies, and b) the provision of technical assistance from U.S. universities and of USAID monitoring and implementation staff.

Policy dialogue is characterized by a discussion of issues and ultimately an agreement on responses between USAID and the GRM. The dialogue, often based on some kind of written analysis and previous discussions with other donors (principally the World Bank), is carried out at the levels of Mission management, occasionally the U.S. Embassy, but not PSSP project staff. It is manifested in the signing of agreements, the issuance of implementation letters, the exchanges of information, studies and reports.

In the most visible of ways, the process has been effective. USAID can say, and has indeed reported to Washington, that agricultural pricing policy has been liberalized, that state farm divestiture is underway, that important progress has been made on each agenda item.

The issue arises, however, whether the GRM has been an equal partner in the dialogue that produces the policies, and consequently whether the GRM regards the policies as their own. As posed, the conclusion is that the GRM is an unequal partner, lacking certainly the quantitative and qualitative policy and technical capacity to develop its own strategy. The evidence of USAID's dominance in this process is telling -- virtually all of the most substantive

agreements, letters, statements of policy progress, etc., have been drafted by USAID for GRM review, modification, and submission back to USAID. This provides yet another example of GRM's limited capacity to manage donor activities and indicates the strong influence USAID exerts in the process. The consequent programmatic actions are what USAID seeks, but the means appear to undermine the principle of Mozambique's ownership of policy reform.

3.2 Monitoring

USAID monitors program progress at three levels -- national policies, commodities imported, sold, and distributed, and their use, and farm level impacts.

Responsibility for monitoring developments on food and agriculture policy issues at one time rested with USAID's internal food policy working group, which met on a monthly basis. The arrangement is on an ad hoc basis now, meeting only when called by the project officer or Mission management in response to a specific issue. The GRM-USAID Working Group, which met regularly and productively during the first year of the PSSP, also no longer functions.

Responsibility for monitoring and documenting the end use of program commodities resides with the USAID commodity field monitor, who is virtually the only USAID representative able to travel with some regularity to the field, and even then is restricted for security reasons and unable to do more than spot checking.

USAID's efforts to monitor and assess PSSP impacts at the farm level -- income, production, responsiveness to policies and incentives, etc. -- are limited to information from its end-use monitor, occasional visits by other USAID staff, the MA/MSU research, other donor studies, GRM statistics, and secondary sources of unknown reliability. The PAAD contemplated establishing a model farm information system to track impacts, but USAID has not been able to put this into effect.

The World Bank has provided leadership among donors in the establishment of donor-government sectoral working groups. FAO (UN Food and Agriculture Organization) has taken the lead on the agriculture sector working group, in which USAID is an active and important participant. The continuing problem of GRM institutional capacity, however, seriously limits the effectiveness of the working group; GRM officials are often not in attendance at working group meetings.

In this difficult and complex development environment, reliable, complete, and regular information upon which to base decisions is at a very high premium. The Mission staff appears adequate in quantitative and qualitative terms, not only for PSSP but for CIP management, but as long as the countryside is insecure and GRM capacity is limited, information will be incomplete and unreliable.

3.3 Integration With Other Related Programs

The PSSP went into effect in August 1989 as a compatible program to the IMF/World Bank/Government of Mozambique structural adjustment program that began in 1987. Though PSSP followed the IMF/WB program, earlier USAID support played a key role in the origins of the Economic Rehabilitation Program (ERP) and the move toward political and economic liberalization in Mozambique. The central objective was to help move the Mozambique economy toward decentralization and market reliance and away from the command system that prevailed since independence in 1975.

USAID presence in Mozambique goes back to 1985 to the U.S. humanitarian response to the 1983-84 drought and devastation of the war. The realization by GRM, as early as 1983, that the command system was failing and in need of adjustment and reform, offered the opportunity to USAID for dialogue with authorities on broader issues of economic policy beyond relief. Thus, in the case of Mozambique it appears that USAID played the lead donor role in the economic policy reform process. PSSP provides a comprehensive instrument for policy dialogue and support for liberalization remaining fully consistent with the IMF/WB support to the ERP. The PSSP was in fact designed to complement and support the IMF/WB structural adjustment program, focusing on the food and agriculture sector, and the increasing commitment of the GRM to policy reform.

Administrative coordination, communication flow and dialogue appears most satisfactory between USAID and the donor community. The PSSP was consistent with and supportive of the Economic Rehabilitation Program, in which USAID played a pioneering and pivotal role. The consistency of the PSSP with the objectives of ERP and the donor community has remained throughout the period and continues with the most recent evolution (amendments) of the PSSP.

4. TECHNICAL ASSISTANCE IN SUPPORT OF PROGRAM IMPLEMENTATION

The \$3.0 million technical assistance component of the PSSP supports research and assistance provided by three U.S. universities -- Michigan State University, the Land Tenure Center of the University of Wisconsin, and Cornell University. This chapter reviews the status of that assistance, examines its appropriateness in achieving program objectives, and assesses its impact on the Policy Reform Agenda. Recommendations for enhancing and expanding upon the technical assistance are then proposed.

4.1 Background and Objectives of PSS/TA

The PSSP technical assistance component (PSS/TA) provides assistance for the implementation and impact monitoring and evaluation of the PSSP. In particular, three collaborative research programs have been established to assist Mozambican policy makers to acquire and analyze information critical to the liberalization of agricultural pricing and marketing, the divestiture of state farms, and the development of an effectively targeted "safety net" for those most vulnerable to food insecurity.

An important element of this assistance is to develop capacity for policy analysis in the Ministry of Agriculture. The TA is designed to better understand significant variables and help overcome main sectoral constraints such as distorted prices, marketing of agricultural outputs and inputs, and access to land and land structure. The TA is implemented under the general guidance of the Vice-Minister of Agriculture and in coordination with the Food Security Department of the Ministry of Commerce.

The technical assistance funds were initially authorized at \$1.5 million in the original project paper of August 1989, but subsequently increased to \$3.0 million (LOP) in March 1991. As of July 1991, \$2.5 million had been obligated. The remaining \$0.5 million is planned to be obligated during FY92.

Three U.S. universities with long traditions in international development work are contracted to carry out the PSSP research activities:

- a. Michigan State University (MSU) assists in the development of an agriculture market information system. The objective is to provide assistance to improve research, analysis and policy development in support of national and household food security. The assistance relates to all policy areas of the PSSP though more directly to agriculture policy pricing. The University of Arizona is a collaborating institution.
- b. Land Tenure Center, University of Wisconsin, Madison, is providing applied research on land policy and divestiture. The objective is to explore and analyze land tenure

security issues, with particular attention to the divestiture of some of the 100 or so state farms.

- c. Cornell University, Food and Nutrition Policy Program, carries out applied research on urban food security. This is designed to explain how the urban poor are "coping," and to encourage policy reform based on increased understanding of likely impacts of different policies and safety net programs on household food security and nutritional status of vulnerable groups in the Maputo urban/peri-urban area.

4.2 Findings

The technical assistance provided through the PSSP is relevant, well conceived and is making a contribution to the PSSP reform agenda. The funds expended for technical assistance have been well spent, recognizing the need for information, analysis, monitoring and implementation.

The objectives and activities of the technical assistance have appropriately evolved from "snapshot" monitoring and short-term missions toward capacity and institution building, and support for policy implementation. The technical assistance is already making a contribution by providing market information and on-the-job training of local staff. The MSU assistance is in place with counterpart personnel and an active work program of data gathering, policy dialogue and dissemination of market information. A resident specialist is coordinating the work in the Ministry of Agriculture, Division of Agricultural Economics. A data bank of 360 farm families in three districts is being developed from field work conducted in mid-1991, and is beginning to provide much needed systematic information on rural households and agricultural production practices. A market information bulletin (the first in recent Mozambique history) aimed at traders (comerciantes), producers, provincial and district government staff, and policy makers, is now published monthly and agricultural price information disseminated weekly through radio as a direct result of the work of the MSU/MA research activities.

In addition to the contribution that the MSU/MA technical assistance is making to the Ministry of Agriculture, it is also a main source of information and analysis on agriculture for the USAID Mission and thus a tool of more effective policy dialogue between the Mission and the Government.

The Cornell University assisted household food security survey is the only source of information in this critical area. A household survey of 1,800 families is now under way in Maputo. Results of this survey are expected in mid-1992. The work is well organized with a local coordinator and short-term technical assistance. On-the-job training is part of the Cornell work. The Ministry of Commerce is giving this survey high priority. The absence of any alternative sources of primary household-level information on the sources and use of food in a country like Mozambique where food needs and security are of central concern, gives this element of the PSSP special importance.

As a result of the LTC assistance the complexities of land policy and state farm divestiture are better understood by government and USAID, laying the groundwork for research and subsequent policy development and implementation. The LTC assistance is well conceived and beginning to provide the basis for informed decisions on land policy and state farm divestiture now that the political will for privatization appears to be in place.

