

AID 1120-1 PAAD PROGRAM ASSISTANCE APPROVAL DOCUMENT AMENDMENT NO. SIX	1. PAAD NO. 656-0208 Grant No. 656-T-604D 80316
	2. COUNTRY Mozambique
	3. CATEGORY Private Sector Support Program
	4. DATE September 15, 1992

5. TO John M. Miller Acting Director, USAID/Mozambique	6. OYB CHANGE NO. 7. OYB INCREASE TO BE TAKEN FROM:
FROM: Cheryl McCarthy <i>for</i> Program Officer	

8. APPROVAL REQUESTED FOR COMMITMENT OF \$ 8,000,000.	10. APPROPRIATION - ALLOTMENT 72-112/31014 - BPC: GSS2-92-31656-KG39 (ALLOWANCE: 281-61-613-00.69-21)
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11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD 7/89 - 12/94	14. TRANSACTION ELIGIBILITY DATE Date of Obligation
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All commodities on A.I.D.'s Commodity Eligibility Listing.

16. PERMITTED SOURCE U.S. only: Limited F.W.: Free World: \$8,000,000. Cash:	17. ESTIMATED SOURCE U.S.: To Be Determined Local:
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18. SUMMARY DESCRIPTION
 See Attached.

19. CLEARANCES CMO: T. Born <i>T. Born</i> CONT: G. Jenkins RLA: T. Riedler (draft) A/DD: E. Dodson <i>E. Dodson</i>	DATE 9/10/92 9/10/92 26 AUG 92 9/11/92	20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED  AUTHORIZED SIGNATURE Acting Director, USAID/Mozambique TITLE	DATE 9/10/92
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Mozambique Private Sector Support Program (656-0208)
Program Assistance Approval Document Amendment No. 6

Continuation of Box 18: Summary Description

Pursuant to the Foreign Assistance Act of 1961, the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991 (applicable pursuant to the Continuing Resolution for fiscal year 1992 under P.L. 102-145, as amended by P.L. 102-266), and the delegations of authority contained in Delegation of Authority 551, the Program Assistance Approval Document ("PAAD") approved by the A/AA/AFR on August 24, 1989 for the Private Sector Support Program ("Program"), and the ad hoc delegation of authority provided in 92 State 279563, I hereby authorize an additional increment of \$8,000,000 of non-project assistance funding for the Program for FY 1992, and otherwise amend the original PAAD, as previously amended, as follows. This additional funding is the final increment to be authorized and obligated under the Program and brings the total authorized Program funding to \$61,440,000. All funds authorized hereunder will be disbursed through a Commodity Import Program. The terminal date for disbursements under the Program is also extended to December 31, 1994, and this will be reflected in Amendment Number Seven to the Program Grant Agreement and appropriate Commodity Procurement Instructions.

The program is more fully described in PAAD Amendment Six. The revised policy framework under the Program also is provided in the PAAD Amendment. A draft version of the Government's Updated Letter of Intent with regard to the policy framework for this Amendment is included as Annex D to the PAAD Amendment.

Except as specifically amended herein, the terms and conditions of the original PAAD approved August 24, 1989, as previously amended, remain in full force and effect.

ACTION MEMORANDUM FOR THE ACTING DIRECTOR, USAID/MOZAMBIQUE

FROM: Cheryl McCarthy, Program Officer

SUBJECT: Amendment to the Private Sector Support Program (656-0208)

I. Problem

You are requested to approve an amendment to the Private Sector Support Program (PSSP) to (a) extend the terminal date for disbursements under the program from June 30, 1993 to December 31, 1994 and (b) authorize \$8,000,000 for obligation to this program in FY 1992.

II. Background

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. To achieve this purpose, the PSSP addresses fundamental constraints to private agricultural production and marketing -- prices, land access, availability of inputs (including petroleum products), availability of foreign exchange, and market access -- through policy reform. Funds have been provided to increase the availability of foreign exchange (planned LOP total \$61,440,000) and to provide technical and related assistance in support of the policy reform agenda (planned LOP total \$13,500,000 under 656-0218).

USAID had planned on combining in FY 1992 the resources from P.L. 480 Title III and DFA non-project and project assistance into a major three-year program which would more tightly integrate our substantial commercial food aid program with efforts ongoing under the PSSP to rationalize the markets for domestic agriculture and for food commodities in general. However, considerations raised during the preparation of a PAIP/PID for this new integrated program led to a decision to postpone the new activity to FY 1993 to allow the Mission to more fully analyze policy areas which will be key to the policy reform agenda of the new program.

Since the new program/project has been postponed until next year, the Mission has decided to provide additional assistance through the PSSP in FY 1992. Avoiding in this way a rupture in USAID balance of payments assistance for Mozambique is important because (i) GRM progress on PSSP policy reforms has been satisfactory, (ii) positive people-level impact from these reforms is already being documented, and (iii) USAID's DFA non-project assistance continues to be critical for Mozambique's economic stabilization and rehabilitation program.

3

III. Discussion

A. Progress to Date

With respect to the disbursement of PSSP funds, the condition precedent to disbursement under Section 2.7. of the Program Grant Agreement as amended has been satisfied. The Government of Mozambique has made significant progress toward achieving the policy objectives of the program and has met the agreed-to policy reform benchmarks. The work plan for the third year of the program, as described in the Updated Letters of Intent attached as Annex C to previous amendments to the Program Grant Agreement, has been followed. Policy progress was reported in 90 Maputo 1336, 91 Maputo 1282, and 92 Maputo 2362.

B. FY 1991-92 Program

The revised policy objectives and workplan for 1992-93 are described in 92 Maputo 2362 (Annex A of the PAAD Amendment) and summarized in the attached policy reform matrix. Annex D to the PAAD Amendment contains a draft of the GRM's Updated Letter of Intent for 1992-93. Benchmarks for this year are:

Agricultural Prices

- For all crops whose prices cannot be fully deregulated, adjust floor prices to maintain parity base at secondary market rate.
- Explore options and develop program for moving to parity-based pricing for commercial food aid.
- Assess impact on production and marketing of the price changes made to date, including yellow corn food aid.

State Farm Divestiture

- Maintain credit and subsidy ceilings for state agricultural enterprises.
- Continue to close or divest state farms to make their land and other resources available to private sector operators.
- Constitute a National Land Commission to address land issues.
- Develop, announce, implement procedures to increase transparency of the divestiture process.

Private Agricultural Sales and Services

- Maintain private import/distribution of A.I.D.-financed commodities (possibly excluding petroleum).
- Continue closing or privatizing of agriculture-related state enterprises.
- Continue direct private sales to end-users.

4

Access to Foreign Exchange

- Maintain private sector access to foreign exchange through new foreign exchange market rates.
- Develop plans for market-based allocation of foreign exchange through commercial banks.
- Analyze constraints to a functional commercial banking subsector and set priorities to address them.

Private Marketing Channels

- Continue analysis of non-tariff barriers to private sector wholesaling, storage, processing, and transportation, and identify corrective measures.
- Develop program for privatization of parastatal truck fleets.
- Lift all fixed tariffs for private road transport.

Petroleum Importation and Marketing

- By September 1992, begin private importation of avgas; by January 1993, amend laws and regulations to permit the free import of avgas.
- Complete domestic distribution study for avgas, and develop proposals for moving to a free market for distribution of diesel and gasoline.
- Monitor impact of liberalization on price and availability of avgas, as a prototype for deregulation of other fuels.

C. Commodity Import Program

In direct support of private sector agriculture, PSSP funds have been disbursed through a Commodity Import Program (CIP) to finance critical inputs for agricultural production and marketing, including selected petroleum products. Building on predecessor CIPs, the PSSP CIP has expanded coverage to all ten of Mozambique's provinces and broadened the list of eligible commodities to include all commodities on A.I.D.'s Commodity Eligibility List. These changes were made in accordance with and support of the Government's evolving policy to increase the volume and range of goods imported at the market-determined exchange rate and to phase out administrative controls on imports.

5

POLICY AREAS:	1989/90	1990/91	1991/92	1992/93	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATION
1. Agricultural Pricing Policy	OBJECTIVE: 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.				Price changes and announcements.	Production increases on family and commercial farms.	Production statistics by crop, province, farm type.
1a. Maize, beans, rice	Establish parity producer prices; plan for floor price system. (Note: beans actually moved to floor price in 1989.)	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.	Adjust producer floor prices to maintain parity base.	Assess impact on production and marketing of the price changes made to date, including yellow corn food aid. For all crops whose prices cannot be fully deregulated, adjust floor prices to maintain parity base at market exchange rate.		Farm income increases on family and commercial farms.	Selected household and farm surveys.
1b. Cash crops	Establish parity-based floor price system.	Adjust floor prices to maintain parity base.	Adjust floor prices to maintain parity base.	Explore options and develop program for moving to parity-based pricing for commercial food aid.		More consistent supply in markets throughout year.	Selected market surveys.
1c. Consumer prices		Deregulate consumer price for white maize; assess impact; make recommendations re: beans and rice.	Deregulate consumer price for rice by January 31, 1992.			Reduced volatility in open market consumer prices.	Selected market surveys.
2. Farms of State	OBJECTIVE: 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.				Declared policies on land redistribution including divestiture and titling procedures.	Farms privatized or closed.	Statistics on actual and planned divestitures.
2a. Planning and implementation	Continue case-by-case divestitures of state farms.	Identify issues and policies to be addressed in divestiture program.	Implement analysis program on tenure issues.	Maintain credit and subsidy ceilings for state agricultural enterprises.	Maintain credit and subsidy ceilings for state agricultural enterprises.	Production increased on divested farms.	Production estimates by crop in selected divestiture areas through rapid reconnaissance and case studies.
	Complete terms of reference for additional tenure analyses and design of divestiture program.	Complete design of USAID-financed program for divestiture policy research and analysis.	Complete general divestiture program design.	Continue divestitures.	Continue closures and divestitures of state farms.	Farm income increased.	Selected farm and household surveys.
		Develop, announce, implement procedures to increase transparency of divestiture process.	Develop, announce, implement procedures to increase transparency of divestiture process.	Develop, announce, implement procedures to increase transparency of divestiture process.	Develop, announce, implement procedures to increase transparency of divestiture process.		

POLICY AREAS:	1989/90	1990/91	1991/92	1992/93	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATION
13. Private Agr.:	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.				Percentage of private companies/traders participating in program.	Wider and better access to agricultural inputs.	Statistics on numbers of private importers and dealers by input type and province.
1a. For importers and distributors:	Continue private importation and distribution of all A.I.D. commodities; exemption for lubricants and limited spares.	A.I.D. commodity imports fully private (except for petroleum); plan to privatize ag-related public enterprises.	Maintain private import/distribution of AID-financed commodities (ex. petroleum).	Maintain private import/distribution of AID-financed commodities (ex. petroleum).	Elimination of "credential system" for end users.		Sampling of farmer attitudes toward supply networks.
1b. For end-users:	Replace GOM administrative allocation system with direct private sales.	Maintain.	Continue direct private sales to end users.	Continue closing or privatizing of ag-related state enterprises.	Continue direct private sales to end-users.		Sampling of dealers to assess constraints to expansion.
14. Access to Foreign Exchange:	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.				Implementation of FX allocation options agreed upon with donors.	Increased access to foreign exchange at market-determined price.	Surveys of FX buyers and sellers to determine private sector access to FX.
1a. Allocation mechanism:	Establish limited trial of OBL system.	Evaluate effectiveness of OBL trial (with IBRD with USAID follow-up). If trial is generally successful, modify and expand eligible sectors under OBL; otherwise formulate new options.	Establish "negative list" for imports at official exchange rate; move non-traditional exports to MSC.	Maintain private sector access to FX thru new foreign exchange market rates (tied aid and untied windows). Unify official and MSC exchange rates by March 1992.	Range of eligible sectors and commodities, and volumes of FX available at market-determined price, increased.		Trends in bank and parallel exchange rates.
			Develop plans for market-based allocation/pricing of FX following unification.	Develop plans for market-based allocation of FX thru commercial banks.	Analyze constraints to a functional commercial banking subsector and set priorities to address them.		

POLICY AREAS:	1989/90	1990/91	1991/92	1992/93	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATION
5. Private Marketing Channels	OBJECTIVE: To reduce restrictions on competitive private sector trade and transportation serving agricultural producers in Cabo Delgado, Manhiça, and Zambezia provinces.				Announcement and promotion of deregulations.	Increased number of active traders and transporters.	Sampling of traders/transporters/farmers.
a. Movement of commodities		Rescind regulatory restrictions on inter-district and inter-provincial movement of agricultural commodities.	Assess impact.	Develop program for privatization of parastatal truck fleets (AGRICOM, DPCOH, CAMOC, possibly TRANSCARGA).		More consistent supply of commodities in markets throughout the year.	Market surveys.
b. Wholesaling		Open district wholesaling opportunities to any licensed trader desiring to compete.	Assess impact.	Lift all fixed tariffs for private road transport.		Increased producer access to consumer goods and other "incentive" commodities.	Sampling of farmers.
c. Licensing		Analyze licensing requirements for private marketing agents at all levels to assess disincentive effects.	Complete analysis and take steps to simplify licensing requirements to encourage new competitors.	Continue analysis of non-tariff barriers to private wholesaling, storage, processing, transport; identify corrective measures.		Improved food balances between deficit and surplus production areas.	
6. Petroleum Importation and Pricing	OBJECTIVE: To promote increased and more reliable access to selected petroleum products at import parity prices based on the market exchange rate.				Announcement and promotion of price changes and deregulations.	More consistent supply of and access to petroleum products nationwide.	Sampling of farmers, transporters, traders, and industries.
a. Pricing			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 domestic distribution study for avgas, and develop proposals for moving to free market for distribution of diesel and gasoline.			Sampling of importers/distributors.
b. Deregulation			Complete analysis and implement recommendations for deregulating import, distribution, and pricing of avgas.	By 9/92 begin private import of avgas; by 1/93 amend laws and regulations to permit free import of avgas.		Private sector importation and distribution of avgas.	
			Analyze import and distribution of petroleum products to identify further measures to support a more efficient market for these.	Monitor impact of liberalization on price/availability of avgas as a prototype for other fuels.			Trends in prices of diesel and gasoline.