The political commitment to divestiture, the complexity of the issue and the identification of appropriate counterpart institutions to the LTC/TA delayed the beginning of the work. With the arrival of a resident specialist in November 1991 the assistance is now in place. Various policy options have been laid out through short-term technical assistance missions. The LTC assistance helped identify lessons from other experiences with divestiture and land policy in Africa and contributed to clarify the unsure, unfolding state role in this complex policy area. Plans are underway to survey accessible farms and transform now mostly unproductive or low productivity land to better use. These are focusing on such critical elements of divestiture and land policy implementation as institutional capabilities (especially at the local level), cadastral surveys, titling, sorting of previous and overlapping land rights and related services. The assistance is also focusing on capacity building having built-in short-term training of six weeks to a semester for counterparts as well as a series of five in-country workshops.

Much remains to be done in terms of technical assistance and developing institutional capacity. It is evident that various elements critical to effective strategy and policy design do not exist -- basic information on agriculture, the understanding of agricultural structure with the requisite specificity and depth, knowledge of effective constraints to growth, and the capacity to implement and learn by doing.

If the National Plan for Economic and Social Development is any indication of a strategy for agriculture, one does not find any strategy for the sector at this time.¹⁰

4.3 Recommendations

Now that adjustment and reform are beginning to take place, capacity for policy implementation and the longer term requirements for agricultural reconstruction and development must be planned and executed. Little real gain in policy reform can be attained by "hammering the Government" on policy change (which the Government is accepting) and policy implementation (which the Government is poorly equipped to perform and takes a long time to do). The USAID response should now be continuation, broadening, and extension of the PSS/TA component in order to develop capacity for reform and policy execution in agriculture.¹¹

¹⁰GRM, Plano Económico e Social, 1991, março, 1991.

¹¹Indicative of the need for improved capacity for policy design, understanding, implementation and follow-up, are the demands imposed by policy actors in Mozambique. The GRM-IMF-IBRD Policy Framework Paper for 1991-1993 specifies no less than ninety-seven "strategies and measures" that Mozambique must comply with in the

The objectives of the PSS/TA -- for analysis and dialogue to improve understanding of the sector and to develop greater specificity of reforms -- remain of fundamental importance to the development of Mozambique's agriculture and must be expanded. The relevance of the capacity and institution building objective has been recognized since the inception of the PSSP and its evolution under its various amendments. The needs of agricultural development in Mozambique and the USAID comparative advantage point to a major commitment to capacity generation.

While capacity building should not be the exclusive focus of USAID's next program, the mix of activities should give greater emphasis to improving capacity for policy implementation. This would contribute over the long run to the development of essential institutional capacity for the sustainable development of agriculture in the emerging market economy.

The team recommends that the mix of activities in the next program give greater emphasis to building institutional capacity for policy implementation and monitoring, and training for the private sector. Similarly the Mission should begin to analyze where its resources can have the most impact in capacity building when the security situation allows it.

A long-term program for human resource development to serve private and public needs in agriculture is important. The available data and virtually all the individuals interviewed by the evaluation team show how untenable it is for the present structure of human resource and public and private sector institutional capacity to meet the demands of development in general, and agriculture in particular. This constraint becomes even more binding considering the need to offer training to existing staff, to serve new programs arising from the liberalization of the economy, to reorganize the research and technical assistance sectors, to carry out reconstruction programs, and to provide productive alternatives to the armed forces personnel when, as it is hoped, peace comes.

The critical role of USAID as a precursor to macroeconomic policy reform has given way to the macro-policy leadership of the IMF and World Bank, with their much greater resources. The critical role of the PSSP in agriculture-related elements of the macro-reforms must continue to evolve from emphasis on conditionalities for policy reform, to contributing to policy formulation, implementation assistance and monitoring, and evaluation through capacity development over the long run for the agricultural sector. U.S. universities and private sector development oriented institutions are proven U.S. resources to draw upon for this purpose.

period. The Director of Agricultural Economics of the Ministry of Agriculture informed the evaluation team that for the on-going 132 projects of external assistance in his area, he is only able to assign four professionals for counterpart supervision and follow-up (two with MS, two BS). The PSSP dictates only eighteen requirements; USAID, nevertheless, finds it necessary to prepare even letters of request of the Government to USAID for the Program and its amendments (such being a likely practice of all donors).

Over the long term, Mozambique offers a unique opportunity for USAID to be a major contributor and partner in devising policies and programs to make best use of Mozambique's rich resource endowment and in bringing sustainable benefits to its people. A new beginning in Mozambique's political, economic and agricultural development seems underway. The reconstruction and development of Mozambique's agriculture requires partners who are committed to long-term support in the critical areas of institutional development, human resources, policy analysis, and investment. Long-term commitments are required because the task at hand takes time and because learning by doing is necessary. USAID's targeted assistance -- combining resident specialists, short-term support missions and training (on-the-job, short-term and long-term) all focused on a very specific policy agenda -- is a sound and relevant approach to technical assistance, and an area where USAID has a comparative advantage.

Though the needs of Mozambique for capacity generation cut across all levels of the society for primary, secondary, university and research needs, the focus -- in view of limited aid resources and competing needs, the comparative advantage of the U.S., PSSP objectives, and on-going technical assistance -- suggest attention to supporting human and institutional capacity in agriculture over a fifteen year planning horizon.

The long range focus must be to develop capacity in the Ministry of Agriculture and other appropriate ministries and the private sector for information, analysis, monitoring and evaluation of agricultural, agroindustrial and fisheries sub-sectors as integral elements of policy research and information generation for the short-term needs of the emerging market economy, but especially also for the long-term developmental needs of the sector. Such assistance must support both commercial and family agriculture with special attention to fostering the emergence of local groups, marketing associations, informal credit systems, and indigenous organizations.

The World Bank's Food Security Capacity Building Project (CBP) presently in preparation offers an immediate concrete opportunity for USAID to define and implement a complementary and supportive role to the Bank's program. The principal objective of the CBP is "to increase -- gradually and within the constraints of low financial and human resource availabilities -- the capacity within Mozambican institutions to understand the nature and magnitude of the country's food security problems, the main affected groups, the methods used to measure food security and the types of policies/activities needed to begin addressing the identified issues."¹²

The human resource needs for capacity building in Mozambique are so great that there is little danger of overlap in this priority area. USAID focus on training as an integral element of concrete and specific TA programs provides a complementary niche to the CBP.

Because of the pressure for quick results, the World Bank supported project will be carried out on a project by project basis geared to short-term impact. The USAID-led capacity

¹²World Bank Preparation Mission, Aide Memoire, October 7-18, 1991.

building should be coordinated and complementary to the CBP, yet independent from it, conceived and designed for the long run and with more specific and concrete objectives, integrating resident specialists, short-term support, and on-the-job and long-term sector-specific training.

It is recommended that USAID, in consultation with the GRM and the World Bank, explore at this time the most appropriate division of labor within the common objective of capacity development for food security and the proposed CBP.

The opportunity for USAID acting as executing agency to the World Bank project for capacity building in agriculture to strengthen and to complement direct USAID support to the TA from U.S. universities, should be considered. Sensitivity for such collaboration is already evident. The World Bank October 1991 CBP mission Aide Memoire mentions that the Faculty of Agronomy and Forestry of the Eduardo Mondlane University is in the process of establishing "the necessary linkage with Cornell, Florida and Wisconsin Universities."

Although there is a need for agriculture research that would contribute to improved technology, attention to policy reform and implementation are more important at this time. USAID could, however, assist the Ministry of Agriculture and/or its specialized research institutes to determine how to secure some research capability with a minimum investment by borrowing staff from international research centers and neighboring countries. In addition, within the spirit of PSSP, USAID could assist in the systematic building of relationships between these institutions and the private sector in order to make research responsive to the needs of the private sector. This could include finding creative ways of financing research as well as some adaptive research through the private sector. A.I.D. has some good experience in this in other places.

Environmental and natural resource conservation policy are non-existent in Mozambique. In a possible extension of PSSP, USAID support for the definition, design, and institutional and human resource development for the formulation and implementation of a national environmental and natural resource conservation policy should be considered. The environmental situation is becoming critical in Mozambique as elsewhere in Africa.¹³ A recent World Bank study, for instance, suggests that the war and its ensuing displacement of people adversely affects the environment, through deforestation for wood fuel, abusive land use practices, and changes to the mangrove ecosystems.¹⁴

Although the colonial authorities surveyed Mozambique's natural resources, there is little knowledge of the impact of war. There is little understanding of, for example, the consequences

¹³Tempo, "Combustiveis lenhosos: Mil projectos para salvar a floresta", September 29, 1991.

¹⁴Dejene and Olivares, Integrating Environmental Issues into a Strategy for Sustainable Agricultural Development: The Case of Mozambique, World Bank, 1991.

on the environment of the retreat into subsistence agriculture, the massive displacement of rural people, and the abandonment of formerly cultivated areas and expansion of cultivation into marginal areas better suited to pasture or rangeland. The effect of these changes on the quality of agricultural resources and the implications for sustainable development need to be explored in detail. In a similar vein, specialized studies are required to examine the demands being made on the natural resource base by the current settlement and land use patterns and the environmental implications of a return to normal peacetime conditions.

5. IMPACT AND EFFECTIVENESS OF COMMODITY IMPORT PROGRAM (CIP) DISBURSEMENT MECHANISM

This chapter provides an overview of CIP's history and current status under PSSP, presents an assessment of its impact and effectiveness, and comments on the appropriateness of the CIP disbursement mechanism.

5.1 History and Current Status of CIP Disbursements

The role of the PSSP Commodity Import Program has been to provide foreign exchange for private sector importation of inputs to agricultural production, processing or marketing activities.

The main intent of CIP under PSSP was to (a) provide vital balance of payments (BoP) support in connection with GRM progress in all PSSP policy reform areas; and, (b) provide transitional support for foreign exchange regime reforms in particular, until such time as circumstances in Mozambique permit use of a sector cash grant or other disbursement mechanism under a more market-based exchange allocation system.

DFA requires that CIP-type financial assistance be transacted at the highest non-illegal exchange rate and be used to the maximum extent possible to purchase U.S.-made goods. CIP funds are obligated in accordance with the written intent of the Government to execute specified elements of an agreed policy reform agenda. Total funds authorized and committed under PSSP's CIP as of November 1991 were \$53.44 million, of which \$13.55, \$22.50 and \$17.39 million, respectively, were obligated in FY89, FY90 and FY91.

USAID has provided a CIP in Mozambique since 1984, with funds obligated between 1984 and 1988 totaling \$52.255 million under PSSP's predecessor, the Private Sector Rehabilitation (PSR) program. The early CIP focused on a limited range of agricultural inputs for Gaza and Maputo provinces. Initially, PSSP's CIP expanded coverage to seven of Mozambique's ten provinces but retained the limited range of eligible commodities. In 1991, the remaining provinces of Tete, Niassa and Inhambane were added and the list of eligible commodities was expanded to include all commodities on A.I.D.'s Commodity Eligibility List related to agricultural production, processing and marketing. In May 1991, certain petroleum products were also added to the list of eligible products which could be procured under CIP.

5.2 Impact and Effectiveness of CIP

CIP has been a well administered and managed program within USAID, and has effectively met its objectives under PSSP. The impacts of CIP are difficult to measure definitively, but available evidence suggests that it has had the desired effect.

CIP was wisely chosen as a sector-targeted means, within overall macroeconomic liberalization and adjustment, for reinforcing agricultural policy reforms under PSSP:

- The focus was on the procurement of imports of agriculture sector related inputs.
- CIP encouraged the use and development of private sector importers and distributors. Private sector participation increased from 34 percent of the total value of commodities distributed in 1984 to 78 percent in 1988 under the first program, and to 100 percent in the latter years of PSSP. The success is such that currently only private sector firms are eligible under CIP, except in the case of petroleum products.

The secondary market rate, which more closely reflects the underlying market-based equilibrium rate than the official exchange rate, was adopted in January 1991 as the means for calculating the generation and use of counterpart funds. This had an important "demonstration" and validation effect, as USAID was the only donor to transact at the MSC rate.

Close approximations to commercial practices were adopted and implemented in the administering of CIP in terms of such elements as deposit requirements, documentation, and processing times. The CIP Office at USAID also provides useful assistance to importers to facilitate the application and approval process for imports under CIP.

Under PSSP, CIP was responsive to the changing needs of the agricultural sector by expanding the CIP to include all ten provinces, extending the list of eligible commodities and lifting a number of end-use restrictions.

CIP annual allotments were exhausted each year, indicating that sufficient demand existed for the commodities eligible for procurement under CIP at the rate of exchange in effect. The only hiatus was in the four to six months immediately following USAID's adoption of the secondary market rate, as the market presumably adjusted by clearing first at lower price points.

The CIP Management Office at the Mission is well managed and effective, and staffed by seasoned CIP managers. USAID's management information systems and reporting procedures are commendable. Front-end monitoring (i.e., CIP management) is conducted well. Back-end (i.e., end-user farmer) monitoring is more limited due to security issues and limited resources.

USAID's collection of counterpart funds under CIP requires that the GRM settle accounts directly, irrespective of whether the GRM has collected outstanding balances from importers. As such, the CIP basically has a 100 percent collection performance for counterpart funds.

CIP was probably an optimal disbursement mechanism for PSSP, especially given DFA requirements and constraining exogenous factors such as limited government capacity, an

underdeveloped banking system and a foreign exchange regime which was far from market-based during most of the PSSP period.

CIP generally was successful in achieving its objectives. It has been able to:

- increase the agricultural sector's access to imported agricultural inputs;**
- provide vital balance of payments support through the "provision" of foreign exchange;**
- provide GRM budget support through generation of counterpart funds;**
- provide an important and early "demonstration effect" of the feasibility of using the secondary market rate; and,**
- stimulate the development of private sector participation in the importation and distribution of imported agricultural commodities (CIP may also have been a catalyst to the privatization of agriculture-related parastatal entities).**

The shortcomings of CIP are few, and the extent to which they are shortcomings and/or could have been avoided is debatable. Firstly, only a limited proportion of the goods procured through the PSSP CIP were of U.S. origin. Thus, the question arises as to whether the Mission did enough to encourage the procurement of U.S. goods under CIP (e.g., inform U.S. producers of the three year program, encourage them to set up service and maintenance facilities in Mozambique, etc.).

It can be speculated that the limited amount of U.S. goods imported under CIP largely reflects the low level of attractiveness of the extremely small Mozambique market to U.S. companies, and the subsequent lack of interest and investment in service and maintenance facilities located in the country.

However, if U.S. companies learned of a multi-year program which offered prospects for a volume of goods sufficient to make an investment in service and maintenance facilities worthwhile, then more U.S. goods might be imported under CIP. Resolution of internal security issues and an increase in the market size in the coming years, will make investment in Mozambique more attractive. USAID, with the U.S. Embassy, should investigate promoting such opportunities for U.S. exports.

Secondly, products actually imported under CIP may not have been the optimal mix of products to best encourage agricultural production. A greater proportion of lower technology goods might have had a greater impact on production during the last two to three years than the preponderance of trucks and tractors that were actually procured. However, to pre-determine the mix of goods would be in direct contradiction of one of the main principles of PSSP overall

-- to allow private sector agents and market forces to determine the mix of goods purchased at prevailing market prices.

Thirdly, USAID's requirement that the GRM "pay" 100 percent of the counterpart fund generation, irrespective of whether the government has collected outstanding balances from importers, is somewhat controversial in terms of the net effect of USAID-generated counterpart funds on the GRM budget. The government may simply "borrow" from one account to make the requisite deposit in "USAID's account", or delay or reduce payments to other donor counterpart accounts. In both cases, the net budgetary impact is diluted if importer balances are left in arrears, and there is some evidence that this has occurred.

Fourthly, the inclusion of petroleum products in the eligible list of imported commodities under CIP, while expedient from a political and policy reform perspective, diluted the agricultural sector focus of CIP by precluding the purchase of up to \$10 million of agricultural inputs. The validity of this conclusion hinges on how directly one perceives the types of petroleum products actually imported through CIP as inputs to agriculture and in support of PSSP policy reforms. (See section 2.7.)

Fifthly, as noted elsewhere, it is difficult to gauge whether CIP had the desired impact on end-users and agricultural production due to security issues and limited end-use monitoring resources. Key questions center on how well end-use monitoring is conducted for CIP (i.e., to see if target groups are receiving the CIP procured goods and producing more as a result); what is practical given the security and geographic parameters; and, what the implications are for end-user resource requirements.

Overall, end-use monitoring for CIP appears to have been well conducted, especially given the low level of resources committed to this function. However, it is recommended that more resources should be provided for end-use monitoring, irrespective of the security situation, because: (a) end-use monitoring is critically important to impact assessment; (b) if the security situation persists, monitoring will remain difficult and thus require more attention; and, (c) if the security situation improves, then the geographic impact of a PSSP/CIP is likely to be more dispersed and extensive, requiring more monitoring resources as well.

Finally, questions can be raised in terms of whether USAID's policy reforms would have been adopted (with or without A.I.D. dialogue) irrespective of whether there was a CIP; does the GRM see the two as linked; is the dollar value of CIP a sufficiently high share of total donor assistance so as to provide leverage to USAID's dialogue; and, whether CIP is necessary or sufficient from a PSSP policy dialogue point of view?

- It appears that the GRM sees the two programs as linked in the sense that funds are committed on the basis of written intent to adopt policy reforms.

- While approximately \$10 to \$20 million of disbursements per annum is marginal compared to the total foreign exchange requirements, the GRM recognizes it needs every bit of assistance that it can get, and that USAID has been providing assistance over the long term. Thus, USAID's cumulative contributions are substantial. The CIP under PSSP is largely seen as a continuation of the CIP started in 1984.
- The reforms promoted under PSSP are unlikely to have been adopted in their entirety without USAID support in both policy dialogue and financial contribution. The financial component being disbursed in a more untied form may have created more leverage in policy reform dialogue but would have diluted the sector-specific impact of CIP.