D. Additional Considerations

The source and origin of commodities financed under this amendment shall continue to be as set forth in the Africa Bureau Instructions on Implementing Special Procurement Policy Rules Governing the Development Fund for Africa, dated April 4, 1988, as may be from time to time amended.

The extension of the terminal date for disbursements from June 30, 1993 to December 31, 1994 will allow adequate time for CIP disbursement of the additional funds provided under this amendment.

A Congressional Notification of this amendment expired without objection on July 15, 1992, as indicated in State 231923.

The Africa Bureau Environmental Officer has reviewed the PSSP's Initial Environmental Examination and determined that a new IEE is not needed since the previous IEE covers CIPs in general and the Mission does not intend to import anything that is not already on the eligible list for CIPs. At the recommendation of the Bureau Environmental Officer, a special study will be carried out under the amended Private Sector Support Technical Assistance Project (656-0218) to identify any long-term environmental impacts of the PSSP-supported policy reforms.

A full description of this amendment, including extension of the program to December 31, 1994, was provided to A.I.D./Washington in 92 Maputo 2362. Per 92 State 279563, A.I.D./Washington has concurred in this amendment to the PSSP. (Both of these cables are annexed to the PAAD Amendment.)

IV. Authority

DOA 551 Section 4 authorizes you to amend project (including non-project assistance) authorizations provided that the amendment will not result in total Life of Project funding of more than \$30 million, result in a total LOP of more than ten years, present significant policy issues or deviate from the original project purpose, or require issuance of waivers that may not be approved by you. 92 State 279563 provides an ad hoc delegation of authority to you to increase the LOP to \$62,500,000. The amendment presents no significant policy issues and does not deviate from the original project purpose and requires no waivers that may not be approved by you.

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V. Recommendation

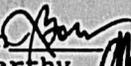
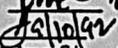
That you amend the authorization of the Mozambique Private Sector Support Program to (a) increase the LOP by \$8,000,000 in FY 1992, for a total LOP of \$61,440,000, for disbursement through a CIP, and (b) extend the terminal date for disbursements to December 31, 1994.

Approved: 

Disapproved: _____

Date: 9/16/92

Attachment:
Worksheet, Authorization Amendment, and PAAD Amendment No. 6²

Clearances: PRM: J. Born 
PRM: C. McCarthy  9/14/92
CONT: G. Jenkins 
RLA: T. Riedler (draft, 8/26/92)
A/DD: B. Dodson (draft, 8/16/92) 
Drafted: CMO: T. Born: 8/14/92

Mozambique Private Sector Support Program

**Amendment Number Six to the
Program Assistance Approval Document**

Table of Contents

1. Objectives	1
2. Progress to Date	1
3. Constraints	1
4. Impact	8

Annexes

- A 1992 Report on Policy Reform Progress (Maputo 2362)**
- B A.I.D. Washington Concurrence in Program Amendment (State 279563)**
- C Evaluation Summary**
- D GRM's Updated Letter of Intent (Draft Version)**

Amendment Number Six to the
Program Assistance Approval Document

1. Objectives

This amendment to the Private Sector Support Program (PSSP) adds an increment of Development Fund for Africa (DFA) non-project assistance funding and extends the life of this multi-year program and amends the policy reform agenda to reflect policy progress to date and reform benchmarks for 1992-93. The program purpose remains unchanged: To improve incentives for private sector agricultural production in order to enhance the private agricultural sector's production and income. Policy reforms addressed in the PSSP are summarized below in Table 1, Revised summary of Policy Objectives and Workplan (August 1992 Revision).

2. Progress to Date

Policy reform progress under the PSSP has been fully satisfactory, as reported in 90 Maputo 1336, 91 Maputo 1282, and 92 Maputo 2362.

3. Constraints

The PSSP was developed in 1989 to address a set of policy constraints to private sector participation in agricultural production, including agriculture-related marketing activities. These policy constraints were selected based on an analysis of a much wider range of factors influencing, and constraints which limit, increased activity in this sector; this analysis was summarized in Part One, Section II of the 1989 Project Assistance Approval Document (PAAD), and has been updated in the previous PAAD amendments.

a. Security

There has been no significant change since 1989 in the overall security constraint to increased activity and investment in agriculture. While several secure corridors through rural areas exist, the unpredictable nature of the rural violence continues to keep many Mozambicans away from their farms, to limit the range and activities of marketing agents, and to preclude investments in rehabilitation of infrastructure supporting agriculture. Recent progress in the Rome peace talks between the

POLICY AREAS:	1989/90	1990/91	1991/92	1992/93	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATION	
11. Agricultural Pricing Policy	OBJECTIVE: 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.	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.	Adjust producer floor prices to maintain parity base.	Assess impact on production and marketing of the price changes made to date, including yellow corn food aid.	Price changes and announcements.	Production increases on family and commercial farms. Farm income increases on family and commercial farms. More consistent supply in markets throughout year.	Production statistics by crop, province, farm type. Selected household and farm surveys. Selected market surveys. Selected market surveys.	
12. Cash crops	Establish parity-based floor price system.	Adjust floor prices to maintain parity base.	Adjust floor prices to maintain parity base.	Explore options and develop program for moving to parity-based pricing for commercial food aid.				
13. Consumer prices	Deregulate consumer price for white maize; assess impact; make recommendations re: beans and rice.	Deregulate consumer price for white maize; assess impact; make recommendations re: beans and rice.	Deregulate consumer price for rice by January 31, 1992.					
14. Divestiture of State Farms	OBJECTIVE: 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.	Implement analysis program on tenure issues.	Maintain credit and subsidy ceilings for state agricultural enterprises.	Maintain credit and subsidy ceilings for state agricultural enterprises.	Declared policies on land redistribution including divestiture and titling procedures.	Farms privatized or closed. Production increased on divested farms. Farm income increased.	Statistics on actual and planned divestitures. Production estimates by crop in selected divestiture areas through rapid reconnaissance and case studies. Selected farm and household surveys.	
15. Planning and Implementation	Continue case-by-case divestitures of state farms. Identify issues and policies to be addressed in divestiture program. Complete terms of reference for additional tenure analyses and design of divestiture program.	Complete general divestiture program design. Complete design of USAID-financed program for divestiture policy research and analysis.	Continue divestitures. Continue analysis of divestiture experience and development of policies and guidelines.	Continue closures and divestitures of state farms. Constitute a National Land Commission to address land issues.	Development and promotion of divestiture program.	Announcement of Land Commission.		
			Develop, announce, implement procedures to increase transparency of divestiture process.	Develop, announce, implement procedures to increase transparency of divestiture process.				

POLICY AREAS:	1989/90	1990/91	1991/92	1992/93	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATION
13. Private Sales and Services	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.	A.I.D. commodity imports fully private (except for petroleum); plan to privatize ag-related public enterprises.	Maintain private import/distribution of AID-financed commodities (ex. petroleum).	Maintain private import/distribution of AID-financed commodities (ex. petroleum).	Percentage of private companies/traders participating in program.	Wider and better access to agricultural inputs.	Statistics on numbers of private importers and dealers by input type and province.
13a. For Importers and Distributors	Continue private importation and distribution of all A.I.D. commodities; exemption for lubricants and limited spares.	Maintain.	Continue privatization of ag-related state enterprises.	Continue privatization of ag-related state enterprises.	Elimination of "credential system" for end users.	Expansion of privatization.	Sampling of farmer attitudes toward supply networks.
13b. For end-users	Replace GOM administrative allocation system with direct private sales.	Maintain.	Continue direct private sales to end users.	Continue direct private sales to end-users.			Sampling of dealers to assess constraints to expansion.
14. Access to Foreign Exchange	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.	Evaluate effectiveness of OGL trial (with IBRD with USAID follow-up).	Establish "negative list" for imports at official exchange rate; move non-traditional exports to HSC.	Maintain private sector access to FX thru new foreign exchange market rates (tied aid and untied windows).	Implementation of FX allocation options agreed upon with donors.	Increased access to foreign exchange at market-determined price.	Surveys of FX buyers and sellers to determine private sector access to FX.
14a. Allocation mechanism	Establish limited trial of OGL system.	Evaluate effectiveness of OGL trial (with IBRD with USAID follow-up).	Establish "negative list" for imports at official exchange rate; move non-traditional exports to HSC.	Maintain private sector access to FX thru new foreign exchange market rates (tied aid and untied windows).	Range of eligible sectors and commodities, and volumes of FX available at market-determined price, increased.		Trends in bank and parallel exchange rates.
		If trial is generally successful, modify and expand eligible sectors under OGL; otherwise formulate new options.	Unify official and HSC exchange rates by March 1992.	Develop plans for market-based allocation of FX through commercial banks.	Develop plans for market-based allocation of FX through commercial banks.		
			Develop plans for market-based allocation/pricing of FX following unification.	Analyze constraints to a functional commercial banking subsector and set priorities to address them.			

POLICY AREAS	1989/90	1990/91	1991/92	1992/93	POLICY INDICATORS	IMPACT INDICATORS	MEANS OF VERIFICATION
5. Private Marketing Channels	SUBJECTIVE: To reduce restrictions on competitive private sector trade and transportation serving agricultural producers in the				Announcement and promotion of deregulations.	Increased number of active traders and transporters.	Sampling of traders/transporters/farmers.
a. Movement of commodities	Rescind regulatory restrictions on inter-district and inter-provincial movement of agricultural commodities.		Assess impact.	Develop program for privatization of parastatal truck fleets (AMUCOM, BPPCA, CAPCO, possibly ZIMBABWEAN)		More consistent supply of commodities in markets throughout the year.	Market surveys.
b. Wholesaling	Open district wholesaling opportunities to any licensed trader desiring to compete.		Assess impact.	Lift all fixed tariffs for private road transport.		Increased producer access to consumer goods and other "incentive" commodities.	Sampling of farmers.
c. Licensing	Analyze licensing requirements for private marketing agents at all levels to assess disincentive effects.		Complete analysis and take steps to simplify licensing requirements to encourage new competitors.	Continue analysis of non-tariff barriers to private wholesaling, storage, processing, transport; identify corrective measures.		Improved food balances between deficit and surplus production areas.	
6. Petroleum Importation and Pricing	SUBJECTIVE: To promote increased and more reliable access to selected petroleum products at import parity prices based on the market exchange rate.				Announcement and promotion of price changes and deregulations.	More consistent supply of and access to petroleum products nationwide.	Sampling of farmers, transporters, traders, and industries.
a. Pricing			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 domestic distribution study for avgas, and develop proposals for moving to free market for distribution of diesel and gasoline.			Sampling of importers/distributors.
b. Deregulation			Complete analysis and implement recommendations for deregulating import, distribution, and pricing of avgas.	By 9/92 begin private imports of avgas; by 1/93 amend laws and regulations to permit free import of avgas.		Private sector importation and distribution of avgas.	Trends in prices of diesel and gasoline.
			Analyze import and distribution of petroleum products to identify further measures to support a more efficient market for these.	Monitor impact of liberalization on price/availability of avgas as a prototype for other fuels.			

Government of the Republic of Mozambique (GRM) and Renamo (the Mozambique National Resistance) has fired hopes for a cease-fire and peace agreement. However, the dispersed and unmilitary nature of the rural violence makes it certain that the transition to a post-war environment secure for rural activity will not be immediate.

b. Land Ownership

The lack of land tenure security in Mozambique continues to be a major constraint to increasing private sector agricultural productivity. While there has been significant progress since 1989 in the GRM's divestiture of state farm lands to private sector, including family, farmers, the process of these divestitures has not been transparent. Even more importantly, the security of the use rights being accorded to the new "owners" is not at all clear, except in a very few cases of major joint ventures (GRM and private multi-national joint ownership). Recognizing the implications of this situation for agriculture, in 1992 the GRM has taken steps to create a Land Commission to make recommendations to the Government on changes in land policy, land law and regulations, and the role of traditional authorities in ensuring land tenure security.

c. Agricultural Technology

The generally low level of technology continues to be an important constraint to increased agricultural production. While the emergence of productive large agricultural enterprises (joint ventures replacing some of the former state farm enterprises) has had some beneficial effects on access to improved inputs and related extension services in areas surrounding them, there has been no significant change overall.

d. Input Distribution Systems

The transition described in the original PAAD -- away from government-controlled importation and distribution of agricultural inputs and toward private sector networks providing these commodities and related services -- has continued apace. An increased number and range of choices in equipment and supplies is now available in all provinces of the country. Although the reach and the density of these supply networks still is not adequate, the impediment is no longer the existence of parastatal or government-sanctioned monopolies, which have ceased to exist. Instead, the general constraint on marketing activities of all kinds due to continued insecurity seems to be the principal limiting factor in further extending access to agricultural inputs.

e. Markets

PAAD Amendment No. 2 in July 1990 provided a detailed analysis of market-related constraints to increased private sector agricultural production and income. With the GRM's implementation of the pricing and other marketing reforms of the PSSP policy agenda, market development has been observable in rural areas and downright dramatic in some urban areas: competitive marketing activities are increasingly observed; prices clearly vary according to supplies; participation in marketing activities, especially at level of consumer retail transactions, has mushroomed. Agricom, the parastatal marketing agency which formerly had a monopoly/monopsony role in serving small-scale producers, has withdrawn completely from such operations in favor of private sector operators, and the GRM is reassessing Agricom's structure and role altogether in light of these changes. Full implementation of these marketing liberalizations in rural areas has not occurred, however, as new investment in market infrastructure (for example, warehouses and transportation facilities) is needed.