5.3 Conclusions and Recommendations

CIP has been a well administered and managed program within USAID, and has effectively met its objectives under PSSP. CIP was correctly chosen as a sector-targeted means, within overall macroeconomic liberalization and adjustment, for reinforcing agricultural policy reforms under PSSP. The impacts of CIP are difficult to measure definitively, but available evidence suggests that it has had the desired effect.

The shortcomings of CIP are few, and the extent to which they are shortcomings and/or could have been avoided is debatable. The addition of petroleum products to the eligible list diluted the agricultural focus of the CIP. Otherwise, CIP commodity eligibility, end-uses and eligible provinces were amended appropriately over the course of PSSP.

Improvements should be sought in terms of increasing the proportion of goods imported which are of U.S. origin and the level of resources devoted to end-use monitoring.

CIP was probably an optimal disbursement mechanism for PSSP, especially given DFA requirements and constraining exogenous factors such as limited government capacity, an underdeveloped banking system and a foreign exchange regime which was far from market-based during most of the PSSP period.

What the disbursement mechanism should be in the follow-on program to PSSP and how it should be structured and administered depend in large part on developments in foreign exchange management and the banking sector -- which are the subject of the next chapter.

6. FOREIGN EXCHANGE MANAGEMENT AND THE BANKING SECTOR

The design and execution of an appropriate disbursement mechanism is conditioned in large part by developments in foreign exchange management and banking sector operations in support of import transactions. In this chapter, recent developments in these sectors are reviewed and implications drawn for assessing alternative modes of disbursement in the next phase of non-project assistance.

6.1 The Balance of Payments Situation

Mozambique faces serious balance of payments problems. A combination of economic mismanagement, large external borrowing, and debilitating insecurity conditions during the early and mid 1980s resulted in sharp economic declines, a mounting debt burden and an untenable balance of payments situation. Despite improved economic performance in recent years, Mozambique will continue to undergo structural adjustment and rely heavily on donor assistance in external accounts and debt rescheduling and cancellation for years to come.

Mozambique's balance of payments problems emanate, in part, from the fact that exports represent a mere 15 percent of the import bill and donors account for some 70 percent of the foreign exchange requirements. The intent of massive devaluations since 1987 has been to encourage exports and price imports more efficiently, and thus address trade imbalances. However, while non-traditional exports have increased rapidly, traditional exports continue to suffer from rural insecurity and dilapidated or destroyed rural infrastructure. Merchandise trade account performance was less favorable than expected in 1990, reflecting a somewhat out of control monetary policy, unexpectedly high inflation figures and, as a consequence, little to no depreciation in the real effective rate of exchange. Devaluations in early to mid 1991 have put the effective exchange rate back on track.

The extreme dependence on donors for foreign exchange is debilitating. It can often cause economic distortions through the unevenness of the flow of financial assistance or delays in disbursement. Tied contributions both create distortions and tax the already limited administrative capacity of government entities. The economy in 1990 and early 1991 suffered from poor coordination in donor financial assistance and as a result, recovery in the external trade balance was hampered.

6.2 Foreign Exchange Pricing and Allocation

Efforts aimed at improving the pricing of foreign exchange have met with some success recently, while experiments to develop market based allocation systems have been less promising. Continued devaluations in the official exchange rate in the first half of 1991 and creation of the secondary market in late 1990, have brought the spread between the official and secondary market rates to five to ten percent. The parallel market rate has basically held steady

since mid-1989 and is currently about 20 percent above the secondary market rate. The unification of the official and secondary markets at a "market-based rate" is expected to be achieved in 1992.

The experience with foreign exchange allocation systems, however, is less encouraging. In practice, the SNAAD (the non-administered allocation system) no longer operates as intended in Mozambique. Expansion of the list of eligible commodities, the lack of foreign exchange available to the SNAAD (due to delays in donor funding and the lack of appropriately untied funds) and the underdevelopment of the banking sector hastened its demise.

The secondary market, started in late 1990, operates mainly through the commercial banks (Bank of Mozambique, Bank of Standard Totta, and People's Development Bank), and although not a completely free market, it is an important step in the process of liberalizing the foreign exchange system. The low level of development of the banking sector is, and will continue to be, a retarding force on expanding the secondary market's role in "allocating" substantially higher volumes of foreign exchange.

The respective roles of the secondary market and allocation systems (GCPI/SNAAD) following the unification of the exchange rates is not clear. This reflects a debate over the appropriate foreign exchange system, its funding, sustainability, and the implications for economic growth and inflation.

Principal foreign exchange and trade reform targets for 1991-93 focus on a continued adjustment of the official exchange rate to reach unification with the secondary exchange market rate during 1992 (March is targeted). In the interim, the target is the enlargement of the size and scope of the secondary exchange market by allowing the sale of non-traditional export earnings and by shifting certain types of imports out of the official market.

Over the longer term, the GRM seeks a simplification and unification of the various foreign exchange allocation schemes currently in place, aimed at enlarging the non-administrative allocation of foreign exchange. In addition, the GRM counts on a continuing reliance on tight fiscal and monetary policies to avoid instability in the exchange market and maintain competitiveness.

6.3 USAID's Role in Foreign Exchange Management

USAID's role in foreign exchange management has operated at three principal levels. First, the Mission has participated in macro-level policy dialogue on structural adjustment and the role of foreign exchange. It has cautioned against the widespread use of SNAAD, and has analyzed alternative allocation mechanisms. Second, the Mission has advanced policy dialogue on foreign exchange liberalization specifically targeted at the importation of agricultural inputs. Finally, USAID's CIP program transacts foreign exchange at the secondary market rate as opposed to the official rate. While a limited volume of transactions has occurred through this

mechanism in comparison to total foreign exchange transactions in the economy, it has demonstrated the viability of such a mechanism.

What USAID's agenda should be with regard to foreign exchange management in the coming years, depends in large part on the overall strategy and the set of objectives the Mission wishes to pursue.

Given how integrally linked macro-level reform is to sector-specific development, USAID must monitor and hopefully influence foreign exchange policy. It is not a matter of whether to be involved in foreign exchange issues, but rather determining the level and degree of involvement. The Mission should, at a minimum, continue to focus on agriculture sector related issues, including those relating to foreign exchange, and assess alternative CIP-type disbursement mechanisms within that context. This is consistent with the strategy and objectives outlined in the Mission's CPSP and the possibility that foreign exchange will cease to be as high a priority issue in the coming years as it was between 1987 and 1991.

6.4 Banking Sector Developments

Financial sector policy reforms are important to the success of the overall adjustment program, and in the near term, the financial sector is likely to become an increasingly binding constraint on development. Its ability to provide credit and to play a role in the pricing and allocation of foreign exchange are major issues to be addressed.

It is apparent that while the price and availability of foreign exchange in recent years have been major constraints on imports and external trade, more critical now appears to be the availability of credit and the ability of the domestic banking sector to operate efficiently. The squeeze on credit reflects declines or delays in donor contributions, the effect of IMF-initiated credit ceilings and related restrictions, and the poor performance of the GRM and banking system with respect to collecting counterpart fund generations.

Reforms in the banking sector which specifically relate to CIP, the performance of importers, and the ability to access to foreign exchange at market rates, hinge on three main questions.

- Will the banking sector be able to efficiently perform the banking functions of CIP in the foreseeable future and conform to U.S. reporting standards and requirements (e.g., documentation, accounting, etc.)?
- Will the banking sector be able to handle foreign exchange transactions in an efficient manner, and thus play a major role in market-based foreign exchange price determination and allocation?

- Will the banking sector be able to generate and manage sufficient credit to allow importers the opportunity to adequately finance imports, and distributors and/or end users to finance purchases of imported goods in local currency?

Currently, the financial sector suffers from a number of inadequacies. There is, for instance, a severe lack of credit available in the system. This reflects loose past credit collection performance and policy, especially from delinquent parastatals and state-owned enterprises; a severe drain on the system from the public sector with the subsequent crowding out of the private sector; poor collections performance on counterpart funds generated through donor activities; and more recently, credit ceilings imposed by the IMF and the government itself.

The financial sector also suffers from cumbersome and discriminatory lending practices. Rampant inflation has led to the offering of negative real rates of interest and consequently, minimal attraction of funds by the banking sector.

In addition, there are legal limitations on the trade-related functions that commercial banks, other than the Bank of Mozambique (which has been both commercial and central bank, blended), could perform. And, there are generally very low levels of institutional capacity of the banks to perform even the most basic of record keeping and accounting functions.

Financial sector reform strategy focuses on (a) creating monetary and credit policy which is consistent with the reduction of inflation and the strengthening of the external accounts; (b) developing a comprehensive strategy for improving basic banking services and developing an efficient, flexible and competitive banking system; (c) introducing means to stimulate the growth of long-term deposits; and, (d) encouraging domestic savings and enhancing the efficiency of the financial sector, largely through changes in lending practices, terms and conditions.

Advances to date include:

- Legislation allowing the separation of the central bank and commercial bank functions of the Bank of Mozambique into separate entities, with actual operation as separate entities targeted for mid-1992.
- Foreign trade-related activities have legally been opened for wider bank and non-bank participation (although non-banks will only be able to offer a more limited set of services). To date, the only major entity known to have applied for a foreign trade-related license is the Banco Standard Totta de Mozambique; it is not clear whether the license has been granted yet, or whether Totta actually offers a full range of trade-related services.
- The opening of Secondary Market (MSC) foreign exchange windows at commercial banks has occurred and been an encouraging sign, but there is still room for substantial operational improvement.

- **The World Bank and ASDI have jointly funded a study on the development of the financial sector. However, this study is currently not available, and will probably not be released before the end of the PSSP.**

6.5 Conclusions

The basic choices regarding the mode of NPA-related disbursements by USAID are a function of (a) the extent to which market-based foreign exchange pricing and allocation is achieved; (b) the current and expected level of development of the banking sector; (c) the extent to which USAID determines that such financial assistance should be sector or non-sector specific; and, (d) maintaining consistency with DFA objectives.

The mode of disbursement could be (a) to retain the CIP mode of disbursement, with or without USAID acting as the "banker" and, with or without a strong agricultural focus being maintained; or (b) to adopt a cash grant mode, either sector tied or as an untied cash grant.

Dependency on donors for foreign exchange (the provision of which often comes in a tied form or with stipulations) and the underdevelopment of the banking system, are likely to persist for many years. This will limit the development of a truly market-based foreign exchange system.

Reforms in the pricing of foreign exchange have largely been attained and the determination of the price is approaching a market basis. However, current systems for allocating foreign exchange according to market principles are still inadequate and do not meet GRM goals and USAID standards. Resolution of the allocation issue will be a top priority during 1992.

The low level of the banking sector's development will increasingly become an impediment to market pricing and allocation of foreign exchange, perpetuate inefficiencies in the creation and disbursement of credit, and may particularly impede the access to credit of productive sectors of the economy such as agriculture.

Limited accessible credit combined with a heavily administered foreign exchange allocation system meant that in effect foreign exchange rationing, not allocation, was in operation during much of 1990 and 1991. The needs of the agricultural sector may have been poorly served under this set of circumstances.

6.6 Recommendations

USAID should monitor developments in foreign exchange management reforms and banking sector developments closely. It should remain ready to move and be flexible should an appropriate foreign exchange allocation mechanism be developed some time soon after rate unification. It should adhere firmly to the principles of only directly financially supporting a

mechanism which transacts as close as possible to market rates and is an open, transparent and fairly uncumbersome process.

USAID should consider being active in identifying, developing and testing an appropriate foreign exchange allocation mechanism by undertaking selected studies, technical assistance and focused policy dialogue. Then, it should participate financially in the new mechanism and promote it with the government and other donors. While the Mission should not be involved in the mainstream of foreign exchange reform dialogue, it should play an active role in discussions and ensure that the interests of the agricultural sector are represented.

Within the different goals that PSSP addresses, USAID should consider whether or not to continue an agriculture-focused CIP if conditions do not allow its use as a fast-disbursing assistance mechanism. However, it appears that USAID will be required to play the role of "banker" until such time as the domestic commercial banking sector can take over that role; it is unlikely to be able to do so to the standards set by USAID for several years to come.

- Untied direct cash transfers may have greater potency in terms of leverage for policy reform, but the government and banks do not currently have the ability to administer the funds to USAID's standards and requirements. In addition, the sector specific benefits of CIP would largely be lost if an untied, direct cash transfer were adopted.
- A sector cash grant would relieve USAID of some of its administrative burden, retain the agriculture sector focus of the current CIP, and may lead to greater political leverage in promoting policy reforms than the current CIP. The feasibility of, and mechanisms for, administering a sector cash grant should be analyzed in the design of the next non-project assistance.
- The agricultural focus of disbursements is consistent with PSSP objectives. However, if the new NPA broadens the issues addressed to areas such as marketing and processing infrastructure and improved production technology, then a case could be made for broadening the set of eligible commodities. This should also be investigated as part of the design work for the new program.
- USAID should continue to act as banker until such time as the banking system can perform to requisite standards. If USAID explicitly adopts the objective of supporting the banking sector's development, then channeling CIP-type funds through the system might be acceptable. This would, however, imply compromises, at least in the earlier period, in terms of reporting integrity and related issues.

USAID should continue to stress the importance of competition and the application of market principles in the banking sector, emphasize the critical role the banking sector has to play in development, and stress the fact that the sector currently constitutes one of the main binding constraints to development.

The follow-on program to PSSP may want to consider issues of access to credit, particularly as they relate to the agricultural sector's ability to purchase imported inputs. Closer examination may reveal that certain forms of direct support to the banking sector are advisable. This may include channeling CIP-type funds through the government and/or banking sector in some form of sector-specific cash transfer earmarked as a line of credit or revolving fund for the agricultural sector.

Finally, a number of issues relating to foreign exchange, banking and credit are critical to Mozambique's development. USAID should consider providing assistance in some or all of these areas: a) development of an appropriate foreign exchange allocation system in the post-1992 rate unification period; b) development of the domestic commercial banking sector; c) development of the means for increased access to credit, particularly by the agricultural sector; d) assistance in developing a system to better coordinate the programming of donor funds in terms of evenness and predictability of flows, and for improved collection of counterpart funds; and e) coordination of the expanded availability of increasingly untied donor funds.

7. SUMMARY OF CONCLUSIONS

This chapter provides a summary of conclusions, first on the PSSP overall, followed by summary conclusions which address four main sets of questions.

- **Has PSSP been able to identify and effectively address policy constraints to private sector agricultural production and marketing? Have the policy reforms chosen been necessary and sufficient?**
- **Has the technical and related assistance provided in support of the program been appropriate? What has been the impact to date of the TA?**
- **What has been the impact of PSSP's CIP disbursement mechanism in terms of both the commodities imported and the effect of the import support on the GRM budget and balance of payments? Within the programming limits of the DFA, is CIP the optimal disbursement mode to achieve program objectives and impact?**
- **Has the PSSP had the desired impact on specified target groups and areas, e.g., agricultural production and income, agricultural marketing, policy makers, and GRM budget and Mozambique's economic situation?**

7.1 Overall Conclusions

The PSSP is a well conceived program with realistic policy agenda objectives. PSSP responds to problems and constraints in a development framework (not in terms of emergency needs). The PSSP Policy Reform Agenda is appropriate and generally responds to agricultural sector needs, except for the petroleum component discussed in 2.7.

The PSSP Policy Reform Agenda is internally consistent and generally adhered to by the GRM. USAID has effectively contributed to moving GRM from a state to a private sector framework.

Policy dialogue in its many forms has been effective. PSSP policy dialogue has been influential in achieving progress on agricultural liberalization policies, as well as on macroeconomic reform.

PSSP is central to the Mission's strategy and consistent with DFA objectives. It is consistent and supportive of the GRM and IBRD and other donor programs, but PSSP must be seen as an element in the larger context of structural adjustment.

PSSP has been successful in terms of supporting policy formulation and creating a framework for their implementation. However, the implementation of each of the agenda items

(i.e., making them operational), beyond the policy decisions themselves, continues to be essential to increasing agricultural production, rural incomes, and providing the environment conducive to commercial and family farm development.

PSSP has responded in a flexible way as the policy process has evolved. Technical assistance resources have been flexible and the budget appropriately increased.

Within data and institutional constraints, PSSP has been supported by substantive work and documentation within USAID. It has produced the analyses and documents for the PAAD and its four amendments, the technical assistance amendment and its project agreements, and the Program Grant Agreement and its five amendments. In addition, during the conduct of PSSP, USAID staff have effectively utilized REDSO resources, including commodity management officers, economists, and a political economist.

PSSP impact has overall been positive. The willingness to change basic economic policy orientation and the progress observed in following the PSSP policy reform agenda is indeed impressive. The program has targeted appropriate policies and incremental steps in laying the groundwork for the long-term economic rehabilitation of the country.

- policy formulation, the most easily observed of PSSP goals, has been substantially achieved;
- PSSP program activities have begun to have an impact on policy implementation, although much remains to be done; and,
- evidence of impact on rural production and income is difficult to ascertain, and in fact some impacts would not be expected to materialize at this point in the Program; nevertheless, indicators suggest some positive change at the rural producer level.

7.2 Policy Reforms

Overall, PSSP has been able to identify and effectively address a selected set of policy constraints to private sector agricultural production and marketing (with the exception of the petroleum agenda item which is not seen as directly relevant to agricultural performance). The PSSP policy reforms were necessary, and in a narrow sense, sufficient given the rightfully "modest" objectives. However, the current challenge is to better operationalize the policy reforms adopted as part of PSSP and broaden the set of issues and policies addressed, in order to further enhance private sector agricultural production and marketing.