The most critical constraint to further improvement in marketing is the lack of transportation, which limits the degree to which increasing agricultural production (documented surpluses in northern districts of the country) can reach markets (urban areas in the center and south). Other market-related constraints continue to be imposed through tax and tariff structures as well as through non-tariff barriers which limit -- and make more costly -- entry and participation in market activities.

f. Access to Foreign Exchange

Access to foreign exchange was analyzed in depth in PAAD Amendment No. 4 in June 1991. Since then, making further progress in institutionalizing private sector access to foreign exchange, the GRM has proceeded to a unified market-based exchange rate, to revisions and liberalizations in the export earnings retention scheme, and to major reforms in the banking sector. While available foreign exchange remains insufficient to meet demand, its allocation is no longer administratively determined. The important constraints on access now seem to center on availability of local currency to buy foreign exchange at the market rates, and to the complexity and related costs of foreign exchange and import transactions handled through the inefficient banking system.

g. Financing

Credit constraints to agricultural production and marketing activities have increased, both for capital investments (trucks, farm equipment) and for operations (buying campaigns at harvest time). Formal credit availability is constrained primarily by ceilings imposed under the macroeconomic reform agreements undertaken by the GRM with the IMF and the World Bank. However, access to what credit is available is also limited by the inefficiency of the banking sector. The commercial banks (one private and one state-owned) and the (state-owned) development bank have committed themselves to major changes in their credit operations which, by focusing on loan performance, seem to have reduced the share of credit going to agriculture (which tends to require longer terms) in favor of non-agricultural sectors (commerce and industry).

h. Pricing

Pricing constraints to agricultural production and marketing have been greatly reduced. A producer floor price system is in place for all agricultural commodities, and for all domestically produced food crops (except rice) there are no other price controls at any transaction level. There are factory-gate floor prices indicated for non-food agricultural export crops (cotton, cashew, oilseeds), and actual prices paid by the factories are based on world prices for these commodities. Price incentives to increased production, however, are still constrained by the high marketing margins due to transportation, security, and other transaction risks. Prices of consumer and investment goods for producers are fully liberalized, with the single exception of petroleum products (whose prices are based on actual import cost at the market exchange rate). Liberalization in prices of imported food commodities has also progressed although more slowly.

i. Transportation

As mentioned above, the transportation constraint to marketing remains a critical impediment to increased agricultural production and income. Rehabilitation of roads and bridges, once rural security can be assured, is a high priority. Within the context of overall market liberalization in Mozambique, immediate removal of fixed transportation margins is needed to permit rates to be negotiated based on local conditions (war risks, road condition, competition). Recent legislative changes have allowed the creation of private sector insurance companies where previously a state monopoly existed; one new company has already stated its intention to offer war-risk insurance to truckers, thereby providing some relief for a major cost constraint to transportation. Increasing numbers of trucks are evident in the

private sector, although the degree to which they serve the rural areas is still severely limited by the security constraints discussed above. The reduction in the size and role of government-owned and managed truck fleets is expected to continue, complementing the net increase in private sector trucks made available by the PSSP's Commodity Import Program disbursement mechanism and by other donor-financed import programs. The availability of coastal shipping transportation is still extremely constrained, with important negative effects on the marketing of surplus food production from the north to urban and rural food deficit areas in the central and southern parts of the country.

4. Impact

The impact of the PSSP policy reforms has been described in the policy reform report cables and more probingly in numerous working papers and other analyses based on research conducted under the Private Sector Support Technical Assistance Project (656-0218). As noted in these reports and also in the mid-term evaluation of the PSSP conducted in November 1991 (evaluation summary appears in Annex C), the impact of the policy reforms is extremely difficult to monitor and measure due to the absence of reliable data and the difficulty of conducting optimally regular and frequent site visits in a war environment. It is expected that at the time of the next program evaluation, in February 1994, a better measure of impact will be possible.

To the extent that rapid reconnaissance and geographically limited surveys have provided information on impact, these have documented significant market participation of even quite isolated small producers. In addition, there is evidence in some locations of the emergence of competition to established market agents which previously enjoyed monopoly/monopsony rights in rural areas, with concomitant improvements in producer prices. Furthermore, there is strong evidence that in areas where private sector marketing opportunities for cash crops (cashew, cotton) exist, small-scale producers do not reduce food crop production and, in fact, retain on farm a higher share of their food production for their own consumption, indicating important food security and general welfare benefits. Although no data exist to document improvement or worsening in the "terms of trade" for agricultural producers, field work in Nampula and Cabo Delgado Provinces as well as in Maputo City indicates significantly improved physical access to markets and increasingly reliable availability of and choices in products and services in these markets. Nonetheless, the now unsubsidized nature of prices for both food and consumer goods means many of these goods and services are not within the purchasing power of Mozambique's overwhelmingly poor population.

Annex A

**1992 Report on Policy Reform Progress
Maputo 2362**

**Private Sector Support Program
656-0208/18**

May 1992

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MAPUTO 2362

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INFO RUEHMB / AMEMBASSY MBABANE 6070
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CLASS: UNCLASSIFIED
CHRG: AID 5/28/92
APPRV: BRSS:TEORN:FJ
DEFTD: AIDIR:JMILLER
CLEAR: 1.ENG
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3.AGRO
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DISTR: AID4 AME DCM FC

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AID/W FOR AFR/SA (PASS TO MENDELSON AND SCHLOTTEAUER),
MBABANE FOR RLA RIEBLER

20 MAY 1992

AD112

E.O. 12358: N/A
SUBJECT: POLICY REFORM PROGRESS AND PROPOSED AMENDMENT
TO PRIVATE SECTOR SUPPORT PROGRAM, 656-0208/18

REF: (A) MAPUTO 2297; (B) MAPUTO 2294

1. THIS CABLE (A) SUMMARIZES PROGRESS IN ACHIEVING THE
1991/92 POLICY REFORM OBJECTIVES AND PROPOSES 1992/93
POLICY REFORM OBJECTIVES; (B) DESCRIBES AN AMENDMENT TO
THE PSSP THAT INCREASES FUNDS AVAILABLE FOR COMMODITY
IMPORTS BY DOLS EIGHT MILLION IN FY 1992 AND EXTENDS THE
PACD TO DECEMBER, 1994; (C) REQUESTS AN AD HOC
DELEGATION OF AUTHORITY TO THE USAID/MOZAMBIQUE DIRECTOR
TO AUTHORIZE AN LOP INCREASE FROM DOLS 54,500,000 TO
DOLS 62,500,000; AND (D) REQUESTS AID/W ADVICE ON WHAT
WOULD BE REQUIRED TO APPLY AN EIGHT PERCENT DISCOUNT IN
THE EXCHANGE RATE FOR CIP FUNDS. A SEPARATE MESSAGE
WILL DESCRIBE AN AMENDMENT OF THE PSS/TA (656-0218) TO
EXTEND THE PACD, INCREASE LOP, AND PROVIDE DOLS 18
MILLION IN FY92 FOR ADDITIONAL RESEARCH, TA AND
IMPLEMENTATION MANAGEMENT.

2. USAID HAD PLANNED ON COMBINING IN FY 1992 THE PL483
TITLE III, DPA MPA AND DPA POLICY-RELATED TECHNICAL
ASSISTANCE EFFORTS INTO ONE MAJOR THREE-YEAR PROGRAM,
WHICH WOULD HAVE MORE TIGHTLY INTEGRATED OUR COMMERCIAL
FOOD AID PROGRAM WITH ONGOING EFFORTS TO RATIONALIZE THE
MARKET FOR DOMESTIC AGRICULTURAL PRODUCTS. DURING THE
PAIP/PID DESIGN, HOWEVER, SEVERAL CONSIDERATIONS AROSE
THAT ARGUE FOR POSTPONING A MAJOR NEW ACTIVITY UNTIL AT
LEAST FY 1993. THESE CONSIDERATIONS ARE DISCUSSED TO
SOME EXTENT BELOW AND IN MORE DETAIL IN REF B ON FY 92
TITLE III AMENDMENT AND SEPTEL ON PSS/TA.

SUMMARY

THE GRM CONTINUED IN 1991/1992 TO MAKE PROGRESS WITH
ECONOMIC REFORM MEASURES, IN PARTICULAR IN THE AREA OF
EXCHANGE RATE REFORM. AS IN THE PAST, HOWEVER, THE VAR

21

DOMINATED THE GOVERNMENT'S AGENDA AND DIVERTED ATTENTION FROM ECONOMIC DEVELOPMENT ISSUES. IN THE POLITICAL AREA, SUBSTANTIAL PROGRESS WAS MADE IN TALKS BETWEEN THE GOVERNMENT AND FENAMO; IN 1991/1992, THREE PROTOCOLS WERE SIGNED COVERING PROCEDURAL ARRANGEMENTS FOR THE PEACE TALKS, LAWS GOVERNING THE FORMATION OF POLITICAL PARTIES, AND ELECTIONS. THE NEXT ROUND OF NEGOTIATIONS, SCHEDULED TO BEGIN IN JUNE, WILL ADDRESS THE SENSITIVE AREA OF THE DEMOBILIZATION AND INTEGRATION OF THE MILITARY FORCES. TO DATE, HOWEVER, PROGRESS AT THE NEGOTIATING TABLE HAS NOT IMPROVED THE SITUATION ON THE GROUND AND IN RURAL AREAS SECURITY AND ACCESS ARE OVERWHELMING CONSTRAINTS TO ECONOMIC AND SOCIAL ACTIVITY AS WELL AS INFORMATION GATHERING. A FURTHER PROBLEM IS THE CATASTROPHIC REGION-WIDE DROUGHT, WHICH THREATENS MILLIONS OF MOZAMBIKAN LIVES AND HAS RESULTED IN MAJOR NEW POPULATION DISPLACEMENTS. THE ALLEVIATION OF DROUGHT-INDUCED FOOD AND WATER SHORTAGES AND DROUGHT-RELATED DISEASE WILL DOMINATE OUR ASSISTANCE OVER THE NEXT YEAR.

4. NEVERTHELESS, ACCEPTABLE PROGRESS WAS MADE TOWARDS ALLOWING THE MARKET TO DETERMINE THE PRICES OF CORN AND RICE. THE ORDERLY PRIVATIZATION OF MAJOR PARASTATAL ENTERPRISES SLOWED AS THE GOVERNMENT FOCUSED ON LARGER AND MORE DIFFICULT CASES, BUT A GOOD DEAL OF UNMANAGED PROGRESS WAS REGISTERED NONETHELESS. IN PETROLEUM, THE GOVERNMENT MAINTAINED THE PRICE OF GASOLINE ABOVE IMPORT PARITY AT THE SECONDARY MARKET (MERCADO SECUNDARIO DE CARBIO ON MSC) EXCHANGE RATE AND INCREASED THE PRICE OF DIESEL IN REAL TERMS TO ABOVE PARITY. THE GOVERNMENT IS PROGRESSIVELY BUT WITH NO APPARENT RELUCTANCE TOWARDS THE FULL LIBERALIZATION OF THE AVIAS MARKET, AND THIS SHOULD BE COMPLETED BY DECEMBER 1992.

5. A MAJOR EXTERNAL EVALUATION OF PSSP, CONDUCTED IN NOVEMBER, 1991, FOUND THAT THE PROGRAM'S COMBINATION OF RESEARCH, DIALOGUE, AND FOREIGN EXCHANGE SUPPORT HAS BEEN EFFECTIVE IN ASSISTING AND ENCOURAGING THE GOVERNMENT IN ITS REFORM EFFORTS. THE EVALUATION RECOMMENDED AN EXPANSION INTO OTHER AREAS CONSTRAINING THE GROWTH OF A FREE MARKET AND, IN PARTICULAR, SUGGESTED MORE FOCUS ON THE FINANCIAL SECTOR. IT ALSO

FOUND THAT IN ORDER TO FULLY REALIZE THE BENEFITS OF THE EXISTING (CHANGED) POLICIES, THE MISSION SHOULD MONITOR AND ASSIST THE FORM IN ITS IMPLEMENTATION OF THE CHANGES ON THE GROUND. WHILE USAID AGREES WITH THESE RECOMMENDATIONS, WE ARE SEVERELY CONSTRAINED BY THE NEED FOR FURTHER INFORMATION AND ANALYSIS IN THE POLICY AREA; THIS CANNOT BE COMPLETED IN TIME TO DESIGN A NEW PROGRAM THIS FISCAL YEAR.

6. IN ADDITION, OTHER IMPORTANT FACTORS SUPPORT AN AMENDMENT TO THE PRESENT PROGRAM AND SUGGEST THAT A NEW EFFORT IN FY 1992 WOULD BE PREMATURE. THE FIRST IS THAT MISSION STAFF RESOURCES MUST BE DEVOTED TO THE DROUGHT, WHICH IS DRAMATICALLY INCREASING FOOD AID REQUIREMENTS AND WHICH HAS SIGNIFICANT IMPLICATIONS FOR OTHER PARTS OF THE PROGRAM, PARTICULARLY THE TRANSPORT, PVO, AND HEALTH PROJECTS. FURTHERMORE, FOLLOWING THE INTRODUCTION OF THE SECONDARY EXCHANGE RATE IN NOVEMBER 1990, CIP DISBURSEMENTS WERE SLOW; THE PIPELINE AND THE PROPOSED NEW OBLIGATION WILL BE ADEQUATE TO MEET EXPECTED DEMAND AT LEAST UNTIL EARLY CY 1993.

I. BACKGROUND, 1991 MACROECONOMIC DEVELOPMENTS

7. AFTER GOOD ECONOMIC GROWTH DURING THE FIRST THREE YEARS OF THE ECONOMIC REHABILITATION PROGRAM, GDP GROWTH SLIPPED IN 1990 TO ABOUT 1.5 PERCENT AND IN 1991 TO ABOUT ONE PERCENT, WHILE INFLATION, WHICH HAD FALLEN TO 35 PERCENT IN 1990, ROSE TO 47 PERCENT FOR 1991 AND HAS FALLEN BACK TO AN ANNUALIZED 35 PERCENT IN 1992. THESE FIGURES ARE AT BEST ILLUSTRATIVE AND ALMOST CERTAINLY UNDERESTIMATE THE BOOMING URBAN INFORMAL SECTOR, GIVING TOO MUCH WEIGHT TO THE ALREADY OBSOLETE URBAN INDUSTRIAL SECTOR. UNFORTUNATELY, THE DROUGHT WILL ALSO SIGNIFICANTLY REDUCE THE MODEST INCREASES IN DOMESTIC AGRICULTURAL PRODUCTION REALIZED IN 1990 AND 1991, ALTHOUGH IT HAS NOT HAD A MAJOR IMPACT ON TRADITIONAL EXPORT CROPS (COTTON, CASHEW, AND TEA) MARKETING, WHICH HAS REMAINED AT VERY LOW (ALBRIGHT-RISING) LEVELS.