7.2.1 Agricultural Pricing Policy

Agricultural price policy reforms have been successful in the sense of doing away with the fixed price system and removing the illegality of selling above the government price. The

new floor price system is serving the function of a reference price rather than as a true government price support, and appears to be an appropriate incremental step in moving toward economic liberalization.

There is evidence of a positive response to the price incentives on the part of producers, and even marketing agents, although the simultaneous removal of price restrictions on inputs and consumer goods has meant that overall producer terms of trade may have worsened in the short run. In addition, the insecurity in rural areas continues to severely constrain agricultural production and marketing, making it difficult to gauge the true extent of the changes at the farm level. The MA/MSU work on prices and changes in the agricultural economy at the field level have been important in identifying impact and remaining obstacles that inhibit the effectiveness of price incentives, and should continue to receive high priority.

7.2.2 Divestiture of State Farms

USAID is wrestling with one of the toughest and most important issues of farm divestiture -- land -- and should be commended for doing so. However, divestitures to date do not reflect the application of a coherent plan or process, and transfer of land ownership to the private sector is still not allowed.

The apparent rationale currently is for the GRM to rid itself of the budget drain posed by state farms, rather than to increase productivity, by putting formerly state farm land in the hands of private producers.

USAID has correctly emphasized their concern with not only the fact and pace of divestiture but also the quality of divestiture, and rightly refocused the modus operandi of technical assistance to a longer term, more continual approach.

7.2.3 Private Agriculture Sales and Service

All of the agriculture commodities procured recently through CIP have been imported through private agents. Thus, within USAID's policy objectives of supporting private sector rural commercial infrastructure, the CIP imports represent an important element. There is also evidence of improved access to agriculture inputs provided through CIP.

The direct impact on aggregate production is necessarily very limited at this stage, although there is evidence of a wider circle of indirect beneficiaries. In addition, CIP imports have contributed to providing important non-price incentives to some agricultural producers.

7.2.4 Access to Foreign Exchange

PSSP has been successful in supporting the introduction and use of the secondary market for foreign exchange and has played a useful role in assessing alternative market-based allocation mechanisms.

USAID should be commended for adhering to market-based principles in the pricing and allocation of foreign exchange and for being suitably cautious in not joining the SNAAD.

PSSP was successful in increasing access to foreign exchange at a more market-determined price albeit a small percentage of total foreign exchange transactions/needs.

7.2.5 Private Marketing Channels

The inclusion of marketing issues in the policy reform agenda demonstrates USAID's awareness of the necessary steps subsequent to policy formulation to make policy changes effective.

Progress has been made in deregulating commercial transactions. The MA/MSU survey data indicates the emergence of new itinerant traders (ambulantes) with a corresponding improvement in producer prices. However, there remain many obstacles to competition and market entry.

7.2.6 Petroleum Importation and Marketing

The inclusion of petroleum in the agenda and CIP eligibility, although in the U.S. interest in responding to a GRM request under special circumstances, diluted the focus on the agricultural sector and precluded the purchase of up to \$10 million of commodities more directly related to agriculture.

Although policy reform related advances are necessarily in their early stages (this element was only recently added to the agenda), to date the Government has adhered to the agreement to base pump prices for key petroleum products on actual import and transactions costs at the secondary exchange rate. Nevertheless, the current dominance of state-owned enterprises in many of the petroleum sub-sectors suggests that policy reforms may have only limited impacts on private sector participation.

7.3 Technical Assistance

The funds expended for technical assistance have been well spent and are a sound beginning for institution and capacity building. The need to support information, analysis, monitoring, and implementation is recognized.

The objectives and activities of the TA have appropriately evolved from "snapshot" monitoring toward capacity and institution building, and policy implementation support, within the specific areas targeted by the PSSP policy agenda.

The technical assistance is now in place through resident specialists, short-term support, research, training and capacity building, and able to make a lasting contribution.

The TA is already making a contribution by providing market information that has been useful in improving policy decisions (MA/MSU).

The urban household welfare and food security survey is the only source of information in this critical area and highly regarded by GRM officials (Cornell).

The complexities of state farm divestiture and land policy are better understood, by government and USAID, laying the groundwork for research and the subsequent policy formulation and implementation (LTC).

7.4 CIP Disbursement Mechanism

Expanding the commodity eligibility list has been important, and the commodities imported under the CIP are important inputs to a functioning private agricultural sector.

The CIP's use of the secondary market rate has had a useful "demonstration" effect.

PSSP, through CIP, has provided essential balance of payments and GRM budget support.

The CIP mechanism, as conducted internally at USAID, appears to work well, the procedures in place are well administered and managed. However, end-use monitoring could be improved.

CIP is the appropriate disbursement mechanism given USAID reporting requirements and existing capacity of GRM and banks; it also supports the agriculture focus of PSSP.

7.5 PSSP Impact on Target Groups and Areas

PSSP's impact on target groups and areas is perceived to have been positive, although in most cases it is either too early to determine what the impacts are and/or the means for measuring impact are not currently available.

PSSP's impact to date on agricultural production and income is necessarily limited, as many of the reform elements are just now reaching the implementation/operationalization stage, or are necessary but not sufficient actions to stimulate sizeable increases in production and

income. In some cases -- given the state of agriculture and rural life in Mozambique -- the reforms will take several years for the effects to be realized. The war situation limits the extent to which impact monitoring can be conducted.

Despite the above, evidence suggests impact in terms of improved producer prices for some agricultural products resulting from the elimination of the fixed price system and increased competition of buyers, such as the itinerant traders identified in the MA/MSU survey. The increased production that followed the first years of the economic rehabilitation program, although stalled, should continue as the new policies work their way through the economy. More consumer goods appear to be reaching rural areas and are serving as important non-price incentives to increased production. Finally, although the total volume of CIP imports is relatively small compared to the total needs of the country's agricultural sector, there is evidence that the goods have been used productively in support of the development of private sector agricultural production and service networks.

It is premature to indicate the extent of gender based differences. However, given the importance of women in both agricultural production and transport to market (see MSU and SMP survey reports), the overall effect of PSSP induced changes will most likely benefit women.

There is early evidence that agricultural marketing has been benefitted by PSSP. Firstly, CIP-procured goods have flowed through private sector channels, from importation through distribution to end-users. Secondly, the declining market share of AGRICOM suggests that marketing needs are being filled by the private sector. Finally, the emergence of a new class of itinerant private sector traders bears witness to the impact of policy reforms.

Policy makers are likely to have been positively influenced by PSSP at two levels. Firstly, the technical assistance and other more direct measures taken to improve institutional and human resource capabilities have been successful. Policy makers' ability to collect and analyze information and make more informed decisions has been enhanced. Secondly, at a more macro level, USAID's on-going policy dialogue with GRM officials in efforts both to promote PSSP's specific policy agenda as well as improve understanding of related but broader structural adjustment issues (e.g., foreign exchange pricing and allocation) appears to have been effective.

The \$53.4 million worth of CIP procurements has had a direct positive effect on Mozambique's balance of payments. The generation and use of counterpart funds have also favorably impacted the GRM budget situation, although the net effect on the budget is difficult to determine.¹⁵

¹⁵The net effect of USAID-generated counterpart funds on the GRM budget is somewhat controversial. Some donors argue that USAID's requirement that the government be responsible for depositing to special accounts 100 percent of the implied counterpart funds emanating from USAID procurements, irrespective of whether the government has collected outstanding balances from importers, limits the net effect -- the government may simply

PSSP's impact on the overall Mozambican economic situation will be positive in the longer term due to its support of economic liberalization and development of a market-based economy. However, there can be a "cost of adjustment" to bear to effect the transition to a market economy.

"borrow" from another account to make the requisite deposit in "USAID's account."

8. SUMMARY OF RECOMMENDATIONS

This chapter summarizes recommendations at three levels: (i) further actions under the current PSSP required to accentuate its impact and to assist in the transition to a new program; (ii) guidelines for, and elements of, a new program; and, (iii) other recommendations made during the course of the evaluation.

8.1 Current PSSP

The current PSSP is programmed through June 1993 for policy reforms, CIP disbursements, and technical and related assistance. Thus, there continues to be scope for improving PSSP activities already initiated.

Under current PSSP, USAID should continue to focus its support on the policy reform agenda and provide the strong monitoring and implementation assistance it has been undertaking. Particular attention should be given to the following.

- a. The mechanics and details of state farm divestiture -- USAID should continue its technical assistance, which is just recently intensifying its efforts, but also should consider broadening the set of issues it addresses to facilitate the divestiture of state farms (e.g., assumption of debt and other liabilities, valuation, sales and marketing).
- b. Post-unification foreign exchange allocation system -- USAID should support efforts to develop a market rate allocation mechanism for the period after rate unification in March 1992.
- c. Continue support provided to monitor prices and constraints to production and marketing, increasing attention given to those constraints that limit the impact of price incentives on production.
- d. Work for greater institutionalization of MSU activities within the Ministry so that this capacity becomes a routine part of their activities, even after the program ends. This experience should also be used to help the Ministry develop a new agricultural information system.
- e. Monitor and influence credit and banking sector developments to support agricultural development. As credit is increasingly becoming a constraint to access to foreign exchange and imports, USAID should begin to give attention to credit issues as they relate to market structure and access to foreign exchange for the agriculture sector. This is also timely because financial sector reforms and counterpart funds are increasingly becoming central issues in current donor/GRM dialogue.

8.2 New Program

USAID is planning a follow-on initiative to PSSP. USAID intends to undertake a new multi-year activity, to be developed and authorized in FY92, which will integrate project assistance and non-project assistance under DFA and PL-480 Title III resources to promote continuing policy reform and private sector development in food and agricultural production and marketing.

Although a design activity will be undertaken in the first half of calendar year 1992, a number of preliminary recommendations can be made at this time.

- a. The Mission should develop a program of non-project assistance that concentrates on making operational the policy decisions undertaken during PSSP, removing obstacles that constrain the full impact of economic liberalization, and promoting efficient functioning of marketing networks.
- b. The new program should seek the goal of increased agricultural production and incomes through enhancing the role of the private sector (commercial and family farmers and market agents).
- c. The new program should support policies and actions that promote:
 - an enabling environment for private investment (including on-farm) and new entrants in agricultural production, marketing, and processing (e.g., access to credit and foreign exchange, institutional support of the private sector, regulatory framework);
 - improved production technology for crops and livestock and access to productive inputs (including land) and equipment (pumps, implements, seeds, etc.);
 - marketing and processing infrastructure (distribution, storage, transportation, information, plant and equipment); and
 - improved private and public institutional capacity in support of the agricultural sector.
- d. The programmatic means recommended to implement the above four thrusts are sustained technical assistance (information, analyses, short and long-term training focused on institution and capacity building), and agriculture sector specific CIP;

The new policy reforms should be designed to be operationally-oriented and build upon reforms addressed in PSSP. The reforms should focus on creating the right regulatory and

enabling environment, more operational level policy, drafting legislation, and improving access to credit.

It should be recognized that as an implementation focus is increasingly adopted it does not necessarily imply a reduced level of government activity but more a re-orientation of its efforts in areas where only government can act or where it plays a facilitating role (for example, providing infrastructure, creating an enabling environment, providing institutional support for the private sector).

PSSP helped Mozambique to take some important first steps towards liberalizing the agricultural sector. However, many constraints remain and need to be addressed. Market infrastructure at the post-production stage will be a major constraint in the near future; the lack of wholesale transaction and storage capacity is likely to be critical. Other constraints to be tackled include, for example, addressing rural terms of trade (not only producer prices of agricultural output); explicitly encouraging improved export performance as well as the continuation of policies targeted at imports and inputs; and, promoting the liberalization of the trucking industry.

Increased attention should be placed on impact assessment. If the security situation improves, then the geographic impact of a PSSP/CIP is likely to be more dispersed and extensive.

Specific technical assistance and capacity building endeavors recommended for the new program include but are not limited to the following.

- a. The pricing and distribution of the massive amounts of food aid appear to depress producer prices and certainly distort other incentives for food crop marketing; the possible adverse effects on programs such as PSSP should be investigated. This is even more germane as USAID intends to combine its DFA and PL-480 Title III resources under the new program.
- b. Several analytic studies would provide needed information for identifying and refining areas of attention, particularly in the context of technical assistance for institutional capacity building. USAID should look to collaboration on these, in design and implementation, with other donors:
 - The growing presence of commercial itinerant traders (comerciantes ambulantes) and how they can/should be supported (credit, organization, training) should be analyzed.
 - The design and carrying out of additional work on the current LTC peri-urban study to allow it to be used as the start of time series information (Maputo peri-

urban agriculture is not so much more advanced from rural that data would not be useful) should be undertaken.

The role of women as the primary agricultural producers, and the impact of policy change on their lives, including regional variations, should be investigated.

- c. USAID should play a complementary role to the World Bank's new Capacity Building program and focus on the agriculture sector through program-specific TA as discussed in Chapter 4.
- d. A long-term program for human resource development to serve public and private needs in agriculture should be developed; at least a 15-year planning horizon is required. Within this, USAID should leverage the fact that it has a comparative advantage in terms of providing long-term training for Mozambicans at highly regarded and appropriate U.S. institutions.
- e. Technical assistance in the short run should work with the Ministry of Agriculture, in consultation with other donors such as FAO and the World Bank, to prepare a national strategy for public support of private sector agricultural development. Such a strategy would include national investment planning that supports the emerging market economy and the private sector.
- f. Market infrastructure at the post-production stage will be a critical constraint in the near future and should be given attention and analyzed. With a good crop expected this year, the lack of wholesale transaction, storage, and transport capacity is expected to be critical.
- g. Consideration should be given to the support of the formulation and implementation of a national environmental and conservation policy.

8.3 Other Recommendations

The CIP mechanism should continue to be focused on the agriculture sector and in direct support of the policy reforms being adopted as part of the new program. However, as the policy areas addressed by the program broaden and become more operational, the range of commodities that may be justified as part of the CIP increases. For example, the importation of fuel types used by on-farm equipment or for rural trucking might be considered eligible under USAID's subsequent agriculture program. Nonetheless, to the extent possible, the main CIP focus should remain on direct inputs to production such as seeds, fertilizers and implements that are appropriate and affordable by the farmers.

The CIP disbursement mechanism, as currently administered (i.e., USAID acting as "banker"), should continue for the time being, because it is apparent that the banking and foreign exchange management systems are unable to administer a CIP to USAID's reporting and accounting standards.

USAID may wish to deviate from the current CIP disbursement mechanism if: (a) it is evident that the banking and foreign exchange systems have evolved sufficiently to be able to administer the CIP appropriately; (b) USAID explicitly adopts the policy objective of assisting in the development of the banking sector, and decides to channel the CIP through the banking sector in support of the policy reform; or, (c) a direct cash transfer, which probably provides the greatest policy leverage per dollar, is preferred even in the explicit recognition of the loss of the agricultural focus and corresponding benefit of the CIP.

As a result, USAID should closely monitor developments in the banking and foreign exchange management systems and explore avenues for USAID to assist in their development, especially in ways which support agricultural development.

As the emphasis of policy reforms shifts from the policy framework to making policy decisions operational, donors need to recognize a number of important implications.

- a. The "client" organizations for donor assistance and interaction will shift from the policy ministries, which were the appropriate entities under PSSP, to the line ministries such as agriculture, commerce, and transportation and communications.
- b. The pervasive and debilitating capacity constraints of government will be even more critical as the shift moves to line ministries and further down the organization.
- c. Donors generally were in agreement at the policy formulation stage; for example, most agreed with broad policies aimed at liberalization or decentralization. However, donors are more likely to differ in their viewpoint on the tactics required to implement a given policy. Already a divergence is apparent on the issue of the proper role of the public sector in the economy. For example, the World Bank and ASDI support the reform of state-owned enterprises whereas USAID prefers that emphasis be placed more on divestiture and privatization.
- d. The nature of technical assistance overall needs to shift its emphasis as an implementation orientation is adopted. It will be targeted technical assistance and capacity building aimed at assisting the implementation of policy reforms through provision of information, analyses, short- and long-term training, and institution and capacity building. Planning and coordination of technical assistance are required because of the preponderance of donors in Mozambique and because many elements of training and institution building by their very nature are long-term undertakings.

- e. **Donors, including USAID, should augment their own capacity for macro and agricultural economic analysis. USAID's special attention to agriculture calls for continuous understanding of macro issues which affect the sector.**

Annex A Terms of Reference

Article I - Title

Evaluation of Mozambique Private Sector Support Program (656-0208/0218).

Article II - Background

The Mozambique Private Sector Support Program (PSSP) is a \$53.4 million, three-year non-project assistance activity supporting policy reform in the food and agriculture sector. Along with the non-project assistance, USAID is providing \$3 million through the Private Sector Support Technical Assistance Project (PSS/TA) for research and related assistance in support of the PSSP policy reform agenda. The PSSP and Mozambique's macroeconomic and sectoral policy climate are described in detail in the original PAAD/PP (August, 1989) and a series of PAAD/PP amendments (July, 1990; March, 1991 (PSS/TA); May, 1991; and June, 1991).

PSSP funds are disbursed through a commodity import program providing foreign exchange for private sector importation of commodities related to agricultural production, processing or marketing (although up to \$10 million of the CIP funding may also be used for importation of petroleum products). Implementation of the CIP has evolved considerably during the PSSP, reflecting changes in Mozambican policies affecting access to foreign exchange and import controls by inter alia expanding commodity eligibility, lifting some end-use restrictions, utilizing a new secondary market exchange rate for CIP transactions, and expanding eligibility to all ten provinces of Mozambique.

With PSS/TA funds, three collaborative research programs have been established to assist Mozambican policy makers to acquire and analyze information critical to the liberalization of agricultural pricing and marketing, the divestiture of state farms, and the development of an effectively targeted "safety net" for those most vulnerable to food insecurity.