8. THE MAJOR CAUSE OF LOW GROWTH, ACCORDING TO THE IMF, HAS BEEN THE FAILURE OF THE DONORS TO MAINTAIN DISBURSEMENTS FOR IMPORTS AT EXPECTED LEVELS. THIS FAILURE CERTAINLY APPLIES TO THE PSSP CIP, WHICH FACED DRAMATICALLY REDUCED DISBURSEMENTS WHEN THE MSC WAS INTRODUCED IN NOVEMBER 1990. THIS SLOWDOWN WAS CAUSED PARTLY BY IMPORTERS' UNCERTAINTY REGARDING THE POSSIBLE AVAILABILITY OF FOREIGN EXCHANGE AT THE OFFICIAL RATE, PARTLY BY THE LIMITED ABSORPTIVE CAPACITY OF THE AGRICULTURAL SECTOR, AND PARTLY BY A GENERAL LACK OF LIQUIDITY. AS DISCUSSED BELOW, BEGINNING WITH THIS AMENDMENT, PSSP WILL EXPAND THE ELIGIBILITY LIST FOR THE CIP TO ALL COMMODITIES PERMITTED BY AID REGULATIONS, AND MAY APPLY A DISCOUNT TO REFLECT THE ADDITIONAL COST TO IMPORTERS OF OUR ASSISTANCE.

UNCLAS SECTION #2 OF • MAPUTO #2362

9. DESPITE THE DISAPPOINTING NUMBERS, THE GOVERNMENT STATED THE REFORM COURSE CHARTED BY THE 1990/1991 ENHANCED STRUCTURAL ADJUSTMENT FACILITY (ESAF) AND POLICY FRAMEWORK PAPER (PPP). SIGNIFICANT PROGRESS HAS BEEN MADE IN SEVERAL AREAS.

10. DURING 1991, THE GOVERNMENT MOVED MOST IMPORTS AND MANY EXPORTS TO THE MSC, WHICH WAS CREATED IN NOVEMBER 1990. THIS MARKET PROVED ABLE TO PROVIDE FOREIGN EXCHANGE TO PRIVATE IMPORTERS IN SIGNIFICANT AND SUFFICIENT QUANTITIES ON DEMAND TO IMPORTERS WITH METICARE. WHILE IT IS NOT CLEAR HOW THE RATE IS DETERMINED, IMPORTERS REPORT THAT THEY HAVE BEEN ABLE TO USE THE WINDOW TO MEET THEIR NEEDS. ONE REASON FOR THIS IS THAT DEMAND WAS LIMITED BY THE GOVERNMENT'S TIGHT CREDIT POLICIES, WHICH HAVE LIMITED LIQUIDITY GENERALLY.

11. THE FX SITUATION HAS BECOME CLOUDIER IN THE PAST COUPLE OF MONTHS. IN FEBRUARY 1992, THE GOVERNMENT, UNDER ADVICE BY THE IMF AND WORLD BANK, ANNOUNCED THAT IT WOULD NOT, AS PLANNED, UNIFY THE SECONDARY AND OFFICIAL FX MARKETS IN MARCH. IN ANNOUNCING THE NON-

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UNIFICATION OF THE RATES, THE MINISTRY OF FINANCE, WITH THE SUPPORT OF BOTH THE IMF AND THE IBRD, ALSO STATED THAT EFFECTIVE APRIL 1, 1992, TIED RATES WOULD BE MADE AVAILABLE BY THE CENTRAL BANK TO THE THREE COMMERCIAL BANKS AT AN EIGHT PERCENT DISCOUNT. THIS STEP WAS APPLAUD BY DONORS, INCLUDING USAID, AS EVIDENCE OF THE GOVERNMENT'S WILLINGNESS TO PERMIT MORE COMPETITION AND PRIVATE BANK PARTICIPATION IN FX TRANSACTIONS. TO DATE, THE APPLICATION OF THE EIGHT PERCENT DISCOUNT HAS NOT OCCURRED, AND INFORMAL DISCUSSIONS WITH DONORS INDICATE THAT IT MAY NOT BE POSSIBLE UNTIL THE BANKING SYSTEM PERFORMANCE IMPROVES NOTICEABLY. MOZAMBIQUE'S UNIQUE PROBLEM OF INTEGRATING A FOREIGN EXCHANGE MARKET THAT IS OVERWHELMINGLY SUPPLIED BY DIVERSE DONORS REMAINS FAR FROM A WORKABLE MARKET SOLUTION. WHAT HAS CERTAINLY HAPPENED, THOUGH, IS THAT IMPORTS HAVE TO A LARGE EXTENT MOVED TO A SINGLE RATE THAT IS PROBABLY CLOSER TO EQUILIBRIUM THAN THAT OF A YEAR AGO.

12. THE GOVERNMENT BUDGET DEFICIT HAS BEEN DECREASED FROM 12 PERCENT OF GDP TO 3 PERCENT IN 1991 AND IS EXPECTED TO GO INTO SURPLUS IN 1992, BUT THE IMPACT OF THE DROUGHT CLOUDS THE OUTLOOK FOR 1992. THE SURPLUS IS TO BE USED TO REPAY GOVERNMENT DEBTS TO THE COMMERCIAL BANKING SECTOR AND WOULD INCREASE CREDIT AVAILABLE TO THE PRIVATE SECTOR.

13. THE BANK OF MOZAMBIQUE HAS OFFICIALLY SPLIT INTO A COMMERCIAL BANK AND A CENTRAL BANK, WITH THE COMMERCIAL BANK NOW SEEKING FOREIGN PARTICIPATION TO IMPROVE ITS OPERATIONAL PERFORMANCE. THE OTHER MAJOR STATE-RUN BANK, THE BANCO POPULAR DE DESENVOLVIMENTO (BPD), IS ALSO SEEKING FOREIGN PARTNERSHIP, AND THE ONLY PRIVATE BANK, BANCO STANDARD TOTTA, SHOULD BE PERMITTED TO EXPAND ITS ACTIVITIES. A MAJOR RESTRUCTURING OF BANK DEBT, AS WELL AS OTHER FAR-REACHING REFORMS, WILL BE NECESSARY TO MAKE THE TRANSITION FROM A CENTRALLY CONTROLLED FINANCIAL SECTOR, WHICH PROVIDED SUBSIDIES TO PARASTATALS, TO A MARKET ORIENTED SYSTEM SERVING THE PRIVATE SECTOR; NEVERTHELESS, IN 1991/1992 THE CBM MADE SIGNIFICANT PROGRESS IN LAYING THE GROUNDWORK FOR A FUNCTIONAL COMMERCIAL BANKING SECTOR.

14. THE GOVERNMENT HAS DROPPED MOST DIRECT PRICE CONTROLS ON COMMODITIES AND SERVICES AND, WITH A FEW EXCEPTIONS (E.G. FUEL, WHICH IS A REGULATED MONOPOLY) THE REMAINING COMMODITIES SUBJECT TO SOME PRICE CONTROLS ARE IN PRACTICE TRADED FREELY ANYWAY.

15. IN ENTERPRISE REFORM, PROGRESS WAS MADE IN AN AD HOC WAY: MANY STATE FARM LANDS WERE TURNED OVER TO FAMILY AND PRIVATE OPERATORS OR CLOSED DOWN ALTOGETHER, AS THE BANKING SECTOR (I.E., THE GOVERNMENT) WITHDREW THE LINE OF CREDIT (I.E., SUBSIDIES) THAT HAD SUSTAINED THE STATE FARMS. WHAT IS STILL LACKING IN THE PROCESS IS CLARITY OF PURPOSE AND POLICY, INCLUDING WHAT RIGHTS ARE ACTUALLY BEING TRANSFERRED TO THESE NON-GOVERNMENT OPERATORS; BUT THERE IS NO QUESTION THAT THE IMPORTANCE

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OF THE STATE-CONTROLLED AGRICULTURAL SECTOR CONTINUED TO DWINDLE IN THE LAST YEAR. IN ADDITION, SEVERAL MAJOR AGRICULTURAL PLANTS, SUCH AS THE MAJOR METAL WORKING PLANT, AND EVEN THE RAILROAD, (WHICH ARE OF QUESTIONABLE COMMERCIAL VIABILITY), WERE FURTHER MARGINALIZED BY THE LACK OF LIQUIDITY AVAILABLE TO THE STATE SECTOR.

11. POLICY OBJECTIVES, 1991/1992

A. AGRICULTURAL PRICING POLICY

16. PAID BENCHMARKS FOR 1991/1992: (A) FOR CORN, BEANS AND RICE, ADJUST PRODUCER FLOOR PRICES TO MAINTAIN

PARITY BASE; (B) FOR CASH CROPS, ADJUST FLOOR PRICES TO MAINTAIN PARITY BASE; AND (C) FOR CONSUMER PRICES.

17. THE ANNUAL ADJUSTMENTS IN PRODUCER FLOOR PRICES (EFFECTIVE JANUARY 1992) WERE ANNOUNCED ON SCHEDULE IN

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OCTOBER 1991 AS FOLLOWS: (1) A 5 PERCENT NOMINAL INCREASE) OR DOLS 154/TON AT THE MSC EXCHANGE RATE.

- FOR RICE - 5% NETICALS/KG FOR PADDY (NOMINAL 60 PERCENT INCREASE) OR APPROXIMATELY DOLS 110/TON (SUMING 60 PERCENT MILLING EXTRACTION RATE) AT MSC RATE.

- FOR BEANS - THE TWO TYPES OF BEANS FOR WHICH PRODUCER FLOOR PRICES ARE STILL PUBLISHED HAD NOMINAL 70 PERCENT INCREASES IN THE FLOOR PRICES, BRINGING MANTEICA BEANS TO ABOUT DOLS 352/TON AND NEMEDA BEANS TO ABOUT DOLS 224/TON AT THE MSC RATE.

18. ESTIMATED CIF MAPUTO PRICES FOR SIMILAR COMMODITIES IN JANUARY 1992 ARE APPROXIMATELY DOLS 159 FOR U.S. SOURCE YELLOW CORN, DOLS 296 FOR THAI BROKEN RICE, AND DOLS 276 FOR U.S. SOYBEANS. THE IMPORT PARITY PRICE COMPARISON FOR DOMESTIC WHITE CORN SHOULD LOGICALLY BE NOT WITH U.S. YELLOW CORN BUT WITH WHITE CORN FROM ZIMBABWE, SWAZILAND, OR SOUTH AFRICA. IN THIS YEAR OF REGION-WIDE DROUGHT, EXPORT RESTRICTIONS, NEW OR DIFFERENT SUBSIDY STRUCTURES, AND OTHER GOVERNMENT POLICIES IN THESE NEIGHBORING COUNTRIES HAVE MADE SUCH PRICE COMPARISONS DIFFICULT.

19. ADJUSTMENTS IN PRODUCER FLOOR PRICES FOR KEY CASH CROPS ALSO WERE ANNOUNCED IN OCTOBER 1991, WITH NOMINAL INCREASES IN THE 30 TO 50 PERCENT RANGE FOR GROUNDNUTS (TO APPROXIMATELY DOLS 312/TON), COTTON (TO ABOUT DOLS 233/TON FOR HIGHER QUALITY), AND CASHEW (TO ABOUT DOLS 27/TON).

20. THE 1991/92 PRICE POLICY BENCHMARK WHICH HAS NOT YET BEEN MET RELATES TO THE CONSUMER PRICE FOR RICE. THE GRM HAS HESITATED TO LIFT THE FIXED CONSUMER PRICE FOR RICE BECAUSE EXISTING MILLING AND MARKETING CHANNELS FOR DOMESTIC RICE SEEMED UNLIKELY TO ALLOW FOR QUICK INCREASES IN MARKET PARTICIPATION AND COMPETITION, BUT RATHER SEEMED CERTAIN TO LEAD TO INCREASED MARKET CONTROL AND OPPORTUNITY FOR RENTS BY A FEW (PRIMARILY PARASTATAL) COMPANIES. MONITORING OF OPEN MARKET CONSUMER PRICES FOR RICE IN MAPUTO AND BEIRA HAS DEMONSTRATED THAT RICE HAS BEEN WIDELY AVAILABLE IN THESE MARKETS THROUGHOUT THE PAST YEAR AT PRICES WHICH SEEM TO REFLECT REAL MARKETING COSTS AND WHICH CLEARLY ADJUST TO VARIATIONS IN SUPPLIES. THIS RELATIVE STABILITY IN OPEN MARKET RICE SUPPLY AND PRICES OVER THE PAST YEAR IS NOT DUE TO DOMESTIC PRODUCTION OR TO FOOD AID BUT TO COMMERCIAL IMPORTS FROM ASIAN SOURCES WHICH HAVE BEEN MADE INCREASINGLY POSSIBLE BECAUSE OF BOTH THE AVAILABILITY OF FOREIGN EXCHANGE THROUGH THE MSC AND THE NON-ENFORCEMENT OF THE OFFICIAL FIXED PRICE. THUS, WHILE WE HAVE A DE FACTO LIBERALIZATION OF CONSUMER PRICE FOR IMPORTED RICE, WITH EVIDENT GOVERNMENT ENCOURAGEMENT FOR SUCH COMMERCIAL IMPORTS, THERE HAS STILL BEEN NO ANNOUNCEMENT OF FULL LIBERALIZATION FOR DOMESTIC PRODUCTION.