The purpose of the PSSP is to improve incentives for private sector agricultural production in order to enhance the private agricultural sector's production and income. The policy agenda, which was developed within the overall context of Mozambique's Economic and Social Rehabilitation Program (begun in 1987) and the GRM-IMF-IBRD Policy Framework Papers, will be provided to the team before their departure. Progress on this agenda has been considerable.

The PSSP is at the heart of the USAID/Mozambique Country Program Strategic Plan, and directly addresses two of the four strategic objectives identified for the 1990-92 period: (i) Establish a policy environment conducive to private agricultural production and marketing, and (ii) increase the role of the market in allocating productive resources to private producers.

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However, monitoring the impact of the PSSP has been extremely difficult due to continuing rural disruptions which impede normal economic activity such as agriculture and marketing and which also limit (for security reasons) the frequency and penetration of USAID site visits. Nonetheless, there are indications that agricultural production and marketing response to policy reforms has occurred where security is relatively good and where rainfall has been adequate. Through some of the PSS/TA activities, considerable information has been acquired to describe the current situation and changes in the past year, but since virtually no historical data is available it is difficult to measure changes.

The findings and recommendations of this PSSP evaluation will be important to the development of a proposed next phase of USAID support to the food and agriculture sector. The Mission intends that a new multi-year activity, to be developed and authorized in F' 1992, will integrate project assistance and non-project assistance under the DFA and P.L. 480 Title III resources to promote continuing policy reform and private sector investment in food and agricultural production and marketing.

Article III - Objective

The objective of this order is to assess the impact, progress, focus, and scope of the Private Sector Support Program.

Article IV - Statement of Work

The contractor shall perform the following:

A. The evaluation team will travel to Mozambique to review USAID/Mozambique program and strategy documents and meet with USAID staff, contractors, GRM officials, and other donor agency representatives, in order to objectively assess the impact, progress, focus, and scope of the Private Sector Support Program. The assessment will center on the following issues:

1. What has been the impact of the PSSP on:
 - a. People (e.g. farmers' incomes, rural food security, nutritional status of farmers' families, food security for other Mozambicans, spin-off employment opportunities and income, etc.); are there gender-based differences in impact?
 - b. Agricultural marketing at all nodes of the network; are there gender-based differences here?
 - c. Policy makers; and
 - d. GRM budget and Mozambique's economic situation.

2. **Has the PSSP been able to identify and effectively address policy constraints to private sector agricultural production and marketing? Have the policy reforms chosen been necessary and sufficient?**
 - / **Based on the impact analysis, has implementation of the policy reforms progressed to where the Mission should be turning attention to other policies?**
 - / **If the policies targeted under the PSSP are no longer necessary and sufficient, which policy areas should the Mission be pursuing?**
 - / **What are the expected impacts of any such proposed changes in the policy agenda?**
3. **Has the technical and related assistance provided in support of the program been appropriate? What has been the impact to date of the TA (e.g. providing information to policy makers, recommending refinements in policy reform direction, building Mozambican policy analysis skills, etc.)? How could the technical assistance be improved? If a new or revised policy agenda is proposed, what TA will be needed?**
4. **What has been the impact of the PSSP's CIP disbursement mechanism in terms of both the commodities imported and the effect of the import support on the GRM budget and balance of payments? (Consider in light of people-level impact, including gender-differentiated impact, agricultural production and marketing, rural development, policy influence, etc.) Within the programming limits of the DFA, is a CIP the optimal disbursement mode to achieve program objectives and impact? For the next phase of NPA assistance, are there other modes of disbursement which might be more appropriate to achieve desired impact?**

B. Specific Tasks

1. **Assess the current status of the policy reform agenda and the extent to which the agenda (as amended) has been adhered to; where compliance has been undocumented or incomplete, or otherwise less than satisfactory, discuss reasons and recommend action to address these gaps.**
2. **Review and critique the evolving policy dialogue process through which the Mission pursues the reform agenda. Policy dialogue in this context includes direct dialogue with ministerial officials, inter-ministerial coordination, and coordination with other donor agencies on policy objectives and strategies.**

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3. Discuss the PSSP policy reform agenda and progress in the context of the ongoing Government of Mozambique - World Bank - IMF Policy Framework Papers (PFPs) and related policy and strategy statements of Government; where has USAID support made a difference? Has it missed opportunities?
4. Review the relationship between the PSSP policy agenda and the policy agendas under P.L. 480 commercialized food aid programs during the same years; identify where these have reinforced each other or where these may suggest conflicting priorities, and recommend ways to better integrate the objectives of these two programs.
5. In light of PSSP objectives, DFA requirements, and USAID's Country Program Strategic Plan, discuss levels and extent of PSSP impact, identify areas where expected impact has been constrained and suggest reasons why; using the Mission's October 1991 Assessment of Program Impact and database and monitoring activities, research by Michigan State University, the Land Tenure Center, and Cornell University, and short site visits if feasible. In particular, discuss impact of policy reforms on smallholder agricultural production and income and on marketing networks (inputs, consumer goods, and produce) serving them
6. Assess type and level of USAID implementation and impact monitoring, taking into account constraints on site visits; recommend adjustments in monitoring to permit the Mission to better assess program impact (and where appropriate discuss implications for Mission staffing).
7. Review CIP implementation under the PSSP, and comment on the appropriateness of current restrictions on eligible commodities and procedures for allocating available funds; recommend changes as appropriate to ensure more timely disbursement and more market-based allocations. (This is not, however, intended to be an in-depth evaluation of the CIP per se.)
8. Review recent developments on foreign exchange management and banking sector operations in support of import transactions; in light of these, and given DFA requirements, discuss disbursement options for future non-project assistance.
9. Assess the PSSP's approach to technical and related assistance in support of the policy reform agenda (MSU, LTC, and Cornell). Identify strengths and weaknesses, estimate the contribution they are likely to make toward improved knowledge for policy formulation and institutionalizing Mozambican policy analysis capacity.

Recommend adjustments if appropriate given short time-frame of these efforts; more important, recommend directions and types of future assistance which could be more effective.

Annex B
List of Persons Consulted

Government of the Republic of Mozambique

Samuel Canor Navele	General Manager, Banco de Mozambique
Momade Juma	Economist, UTRE (Technical Unit for Privatization), Ministry of Finance
Ragendra Berta de Sousa	National Director of Agricultural Economics, Ministry of Agriculture
Iolanda Fortes	Chief, Food Security Department, Ministry of Commerce
Ricardo David	National Director of Treasury, Ministry of Finance
Julio Diaz	Deputy National Director of National Planning Commission
Fernando Sumbana	Director GCPI, Ministry of Commerce
Bonifácio Diaz	former National Director of Treasury, Ministry of Finance
Luis Xavier Júnior	Director, National Institute of Agricultural Research (INIA)
Ana Paula Santos	Ministry of Agriculture/MSU
Higino Francisco de Marrule	Ministry of Agriculture/MSU

USAID/Mozambique

Julius Schlotthauer	Director
John Miller	Deputy Director
Cheryl McCarthy	Program Officer
Juliet Born	Program Advisor
Charles North	Evaluation Officer

Timothy Born	Commodity Management Officer
Ana David	CIP Monitor
Fernando Paixão	Agriculture Adviser and Field Monitor
Joia Santos	Local Currency Monitor, Controller's Office
Aileen Marshall	Consultant
Dick Loudis	Food for Peace Officer
Buddy Dodson	Senior Food for Peace Officer

World Bank

Nils O. Tcheyan	Resident Representative
Jacomina De Regt	Rural Sociologist
Simon Bell	Southern Africa Department (Washington D.C.)

Land Tenure Center, University of Wisconsin

John W. Bruce	Director
Gregory W. Myers	Resident Advisor
Steve Boucher	Researcher
Antônio Francisco	Researcher

Others

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Gunal Kansu	Principal Program Development Adviser, U.N. Conference on Trade and Development
Jean-Claude Esmieu	Economic Consul and Acting Delegate, European Community
Raul Jorge G.	Director, Food Security in Mozambique Collaborative Research Varela Project, Ministry of Agriculture, USAID/MSU
James P. Muir	Instituto Produção Animal, Forage Specialist
Juan del Canto	Food Security, U.N. Development Program
Pablo Recalde	World Food Program
Antônio Bernardo	Manager, Entrepoto Comercial (Zambezia)
O da Silva	Provincial Director of Agriculture, Zambezia Province
Mario Magid	Mocuba District Director of Agriculture
Abdul Cesar	Head of Agricultural Statistics, Zambezia Province Agriculture Office
Mr. Berry	Manager of privatized cotton farm in Mocuba District
Fortunato Ribelo	Commercial farmer, Mocuba District
Bonifacio Mombassa	Agricultural Technician, Zambezia Province Agriculture Office
Lucy Tamlyn	Economic Officer, U.S. Embassy, Maputo
Family Farmers	Licuari settlement, Nicoadala District, Zambezia Province; Maputo Peri-Urban

Manager

AGRICOM post in Nicoadala District

Itinerant Trader

Mocuba

Politician

FRELIMO representative responsible for agricultural production in Licuari settlement, Nicoadala

Annex C
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