UNCLAS SECTION 04 OF

21. USAID'S RECENT VISIT TO ZAMBIA EXPECTED ANNOUNCEMENT WAS BEEN DELAYED OR MADE. HOWEVER, HIGH INFLATION AND MINOR STAPLES (BOTH IN PRODUCTION AND TERMS) COMPARED TO CORN. SINCE WE ARE AT PRESENT WORKING WITH THE GOVERNMENT ON FUNDAMENTAL REFORMS IN PRICING AND MARKETING OF U.S. YELLOW CORN COMMERCIAL FOOD AID (SEE REF A RE. TITLE III) WHICH WILL HAVE FAR-REACHING EFFECTS ON INCREASING PARTICIPATION AND COMPETITION IN FOOD MARKETING FOR CORN (AND OTHER STAPLES, INCLUDING RICE) AT ALL LEVELS.

1. DIVESTITURE OF STATE FARMS

22. PAID BENCHMARKS FOR 1991/1992: (A) MAINTAIN CREDIT AND SUBSIDY CEILINGS FOR STATE AGRICULTURAL ENTERPRISES; (B) CONTINUE DIVESTITURES; (C) CONTINUE ANALYSIS OF DIVESTITURE EXPERIENCE AND DEVELOPMENT OF POLICIES AND GUIDELINES; AND (D) DEVELOP, ANNOUNCE, IMPLEMENT PROCEDURES TO INCREASE TRANSPARENCY OF THE DIVESTITURE PROCESS.

UNCLAS SECTION 04 OF * MAPUTO 02362

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23. THE GOVERNMENT HAS CONTINUED TO DIVEST STATE FARMS BY TURNING THEM OVER TO PRIVATE MANAGEMENT AND BY ALLOWING FAMILY AND PRIVATE FARMERS TO TAKE OVER PLOTS. THE MAIN DRIVING FORCE FOR THIS DIVESTITURE WAS THE MAINTENANCE OF STRICT CEILINGS ON CREDIT TO THE STATE ENTERPRISES.

24. WHILE THE PROCESS HAS BEEN FAIRLY FAR-REACHING, IT HAS ALSO BEEN HAPHAZARD. THOSE RECEIVING RIGHTS TO WORK THE LAND USUALLY GET NO EXPLICIT TENURE. NO PROCESS HAS YET BEEN ESTABLISHED TO EITHER CONTINUE DIVESTITURE IN AN ORDERLY, TRANSPARENT FASHION OR TO SPECIFY AND GUARANTEE TENURE ON DIVESTED LANDS. SEVERAL IMPORTANT POLITICAL FACTORS ARE AT WORK HERE. (1) MANY OF THE FARMS ARE "INTERVENED" AND THE FORMER OWNERS STILL HAVE AMBIGUOUS CLAIM TO THEM; (2) THE MASSIVE DIVESTITURE OF STATE-OWNED PROPERTY IS PROBABLY UNACCEPTABLE UNTIL AFTER AGREEMENT HAS BEEN REACHED AT THE PEACE TALKS, AND (3) WITH AGRICULTURAL LAND ONE OF THE PRINCIPAL NATIONAL RESOURCES WHICH CAN RAPIDLY GENERATE WEALTH, ESPECIALLY IN A MARKET ECONOMY AND WITH PEACE ON THE HORIZON, THE QUESTION OF WHO GETS THE LAND IS A VERY DELICATE ONE. NONETHELESS, USAID-FINANCED POLICY-ORIENTED RESEARCH AND RELATED TECHNICAL ASSISTANCE ARE HELPING THE GOVERNMENT EVALUATE DIVESTITURE-RELATED TENURE, FINANCIAL, AND TECHNICAL ISSUES AND TO BEGIN TO DEVELOP PROCEDURES FOR ADDRESSING THESE. THE IMMINENT ESTABLISHMENT BY THE GOVERNMENT OF A SPECIAL LAND COMMISSION TO WORK ON POLICIES AND PROCEDURES RELATING TO LAND ACCESS AND TENURE SECURITY WILL BE AN IMPORTANT PUBLIC INDICATION OF ACTIVITY IN THIS AREA.

C. PRIVATE AGRICULTURAL SALES AND SERVICE

25. PAID BENCHMARKS FOR 1991/1992: (A) FOR IMPORTERS/DISTRIBUTORS, MAINTAIN PRIVATE IMPORT AND DISTRIBUTION OF AID-FINANCED COMMODITIES (EXCEPT PETROLEUM), AND CONTINUE PRIVATIZATION OF AG-RELATED STATE ENTERPRISES; AND (B) FOR END USERS, CONTINUE DIRECT PRIVATE SALES TO END USERS.

26. IN 1991/1992, THE PSSP FINANCED APPROXIMATELY FOLS 10 MILLION IN IMPORTS, OF WHICH DOLS 5 MILLION WAS FOR PETROLEUM AND THE REMAINDER FOR PRIVATE SECTOR IMPORTERS AND USERS. IN ADDITION, THROUGH THE SECONDARY FX MARKET MECHANISM, THE PRIVATE SECTOR WAS GIVEN ACCESS TO AN ADEQUATE SUPPLY OF FOREIGN EXCHANGE TO MEET IMPORT REQUIREMENTS. AT THE SAME TIME, BECAUSE OF THE STRICT CREDIT LIMITS IMPOSED BY THE MINISTRY OF FINANCE UNDER THE IMF/ESAF AGREEMENTS, THE PARASTATALS RECEIVED LITTLE OR, IN MANY CASES, NO CREDIT. THIS SEVERELY LIMITED THEIR ACCESS TO FOREIGN EXCHANGE. THE ERA OF PREFERENTIAL TREATMENT FOR PARASTATALS APPEARS TO BE OVER.

27. WITH THE REMOVAL OF THEIR LIFELOOD, FREE CREDIT, MANY OF THE AGRICULTURAL PARASTATALS CEASED TO FUNCTION

ACTIVITIES IN DIRECT... RELATED PARASTATALS... SIMILAR) WERE REMOVED... HOWEVER, WHEAT AND CORN MILLING... LARGELY IN THE HANDS OF PARASTATALS... PRIVATE MILLING IN MAJOR URBAN AREAS IS INCREASING... RAPIDLY, HOWEVER, AND USAID IS ENCOURAGING THIS DEVELOPMENT. (SEE REF B AND SEPTEL ON PSS/TAL)

28. THE SIX MAJOR NON-FARM AGRICULTURAL PARASTATALS DISCUSSED IN THE JUNE 1991 PSSP PAAD AMENDMENT FOR PRIVATIZATION WERE WEAKENED SIGNIFICANTLY, BUT NOT IN THE METHODOICAL AND PROFITABLE MANNER ENVIAGED IN THE ORIGINAL PLANS. THE MAIN STUMBLING BLOCK TO EFFECTIVE PRIVATIZATION IS THE FINANCIAL STRUCTURE OF THE COMPANIES, WHICH ALL HAVE SIGNIFICANT DEBTS TO THE BANKING SYSTEM, RENDERING THEM UNSALABLE WITHOUT COMPLETE RESTRUCTURING. ANOTHER ISSUE IMPEDING PRIVATIZATION IS THE DISPOSITION OF UNDERQUALIFIED AND BLOATED WORKFORCES. THE GOVERNMENT AND THE PARASTATALS THEMSELVES DO NOT HAVE THE RESOURCES TO PURSUE THE AGGRESSIVE RESTRUCTURING THAT WOULD BE REQUIRED TO MAKE THESE COMPANIES ATTRACTIVE TO PRIVATE INVESTORS.

UNCLAS SECTION 05 OF MAPUTO 02362

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29. MECANAGRO THE COMPANY THAT SERVED AS DEALER OF LAST RECENT... THE DEALER FOR... AND EQUIPMENT WITHOUT EXISTING REPRESENTATION... MOST OWN IMPORTANT SUPPLIER... TO A PRIVATE COMPANY. THE COMPANY HAS NUMEROUS FACILITIES IN PROVINCE... CAPITALS THAT ARE WORTH MUCH LESS COMMERCIALY THAN WHAT WAS ASSED IN THEM. AT PRESENT, ITS FINANCIAL POSITION IS SO PRECARIOUS THAT IT WAS REPORTEDLY FALLEN SIGNIFICANTLY BEHIND IN SALARY PAYMENTS. WHILE IT IS A SHAME THAT THE CONSIDERABLY OVERCAPITALIZED FACILITIES ARE NOT BEING TURNED OVER TO EFFICIENT USE, THE IMPORTANCE OF MECANAGRO AS BOTH A COMPETITOR TO THE PRIVATE SECTOR AND AS A DRAIN ON STATE FINANCES HAS BECOME INCONSEQUENTIAL.

30. THE OTHER COMPANIES LISTED IN THE LAST PAAD AMENDMENT -- INTERQUIMICA (AGROCHEMICAL IMPORTS), INTERMECAMO (TRUCK AND TRACTOR IMPORTS), BOROR (SEED AND AGROCHEMICAL IMPORT AND DISTRIBUTION), ENACOMO (AG IMPORTER/EXPORTER), AND STBIA (AG EQUIPMENT) HAVE ALL SUFFERED VARIANTS OF THE SAME FATE. OVERBURDENED WITH DEBT AND STAFF AND UNABLE TO COMPLETE, THEY ARE FADING FROM THE SCENE RATHER THAN BEING PRIVATIZED.

D. ACCESS TO FOREIGN EXCHANGE

31. PAAD BENCHMARKS FOR 1991/1992: (A) ESTABLISH "NEGATIVE LIST" FOR IMPORTS AT OFFICIAL EXCHANGE RATE; MOVE NON-TRADITIONAL EXPORTS TO MSC; (B) UNIFY OFFICIAL AND MSC EXCHANGE RATE BY MARCH 1992; AND (C) DEVELOP PI YS FOR MARKET-BASED ALLOCATION/PRICING OF FX FOLLOWING UNIFICATION.

32. THE GOVERNMENT'S PERFORMANCE ON BENCHMARKS (A) AND (B) ABOVE WAS ENTIRELY SATISFACTORY. FIRST, A NEGATIVE LIST WAS PUBLISHED ON JULY 24, 1991, PLACING MANY IMPORTS, INCLUDING GASOLINE AND AGRICULTURAL INPUTS, ON THE SECONDARY RATE; A JUNE 19, 1991, DECREE PLACED NON-TRADITIONAL EXPORTS ON THE MSC. SECOND, IMPORTS HAVE TO A LARGE EXTENT MOVED TO A UNIFIED RATE THAT BETTER REFLECTS A MARKET RATE. HOWEVER, AS NOTED ABOVE, LITTLE PROGRESS WAS MADE ON THE THIRD BENCHMARK, TO DEVELOP A MARKET-BASED ALLOCATION MECHANISM FOR FOREIGN EXCHANGE AND, BECAUSE OF THIS, IT APPEARS UNLIKELY IN THE SHORT TERM THAT DONORS WILL BE WILLING TO SUPPORT THE UNIFIED SYSTEM WITH UNIFIED AID IN SUFFICIENT VOLUMES TO MAKE A MARKET SYSTEM WORK. THE MAJOR STUMBLING BLOCKS ARE, IN ORDER OF IMPORTANCE: (1) THERE IS NO TRANSPARENT MARKET BASED PROCEDURE FOR THE ALLOCATION OF FOREIGN EXCHANGE; (2) THE BANKING SYSTEM PRESENTLY CONSISTS OF TWO STATE-OWNED COMMERCIAL BANKS (THE BANCO COMMERCIAL DE MOZAMBIQUE, WITH 65 PERCENT OF THE SYSTEM'S ASSETS, AND THE BANCO POPULAR DE DESENVOLVIMENTO) AND ONE LIMITED SERVICE PRIVATE BANK (STANFART TOTTA); NONE OF WHICH CAN PROVIDE EFFICIENT SERVICES WITH THE DEGREE OF ACCOUNTABILITY THAT USAID AND OTHER DONORS REQUIRE FOR UNID AID; (3) MANY DONORS TIE AID FOR DOMESTIC

UNCLAS SECTION 86 OF MAPUTO 02362

POLITICAL REASONS AND CANNOT EASILY BE PUT INTO PRACTICE. THIS
MAKES GOOD DEVELOPMENT SEEM UNLIKELY.

33. IN LATE FEBRUARY, WHEN IT ANNOUNCED A GENERAL
UNIFICATION OF THE EXCHANGE RATES, THE GOVERNMENT
ANNOUNCED A 10 PERCENT DISCOUNT (FROM THE DE FACTO UNIFIED
10 PERCENT RATE) FOR TIED AID, WHICH INCLUDES USAID'S
CIP, EFFECTIVE APRIL 1, 1992. THIS DOES NOT, HOWEVER,
SEEM TO HAVE BEEN PUT INTO PRACTICE. THE PRINCIPLE OF
THE DISCOUNT (IF COUPLED WITH RELIABLE ACCESS TO FX)
SEEMS TO BE SOUND, THOUGH; IT WOULD BE OFFERED TO THE
COMMERCIAL BANKS WHO WOULD BROKER THE LIMITED USE OF
FOREIGN EXCHANGE, MATCHING CUSTOMERS WITH MONEY AND
USING THE 10 PERCENT BOTH TO PAY THE EXTRA BANKING
COSTS AND TO ATTRACT BUYERS. UNTIL THERE IS SOME
CONFIDENCE THAT THE BANKS WILL PROVIDE THE BROKERAGE AND
FINANCING SERVICES EFFECTIVELY, HOWEVER, THE DISCOUNT
FOR TIED AID IS UNLIKELY TO REALLY GET OFF THE GROUND.

34. IN 1992/1993, FURTHER PROGRESS IS ANTICIPATED IN
THIS AREA. THE COMMERCIAL BANKS ARE ALL SEEKING FOREIGN
PARTNERS, ALTHOUGH THE INTEREST OF SUCH POTENTIAL

UNCLAS SECTION 86 OF MAPUTO 02362

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UNCLAS SECTION 86 OF MAPUTO 02362

PARTNERS DEPENDS ON A PRELIMINARY RESTRUCTURING OF THE
BANKS' EXISTING BODY, WITH THE WHOLESALER LOANS TO
PARASTATALS (AND OTHERS) BEING WRITTEN OFF OR PAID BY
THE GOVERNMENT. SUCH REPAIRMENT IS TO COME FROM THE
EXPECTED TWO PERCENT 1992 BUDGET SURPLUS. ONCE FOREIGN
PARTNERSHIPS ARE ESTABLISHED, IT IS POSTULATED THAT
SIGNIFICANT IMPROVEMENTS IN PERFORMANCE WILL FOLLOW.

35. THE WORLD BANK IS POISED TO PROVIDE ADDITIONAL
ASSISTANCE TO THE CENTRAL BANK SHORTLY, AND THE
GOVERNMENT ITSELF IS EAGER TO SEE THE COMMERCIAL BANKING
SECTOR IMPROVED BY FOREIGN INTERVENTION.

E. PRIVATE MARKETING CHANNELS

36. PAID BENCHMARKS FOR 1991/1992: (A) ASSESS THE
IMPACT OF THE RESCINDING OF REGULATORY RESTRICTIONS ON
INTER-DISTRICT AND INTER-PROVINCIAL MOVEMENT OF
AGRICULTURAL COMMODITIES; (B) ASSESS THE IMPACT OF THE
OPENING OF DISTRICT WHOLESALING OPPORTUNITIES TO ANY
LICENSED TRADER DESIRING TO COMPETE; AND (C) COMPLETE
ANALYSIS OF LICENSING REQUIREMENTS AND TAKE STEPS TO
SIMPLIFY LICENSING REQUIREMENTS TO ENCOURAGE NEW
COMPETITORS.

37. ON JUNE 6, 1991, THE GOVERNMENT PUBLISHED THE
EXPECTED ANNOUNCEMENT OF MARKETING CHANGES PERMITTING
FREE MOVEMENT OF COMMODITIES AND BREAKING UP WHAT
REMAINED OF THE "DESIGNATED" (I.E., MONOPOLY/HOMOPSONY)
DISTRIBUTIONSHIP. THE ANNOUNCEMENT STATED, INTER ALIA,
THAT: (A) NATIONWIDE, TRADERS CAN CHANNEL SURPLUS
AGRICULTURAL PRODUCTS FROM ANY REGION TO ANY OTHER
REGION, FREELY, WITHOUT NEEDING ANY SPECIAL
AUTHORIZATIONS; AND (B) AGRICULTURAL PRODUCTS COULD BE
BOUGHT AND SOLD BY LICENSED TRADERS, INDUSTRIAL
PROCESSORS, AGRICULTURAL ENTERPRISES SUPPORTING THE
SMALLHOLDER SECTOR, AND OTHER "MARKET AGENTS, AND
FURTHERMORE, THAT THESE AGENTS WOULD BE PERMITTED TO BUY
AND SELL ANY GOODS THEY PLEASSED.

38. IN 1991/92, THE MISSION CONTINUED TO MONITOR MARKET
DEVELOPMENT IN ORDER TO ASSESS THE IMPACT OF THESE
CHANGES. SIGNIFICANT INCREASES HAVE OCCURRED (IN LATE
1991 AND EARLY 1992, AS COMPARED WITH PREVIOUS YEARS)
IN, FOR EXAMPLE, THE QUANTITIES OF CORN AND GROUNDNUTS
TRANSPORTED BY SHIP FROM MAJOR SURPLUS PRODUCTION AREAS
IN THE NORTH OF THE COUNTRY (WHICH HAVE NOT BEEN SO
AFFECTED BY THE REGIONAL DROUGHT) TO THE URBAN FOOD
DEFICIT AREAS OF BEIRA AND MAPUTO. OTHER EVIDENCE OF
MARKET RESPONSE TO THESE NEW OPPORTUNITIES IS THE
EMERGENCE IN THE PAST SIX MONTHS OF AN EXTREMELY VISIBLE
AND ACTIVE WHOLESALE MARKET IN BASIC FOODSTUFFS IN
MAPUTO; SUCH MARKET SPECIALIZATION IS A SIGN OF NEW
PARTICIPATION AND INCREASING COMPETITION. UNDER THE
PSS/TA-FINANCE; MINISTRY OF AGRICULTURE/MICHIGAN STATE
UNIVERSITY FOOD SECURITY RESEARCH PROGRAM, THE
GOVERNMENT AND THE MISSION ARE CONTINUING TO ASSESS THE

UNCLAS SECTION #07 OF MAPUTO 82362
IMPACT OF THESE REPORTS.

39. THE DEGREE TO WHICH LICENSING RESTRICTIONS INHIBIT NEW ENTRANTS AND ACTIVITIES IN FOOD MARKETS IS BEING EXPLORED. CERTAINLY MOST OF THE TRADING AND DEALING OCCURS IN THE INFORMAL SECTOR, ITINERANT VENDORS IN THE RURAL AREAS AND STREET MARKETS IN THE URBAN AREAS, WHICH ARE UNLICENSED AND UNTAXED. INFORMAL ACTIVITIES HAVE FLOURISHED WITH THE LIBERALIZATION OF PRICING AND REMOVAL OF NON-PRICE MARKETING RESTRICTIONS AND WITH THE EVIDENT INCLINATION OF THE GOVERNMENT, INSPITE THE UNREGULATED NATURE OF THESE ACTIVITIES, TO ALLOW THEM (THEREBY IMPLICITLY RECOGNIZING THE CONTRIBUTION OF THE INFORMAL MARKET TO THE SURVIVAL OF THOUSANDS OF BUYERS AND SELLERS).

40. THE AREAS WHERE LICENSING REQUIREMENTS ARE PROBABLY A MORE SIGNIFICANT CONSTRAINT ARE IN THE ASSEMBLY-LEVEL, WHOLESALE-LEVEL, AND TRANSPORT AND PROCESSING ACTIVITIES WHICH LINK THE TWO RETAIL LEVELS (PRODUCER AND CONSUMER) OF THE MARKETING CHAIN. ANALYSES ARE UNDERWAY OF, FOR EXAMPLE, WHOLESALE COMMODITY OPERATIONS IN MAPUTO AND BEIRA, AND PRIVATE AND PUBLIC TRUCKING OPERATIONS, TO

UNCLAS SECTION #07 OF MAPUTO 82362

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UNCLAS SECTION #06 OF MAPUTO 82362

ASSESS THE DISINCENTIVE EFFECTS OF LICENSING RESTRICTIONS. THERE IS EVIDENCE, HOWEVER, THAT OTHER CONSTRAINTS TO PARTICIPATION, SUCH AS UNAVAILABILITY OF CREDIT OR LACK OF START-UP CAPITAL, ARE ALSO INHIBITING NEW OR EXPANDED ACTIVITIES. THERE IS A NEED TO IDENTIFY AND FULLY ASSESS THE ACTUAL CONSTRAINTS TO BROADER PRIVATE SECTOR PARTICIPATION IN THESE MARKETS. THE RESULTS OF THESE ANALYSES ARE EXPECTED TO LEAD TO GOVERNMENT AND USAID AGREEMENT ON NEXT STEPS IN POLICY AND RELATED REGULATORY REFORM, BUT SUCH DISCUSSIONS PROBABLY WILL OCCUR ONLY LATE IN CALENDAR YEAR 1992.

F. PETROLEUM IMPORTATION AND MARKETING

41. PAID BENCHMARKS FOR 1991/1992: (A) MAINTAIN CONSUMER PRICE FOR GASOLINE AT OR ABOVE IMPORT PARITY AT THE HSC RATE AND CONTINUE TO ADJUST CONSUMER PRICE OF DIESEL TO REFLECT EXCHANGE RATE AND INTERNATIONAL PRICE CHANGES; (B) COMPLETE ANALYSIS AND IMPLEMENT RECOMMENDATIONS FOR DEREGULATING IMPORT, DISTRIBUTION, AND PRICING OF AVGAS; AND (C) ANALYZE IMPORT AND DISTRIBUTION OF PETROLEUM PRODUCTS TO IDENTIFY FURTHER MEASURES TO SUPPORT A MORE EFFICIENT MARKET FOR THESE-

42. THE PRICE OF FUEL HAS ADJUSTED IN MARCH 1992, AND GASOLINE IS NOW SIGNIFICANTLY ABOVE IMPORT PARITY (60

U.S. CENTS A LITER) WHILE DIESEL IS JUST ABOVE PARITY (25 CENTS A LITER). PETROMOC, THE SOLE IMPORTER OF FUEL, HAS PROPOSED AN AUTOMATIC FORMULA FOR REGULAR ADJUSTMENT OF PRICES TO REFLECT EXCHANGE RATE AND IMPORT PRICE FLUCTUATIONS. THIS WOULD PLACE FUEL SAFELY ABOVE PARITY SO LONG AS THE EXCHANGE RATE REMAINS CLOSE TO AN EQUILIBRIUM RATE.

43. IN DECEMBER 1991, USAID AND PETROMOC PREPARED A JOINT REPORT RECOMMENDING THE COMPLETE LIBERALIZATION OF THE AVGAS MARKET, AND THE GOVERNMENT AGREED TO ITS RECOMMENDATIONS IN JANUARY 1992. THE REPORT RECOMMENDED TWO PHASES LEADING TO THE REMOVAL OF ALL BARRIERS TO FREE ENTRY INTO THE IMPORT AND DISTRIBUTION MARKET. THE FIRST OF THESE, THE CANVASSING OF ALL CONCERNED PARTIES, HAS BEEN COMPLETED AND THE SECOND, THE DRAFTING OF LEGISLATION AND REGULATIONS OFFICIALLY LIFTING THE PETROMOC MONOPOLY ON AVGAS IMPORTS, SHOULD BE COMPLETED BY AUGUST 1992. IN THE INTERIM, PETROMOC MAY GRANT AD HOC IMPORT RIGHTS TO BRITISH PETROLEUM TO BEGIN IMPORTATION, POSSIBLY WITH PSSP FINANCING.

44. PETROMOC, WITH IBRD FINANCING, COMPLETED A STUDY OF THE SUPPLY OF FUEL TO MOZAMBIQUE, INCLUDING THE QUESTION OF WHETHER MAPUTO MIGHT ONCE MORE SERVE AS A TRANSIT POINT FOR PETROLEUM PRODUCTS CONIGNED TO THE EASTERN TRANSVAAL AND SWAZILAND. PETROMOC HAS NOW REQUESTED THAT USAID FINANCE A STUDY OF INTERNAL DISTRIBUTION, WITH A VIEW TO INCREASING COMPETITION IN DISTRIBUTION.

BECAUSE OF THE IMPORTANCE OF FUEL BOTH ABSOLUTELY (OVER 10 PERCENT OF TOTAL IMPORTS) AND AS AN INPUT TO TRANSPORT AND AGRICULTURE, USAID WILL FINANCE THE STUDY UNDER PSS/TA IN LATE 1992 OR EARLY 1993. THIS AND THE EXPERIENCE WITH AVGAS SHOULD PROVIDE THE BASIS FOR A LIFTING OF RESTRICTIONS ON THE IMPORT AND DISTRIBUTION OF OTHER PETROLEUM PRODUCTS.

 III. 1992/1993 POLICY OBJECTIVES

45. IN GENERAL USAID WILL, OVER THE NEXT YEAR, CONSOLIDATE AND MEASURE THE PROGRESS ACHIEVED TO DATE AND BEGIN TO INVESTIGATE AREAS WHERE FURTHER REFORM WILL

HAVE AN APPRECIABLE IMPACT ON ECONOMIC GROWTH, PARTICULARLY IN A POST-WAR ENVIRONMENT. IN EFFECT AND DESPITE LOOSE ENDS, THIS AMENDMENT TO PSSP SHOULD SUBSTANTIALLY COMPLETE THE PROGRAM BEGUN IN 1989 AND LAY THE GROUNDWORK FOR AN FY 1993 START OF A NEW MULTI-YEAR, INTEGRATED CIP, TA AND TITLE III PROGRAM. OVER THE NEXT

YEAR, WITH ADDITIONAL PROJECTED RESOURCES PROVIDED UNDER PSS/TA, USAID WILL CONTINUE AND EXPAND RESEARCH INTO LAND TENURE ISSUES, FOOD SECURITY, AND MARKET DEVELOPMENT, COMPLETE AN INITIAL STUDY OF THE POLICY CONSTRAINTS TO THE OPERATION OF THE TRUCKING INDUSTRY, FINANCE A STUDY OF THE DISTRIBUTION OF FUEL, AND INITIATE STUDY OF THE FINANCIAL SECTOR, PARTICULARLY OF THE BANKING SUBSECTOR.

46. IN ALL OF THE ABOVE AREAS, USAID WILL OPEN NEW OR STRENGTHEN OLD LINES OF COMMUNICATION ON THE POLICY DIALOGUE. SEVERAL KEY PERSONNEL AT THE MINISTRY OF FINANCE, INCLUDING THE MINISTER, HAVE CHANGED, AND USAID'S ABILITY TO DEEPEN THE POLICY DIALOGUE HAS SUFFERED FROM THE CONTINUING LACK OF A STAFF ECONOMIST. CONFUSION AND UPHEAVALS IN THE MINISTRY OF AGRICULTURE HAVE CAST DOUBTS ON WHETHER OUR FOOD SECURITY AND MARKET RESEARCH PROGRAM CAN CONTINUE THERE; IN OTHER AREAS, SUCH AS TRUCKING AND ROAD MAINTENANCE, THERE ARE NO CLEAR LINES OF AUTHORITY FOR POLICY REFORM DECISIONS, THUS RENDERING POLICY DIALOGUE ON THESE TOPICS DIFFICULT AND TIME-CONSUMING.

 A. AGRICULTURAL PRICING POLICY

47. POLICY OBJECTIVES FOR 1992/1993: (A) COMPLETE THE PROCESS OF LIBERALIZING RICE PRICING, RETAINING ONLY A PRODUCER FLOOR PRICE BASED ON IMPORT PARITY; (B) ASSESS IMPACT ON PRODUCTION AND MARKETING OF PRICE CHANGES MADE UNDER PSSP AS WELL AS THE CHANGES IN YELLOW CORN PRICING AND MARKETING THAT ARE BEING PROMOTED BY TITLE III.

48. COMMENT: IN ADDITION, UNDER PSS/TA THE OPM, WITH USAID ASSISTANCE, WILL MONITOR THE IMPACT OF THE SUBSTANTIAL FOOT AID, PARTICULARLY CORN, ON AVAILABILITY AND MARKET DEVELOPMENT (DISTRIBUTION, PROCESSING, INTERMEDIARIES). THIS MONITORING WILL PROVIDE THE OPM WITH THE INFORMATION NEEDED TO DEVELOP ITS POLICY OBJECTIVES AND PROVIDE PART OF THE BASIS OF OUR NEXT WPA PROGRAM.

 B. DIVESTITURE OF STATE FARMS

49. POLICY OBJECTIVES FOR 1992/1993: (A) CONTINUE TO CLOSE OR DIVEST STATE FARMS TO MAKE THEIR LAND AND OTHER RESOURCES AVAILABLE TO PRIVATE SECTOR OPERATORS; (B) IMPROVE THE TRANSPARENCY OF DIVESTITURE TRANSACTION; AND (C) CONSTITUTE A NATIONAL LAND COMMISSION WITH A MANDATE TO ADDRESS ISSUES WITH REGARD TO LAND ALLOCATION PROCEDURES, ADMINISTRATION, POLICY REFORM, USE PLANNING AND CONFLICT RESOLUTION.

 C. PRIVATE AGRICULTURAL SALES AND SERVICE

50. POLICY OBJECTIVES FOR 1992/1993: (A) WITH THE POSSIBLE EXCEPTION OF PETROMOC, LIMIT PSSP CIP FINANCING TO PRIVATE IMPORTERS AND END-USERS; AND (B) CONTINUE WITH CLOSING OR PRIVATIZATION OF PARASTATAL AGRICULTURAL ENTERPRISES.

51. THE MISSION WILL CONTINUE TO MONITOR THE DEVELOPMENT OF PRIVATE AGRICULTURAL SUPPORT SERVICES, WITH ASSISTANCE UNDER PSS/TA, DESCRIBED SEPTEL.

D. ACCESS TO FOREIGN EXCHANGE

52. 1992/1993 POLICY OBJECTIVES: (A) MAINTAIN PRIVATE SECTOR ACCESS TO FX THROUGH THE NEW FOREIGN EXCHANGE MARKET RATE (WHICH WILL INCLUDE THE TIED AND UNTIED AID WINDOWS); (B) STUDY AND DEVELOP PLANS FOR MARKET-BASED ALLOCATION OF FX USING THE COMMERCIAL BANKS; (C) PRIORITIZE CONSTRAINTS TO A FUNCTIONAL COMMERCIAL BANKING SUBSECTOR.

53. COMMENT: AFTER AN INITIAL FOUR TO SIX MONTH PERIOD DURING WHICH IMPORTERS HAD GREAT DIFFICULTY IN ACCESSING THE HSC, FUNDS BECAME READILY AVAILABLE IN SIGNIFICANT QUANTITIES AND HAVE REMAINED SO. SINCE THE DE FACTO UNIFICATION OF THE OFFICIAL AND SECONDARY EXCHANGE RATES, HOWEVER, BANKERS HAVE INDICATED INFORMALLY TO SOME CUSTOMERS THAT FX FUNDS MAY BECOME SCARCER AT THE NEW FOREIGN EXCHANGE MARKET RATE. THE PROBLEM FOR THE NEXT YEAR WILL BE TO MAXIMIZE THE MARKET DRIVEN OPERATIONS OF A FX MARKET THAT IS DOMINATED BY TIED DONOR AID, SINCE IT SEEMS HIGHLY UNLIKELY THAT THE BILATERAL DONORS WILL UNTIE QUICKLY. USAID WILL FACILITATE THE AVAILABILITY OF FX TO THE EXTENT POSSIBLE BY: (A) EXPANDING THE LIST OF ELIGIBLE IMPORTS UNDER THE CIP TO ALL COMMODITIES ELIGIBLE FOR A.I.D. FINANCING, AND (B) IF A CONSENSUS SYSTEM FOR DISCOUNTING TIED AID IS ESTABLISHED, APPLYING THE DISCOUNT TO USAID FUNDS (EXCLUDING PETROLEUM), ASSUMING REQUIRED APPROVALS ARE OBTAINED FROM AID/W FOR DOING SO.

E. PRIVATE MARKETING CHANNELS

54. 1992/1993 POLICY OBJECTIVES: (A) CONTINUE ANALYSIS OF LICENSING RESTRICTIONS AND RELATED DISINCENTIVES TO MARKET PARTICIPATION; (B) DEVELOP A PROGRAM FOR THE PRIVATIZATION OF THE MAJOR PARASTATAL TRUCKING FLEETS (AGRICOM, DPCCN, CAMOC, AND POSSIBLY TRANSCARGA); (C) IDENTIFY THE CONSTRAINTS THAT LICENSING RESTRICTIONS PLACE ON THE PRIVATE WHOLESALING, STORAGE, PROCESSING, AND TRANSPORT OF GOODS AND IDENTIFY CONNECTIVE MEASURES TO OVERCOME THEM; AND (D) LIFT ALL FIXED TARIFFS FOR PRIVATE TRUCKERS.

55. COMMENT: USAID HAS BEGUN A FAIRLY THOROUGH STUDY OF THE AREAS RELATED TO TRANSPORT TO IDENTIFY CONSTRAINTS TO EFFICIENT OPERATION OF THE INDUSTRY. THIS WILL BE COMPLETED BY SEPTEMBER, 1992 AND PROVIDE POLICY OPTIONS TO THE GOVERNMENT IN THESE AREAS. INITIAL FINDINGS INDICATE THAT GOVERNMENT POLICY IS TO PRIVATIZE THE REMAINING LARGE PARASTATAL FLEETS (ALTHOUGH THERE IS A DEFINITIONAL ISSUE OVER PARASTATAL), THAT LICENSING POLICY POSES NO MAJOR CONSTRAINTS TO PRIVATE SECTOR ACTIVITY, AND THAT TARIFF SETTING IN TRUCKING WILL SOON BE DISCONTINUED.

56. USAID EXPECTS THE GOVERNMENT TO CARRY OUT ITS PRESENT INTENTION TO ELIMINATE FIXED TARIFFS ON DOMESTIC CARGO TRAFFIC. THESE ARE IN PRINCIPLE SET CENTRALLY, PER TON-KILOMETER AND VARYING BY ROAD SURFACE, BUT WITHOUT REGARD TO TRANSACTION-SPECIFIC FACTORS SUCH AS VOLUME, REMOTENESS, AVAILABILITY OF BACKHAULS, OR SECURITY RISKS. IN PRACTICE, PROVINCIAL AUTHORITIES HAVE THE RIGHT TO PERMIT HIGHER RATES THAN THOSE SET CENTRALLY.

57. IN ADDITION TO THE ABOVE POLICY AREAS, USAID WILL,

IN CLOSE COLLABORATION WITH THE WORLD BANK'S ROADS AND COASTAL SHIPPING (ROCS) PROJECT, INITIATE RESEARCH INTO THE FINANCING OF ROAD MAINTENANCE AND REHABILITATION USING PRIVATE SECTOR AGENTS.

F. PETROLEUM IMPORTATION AND MARKETING

58. PAID BENCHMARKS FOR 1992/1993: (A) BY AUGUST 31, 1992, BEGIN PRIVATE IMPORTATION OF AVGAS; (B) BY DECEMBER 31, 1992, AMEND EXISTING LEGISLATION AND REGULATIONS TO PERMIT FREE IMPORTATION OF AVGAS SUBJECT TO REASONABLE AND CLEARLY SPECIFIED SAFETY STANDARDS; (C) COMPLETE DOMESTIC DISTRIBUTION STUDY, AND DEVELOP PROPOSALS FOR MOVING TO A FREE MARKET FOR THE DISTRIBUTION OF DIESEL AND GASOLINE; AND (D) MONITOR THE IMPACT OF LIBERALIZATION ON THE PRICE AND AVAILABILITY OF AVGAS, AS A PROTOTYPE FOR OTHER FUELS.

59. COMMENT: PETROMOC AND THE MINISTRY OF INDUSTRY AND ENERGY ARE PREPARED TO PROCEED WITH THE COMPLETE LIBERALIZATION OF AVGAS AS FAST AS IS ADMINISTRATIVELY

POSSIBLE. AVGAS WILL BE CAREFULLY WATCHED AS A TEST OF THE CAPACITY OF THE PRIVATE SECTOR TO IMPORT AND DISTRIBUTE FUELS. THE MAJOR BARRIER TO THE EXTENSION OF LIBERALIZED IMPORT AND WHOLESALE TO OTHER FUELS IS THE AVAILABILITY OF THE REQUIRED VOLUME OF FOREIGN EXCHANGE. THE ANNUAL IMPORT COST OF AVGAS (UNDER DOLS 2 MILLION) IS INSIGNIFICANT COMPARED TO THE TOTAL FOR ALL PRODUCTS (APPROXIMATELY 100 MILLION) OR DIESEL (DOLS 50 MILLION). USAID WILL CONDITION FURTHER FINANCING OF PETROMOC IMPORTS ON PROGRESS IN INCREASING COMPETITION IN THE DISTRIBUTION AND POSSIBLY IMPORTATION OF FUELS OTHER THAN AVGAS.

G. CHANGES TO THE CIP

60. TWO CHANGES (ONE REQUIRING AID/W APPROVAL) ARE PROPOSED HERE: AN INCREASE IN AUTHORIZED LOP FUNDING BY DOLS EIGHT MILLION FROM DOLS 54.5 MILLION TO DOLS 62.5 MILLION AND CONCURRENCE IN THE APPLICATION OF A DISCOUNTED EXCHANGE RATE APPLICABLE TO USAID FUNDS, IF, AT A FUTURE DATE, SUCH A DISCOUNT CAN BE JUSTIFIED AND APPEARS WORKABLE. THESE ARE DEALT WITH SEPARATELY BELOW. USAID WILL ALSO EXPAND, EFFECTIVE IMMEDIATELY, THE LIST OF CIP-ELIGIBLE COMMODITIES TO ALL COMMODITIES PERMITTED BY AID POLICY. FINALLY, THE PACD WILL BE EXTENDED BY 18 MONTHS, TO DECEMBER, 1994. WHILE IT IS EXPECTED THAT MOST OR ALL FUNDS WILL BE FULLY COMMITTED BY THE END OF 1993, THIS PACD WILL ALLOW THE MISSION TO FULLY DISBURSE FALLOUT FUNDS AND FUNDS FROM TRANSACTIONS IT ARE CANCELED AFTER AID COMMITMENT DOCUMENTS ARE ISSUED.

61. AS NOTED ABOVE, DEMAND FOR CIP FUNDS WEAKENED (EXCEPT FOR FUEL) IN 1991 AFTER THE INTRODUCTION IN NOVEMBER 1990 OF THE MSC, WHILE OBLIGATIONS INCREASED. THE TREND IS AS FOLLOWS (IN DOLS 000 WITH COMMITMENTS ROUNDED TO THE NEAREST MILLION):

62.		OBLIGATIONS	COMMITMENTS	FUEL
-	1989	13,550	8,000	0
-	1990	22,500	10,200	0
-	1991	17,300	9,000	5,000
-	1992	0,000 (PROP)	11,000 (TO DATE)	5,000

PRESENT UNCOMMITTED AMOUNT: 24,205

63. THE WORST YEAR FOR NEW COMMITMENTS, AS NOTED ABOVE, WAS 1991, WHEN NON-FUEL COMMODITY IMPORTS FELL TO A MEPE DOLS 3 MILLION, LARGELY BECAUSE OF THE DOUBLING OF THE EXCHANGE RATE. SINCE THE BEGINNING OF 1992, DEMAND FOR CIP FUNDS HAS INCREASED CONSIDERABLY, ALTHOUGH IMPORTERS MAY SOON POSTPONE MAJOR PURCHASES IN ANTICIPATION OF THE RELEASE OF DOLS 100 MILLION IN UNTIED WORLD BANK FUNDS. WITH THE PROPOSED FY 1992 INCREASE OF EIGHT MILLION, HOWEVER, AND DEPENDING ON DEVELOPMENTS IN THE FX MARKET, A CARRY-OVER TO 1993 COULD BE CONSIDERABLY LESS THAN

IN PREVIOUS YEARS. IF SIGNIFICANTLY INCREASED AMOUNTS OF FUEL WERE TO BE FINANCED, THE PIPELINE COULD BE REDUCED TO ALMOST NOTHING DURING CY 1993.

64. DESPITE HOPE FOR A GENERAL IMPROVEMENT IN THE NEWLY YIELD MORE MARKET-BASED SYSTEM FOR ALLOCATING FOREIGN EXCHANGE, THE WEAKNESSES IN THE BANKING SYSTEM (BOTH CENTRAL AND COMMERCIAL) MEAN THAT USAID CANNOT AT THIS TIME PROPOSE A CASH TRANSFER OR EVEN BANK MANAGEMENT OF CIP FUNDS. NONETHELESS, EVERY EFFORT WILL BE MADE TO PARALLEL THE EMERGING FOREIGN EXCHANGE SYSTEM, SO LONG AS IT HOLDS PROMISE OF LEADING TO AS FREE A MARKET AS IS POSSIBLE UNDER THE CIRCUMSTANCES.

65. A PAAD AMENDMENT PREPARED IN SUPPORT OF THE AUTHORIZATION AMENDMENT AND IMPLEMENTATION CHANGES DISCUSSED IN THIS CABLE WILL BE COMPLETED IN JULY 1992. THIS AMENDMENT WILL PROVIDE FOR SEVERAL CHANGES IN CIP PROCEDURES. THE FIRST STEP, WHICH IS WITHIN THE MISSION'S AUTHORITY AND WHICH SHOULD INCREASE SOMEWHAT (ALTHOUGH POSSIBLY NOT SIGNIFICANTLY) THE CIP COMMITMENT RATE, WILL BE TO EXPAND, AS FAR AS A.I.D. POLICY PERMITS, THE LIST OF ELIGIBLE COMMODITIES, EFFECTIVE

IMMEDIATELY. FOR THE SECOND STEP, THE COMMERCIAL BANKS WILL BE ALLOWED TO GUARANTEE IMPORTERS' PAYMENTS TO THE CENTRAL BANK OF THE COUNTERVALUE TO GENERATED BY CIP TRANSACTIONS. PRESENTLY, ONLY THE CENTRAL BANK HAS THE AUTHORITY TO PROVIDE SUCH GUARANTEES.

66. THIRD, DEPENDING ON HOW THE FX MARKET EVOLVES AND SUBJECT TO ADMINISTRATIVE FEASIBILITY, USAID MAY WISH TO DISCOUNT CIP FUNDS (EXCLUDING THOSE FOR IMPORT OF PETROLEUM) BY UP TO EIGHT PERCENT. A.I.D. EXCHANGE RATE POLICY IS SET FORTH IN 87 STATE 186982, WHICH IN PARA 4.19 PROVIDES FOR AN EXCEPTION TO THE REQUIREMENT THAT U.S. FUNDS BE EXCHANGED FOR LOCAL CURRENCY AT THE HIGHEST RATE PER U.S. DOLLAR WHICH AT THE TIME OF THE TRANSACTION IS NOT UNLAWFUL IN THE RECIPIENT COUNTRY, WHERE THE GOVERNMENT...IS MAKING A GOOD FAITH EFFORT TO MOVE TOWARD A REALISTIC, MARKET-BASED EXCHANGE RATE ONE STEP AT A TIME. IN PARA 4.20 THE CABLE STATED THAT DURING THE FIRST YEAR OF THE APPLICATION OF THE NEW POLICY, THE ADMINISTRATOR WOULD REVIEW ALL REQUESTED EXCEPTIONS TO THE POLICY AS STATED IN THE GUIDANCE CABLE.

67. USAID IS UNAWARE OF ANY SUBSEQUENT AMENDMENT TO THE AUTHORITY TO APPROVE EXCEPTIONS TO THE EXCHANGE RATE POLICY. WE THEREFORE REQUEST AID/W REVIEW THE POLICY ON EXCHANGE RATE AND ADVISE WHAT STEPS USAID WILL HAVE TAPE TO APPLY THE DISCOUNT IF EVENTS IN THE FX MARKET APPEAR TO WARRANT IT. THE MAJOR CRITERIA TO BE APPLIED IN A DECISION TO DISCOUNT WOULD BE (A) WHETHER THE COMMERCIAL BANKING SYSTEM APPEARED ABLE TO PLAY AN EFFECTIVE MARKETING ROLE IN THE ALLOCATION OF FOREIGN EXCHANGE; (B) THE EXTENT TO WHICH THE NEW UNTIED/TIED WINDOW SYSTEM APPEARS TO BE MEETING THE FX REQUIREMENTS OF THE PRIVATE SECTOR AT THE POSTED EXCHANGE RATE; (C) THE SIZE OF THE GAP BETWEEN THE FX MARKET RATE AND THE PARALLEL RATE; AND (D) WHETHER CIP FUNDS ARE CLEARING THE MARKET AT THE POSTED HIGHEST RATE. USAID NOTES THAT IF CIP FUNDS DO NOT CLEAR, AS OFTEN OCCURS IN A FREE MARKET FOREIGN EXCHANGE SITUATION, THEN THE USUAL ACCEPTED PROCEDURE IS TO EXTEND THE REPAYMENT TERMS, IN EFFECT PROVIDING A DISCOUNT THROUGH INTEREST-FREE CREDIT. THIS, HOWEVER, HAS TWO UNINTENDED AND USUALLY UNDESIRABLE EFFECTS: (A) IT ADDS A CREDIT ELEMENT WITHOUT ANY REQUIREMENT TO EXAMINE WHETHER SUCH AN ELEMENT MAKES ECONOMIC SENSE, AND (B) IT LIMITS THE USERS OF THE CIP TO COMPANIES THAT BECAUSE OF THEIR SIZE OR INFLUENCE CAN OBTAIN BANK GUARANTEES FOR THE FUNDS (SUCH A LIMITATION WOULD BE CLEARLY CONTRARY TO THE OBJECTIVE OF P357 TO EXPAND THE ROLE OF THE PRIVATE SECTOR IN MARKETING).

III. CONCLUSION/ACTIONS REQUESTED

68. THIS ABOVE REVIEW OF PROGRESS DEMONSTRATES THAT IN 31/92 THE GOVERNMENT FIRMLY MAINTAINED ITS COURSE.

UNCLAS SECTION 12 OF * MAPUTO 02362

TOWARDS A MARKET ECONOMY. IN PREVIOUS YEARS, THE REFORM PROGRAM WAS SUSTAINED IN PART BY HIGH GROWTH RATES, PARTICULARLY COMPARED WITH PREVIOUS YEARS. THE GRM'S PERFORMANCE OVER THE LAST YEAR HAS BEEN IMPRESSIVE IN THAT THE REFORM MOMENTUM WAS MAINTAINED IN THE FACE OF DECLINING PER CAPITA GDP. GIVEN THE POSITIVE REFORM RECORD AT BOTH THE MACROECONOMIC LEVEL AND IN THE PSSP POLICY REFORM AREAS, USAID'S CONTINUED WPA SUPPORT IS FULLY JUSTIFIED.

59. THE PROPOSED ADDITIONAL OBLIGATION FOR PSSP 6.2 OF DOLS 8 MILLION IN 1992 WILL ENSURE THAT FUNDS ARE AVAILABLE FOR NEW FINANCING COMMITMENTS UNTIL WELL INTO FY 1993. THIS WILL PROVIDE USAID AND THE GRM WITH THE FINE NECESSARY TO DEVELOP A SET OF POLICY CHANGES TO FORM THE BASIS OF A NEW MULTI-YEAR DFA WPA PROGRAM IN THE SECOND QUARTER OF FY 1993.

60. USAID THEREFORE REQUESTS AN AD HOC AUTHORITY TO THE MISSION DIRECTOR TO INCREASE THE PSSP (656-200) LOP BY DOLS EIGHT MILLION FROM THE PRESENT AUTHORIZED LEVEL OF 14.5 MILLION TO DOLS 22.5 MILLION, BASED ON THE POLICY BENCHMARKS FOR 1992/93 SPECIFIED IN PARAS 47 THROUGH 59.

UNCLAS SECTION 12 OF * MAPUTO 02362

UNCLAS SECTION 13 OF 13 MAPUTO 02362

ABOVE.

71. IN ADDITION AND SEPARATELY, USAID REQUESTS AID/ADVICE ON WHAT IS REQUIRED TO ALLOW US TO IMPLEMENT AN EXCHANGE RATE DISCOUNT UNDER THE PSSP/CIP; SPECIFICALLY, TO WHAT EXTENT DOES THE POLICY LAID OUT IN 87 STATE L. 082 STILL APPLY. AS NOTED ABOVE, USAID MAY WISH TO PURSUE THE DISCOUNT UNDER CERTAIN CONDITIONS LATER THIS YEAR. DELL

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#2362

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UNCLAS SECTION 13 OF 13 MAPUTO 02362

Annex B

**A.I.D./Washington Concurrence in Program Amendment
State 279563**

**Private Sector Support Program
656-0208/18**

August 1992

UNCLASSIFIED

STATE 279563 - *Born in*
0208 -
CMO

ACTION: AID-3 INFO: AMB DCM

LOC: 285 06
00 MON YR 0041
CN: 35420
CHRG: AID
DIST: AID

VZCZTC00223
PF RUEHTO
DE RUEHC #9563 2410534
ZNR UUUUU 7ZH
P R 230534Z AUG 92
FM SECSTATE WASHDC
TO RUEHTO/AMEMBASSY MAPUTO PRIORITY 0139
INFO RUEHMB/AMEMBASSY MBABANE 4704
RUEHNR/AMEMBASSY NAIROBI 1736
BT
UNCLAS STATE 279563

DATE DUE:	28 AUG 1992
ACTION OFFICE:	PRM
INFO:	
DIR:	
DC:	
PRM:	<i>Chang/jus</i>
CONT:	
IND:	
REF:	
MD:	
HTP:	
SVT:	
ENG:	
ECON:	
AKSS:	
GTO:	
ARDD:	
MAN:	<i>3 Sept 92</i>

AIDAC, MBABANE FOR RLA, NAIROBI FOR REO

E.O. 12356: N/A

TAGS:
SUBJECT: MOZAMBIQUE - PRIVATE SECTOR SUPPORT PROGRAM
(656-0208/0218) - PROJECT AMENDMENT/PROGRAM CONCURRENCE

REFS: A. MAPUTO 2362 B. J.BORN/MENDELSON FAX, 7/21/92
C. TELCON, REARBER/TFORN, 7/30/92

1. PROGRAM CONCURRENCE IS HEREBY PROVIDED FOR DEVELOPMENT OF THE SUBJECT PROGRAM AMENDMENTS BASED ON PROGRAM AMENDMENT DESCRIPTIONS SUBMITTED REFTELS. REFS. A AND B WERE REVIEWED IN AID/W AND NO OBJECTIONS WERE RAISED TO THE MISSION'S PROPOSED PROGRAM AMENDMENTS.

2. AA/APR HEREBY DELEGATES AUTHORITY TO THE MISSION DIRECTOR, USAID/MOZAMBIQUE, OR TO THE PERSON ACTING IN THAT CAPACITY, TO APPROVE AND AUTHORIZE AN AMENDMENT TO THE PRIVATE SECTOR SUPPORT PROGRAM (NPA) (656-0208) TO INCREASE THE LOP FROM DOLS. 54.5 MILLION TO DOLS. 62.5 MILLION. THIS AD HOC DELEGATION OF AUTHORITY SHALL BE EXERCISED IN ACCORDANCE WITH ALL THE OTHER TERMS AND CONDITIONS OF DOA 551, EXCEPT FOR THE DOLLAR AMOUNT LIMITATION, AND IN ACCORDANCE WITH THE MISSION'S PROPOSAL PER REFS. A AND B.

3. UNDER DOA 551, THE MISSION DIRECTOR HAS THE AUTHORITY TO APPROVE AND AUTHORIZE THE PRIVATE SECTOR SUPPORT PROJECT (TA) (656-0218), WHICH INCREASES THE LOP FROM DOLS. 3.5 MILLION TO DOLS. 13.5 MILLION.

4. THE FOLLOWING ISSUES WERE IDENTIFIED FOR MISSION CONSIDERATION IN DEVELOPMENT OF THE PROPOSED PROGRAM:

A. THE PAAD AMENDMENT SHOULD UPDATE THE CONSTRAINTS ANALYSIS (OR REAFFIRM THAT THE EXISTING ONE IS VALID, IF THAT IS THE CASE).

B. THE PAAD AMENDMENT NEEDS TO IDENTIFY IN CONCRETE TERMS, AND QUANTIFY TO THE EXTENT POSSIBLE, THE IMPACT THAT WILL RESULT FROM THIS AMENDMENT (AS CONTRASTED WITH THE REFORMS THAT WILL CAUSE THIS IMPACT). THIS IS IMPORTANT, TO DISTINGUISH THIS AMENDMENT FROM THE

will be made in amendment docs. per comments.

UNCLASSIFIED

STATE 279563

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(UNACCEPTABLE) SITUATION OF A PROGRAM THAT PROVIDES BALANCE OF PAYMENTS SUPPORT, ACCOMPANIED BY POLICY DIALOGUE WHICH ISN'T FAR-REACHING ENOUGH TO RESULT IN DEVELOPMENT IMPACT. ONE-YEAR PROGRAMS (AMENDMENTS) ARE GENERALLY DISFAVORED, LARGELY BECAUSE IT IS DIFFICULT FOR THEM TO ACHIEVE IMPACT BY THEIR END.

C. THE CABLE MADE IT CLEAR THAT SOME OF THE 91/92 BENCHMARKS WERE NOT MET OR WERE NOT FULLY MET. THE MISSION SHOULD EITHER WAIVE OR MODIFY ANY UNMET CP'S, AS APPROPRIATE, TO REFLECT WHAT WAS ACTUALLY ACCOMPLISHED, RATHER THAN DISBURSE AGAINST CP'S THAT WERE "SUBSTANTIALLY" BUT NOT COMPLETELY MET.

D. WE UNDERSTAND PER REF. C. THAT THE QUESTION OF THE 3 (EIGHT) PERCENT DISCOUNT IS NO LONGER ALIVE. IF IT BECOMES SO, IT WOULD BE NECESSARY TO EXAMINE THE STRUCTURE MORE FULLY TO SEE HOW IT FITS IN TERMS OF WHERE LC GENERATIONS OCCURRED (A.I.D. WOULD NEED TO CAPTURE THE ENTIRETY OF ANY GENERATION) AND USE OF LESS THAN THE HIGHEST LAWFUL EXCHANGE RATE.

5. THE BUREAU ENVIRONMENTAL OFFICER (BEO) HAS PREPARED AN IEE FOR THE TA PORTION OF THIS ACTIVITY (656-0218). AN IEE FOR THE NPA COMPONENT (656-0208) WAS ALREADY APPROVED MAY 10, 1991, WHICH ESSENTIALLY ALLOWED PETROLEUM PRODUCTS TO BE ADDED TO THE POSITIVE LIST. A NEW IEE IS NOT NEEDED FOR THE NPA COMPONENT SINCE THE 1991 IEE COVERS CIPS IN GENERAL AND THE MISSION DOES NOT INTEND TO IMPORT ANYTHING THAT IS NOT ALREADY ON THE ELIGIBLE LIST FOR CIPS.

PER TELCON WITH MISSION ON 8/13/92, THE BEO HAS

RECOMMENDED A NEGATIVE DETERMINATION FOR THE PSSF (TA) AMENDMENT (656-0218) UNDER SECTION 216.3(A)(2), WITH THE PROVISION THAT A SPECIAL STUDY WILL BE CARRIED OUT EARLY IN THE PROJECT AMENDMENT IMPLEMENTATION, THAT WILL IDENTIFY ANY LONG-TERM ENVIRONMENTAL IMPACTS OF THE SUPPORTED POLICY REFORMS AND PROVIDE FOR MITIGATION BY THE GPM.

6. A CONGRESSIONAL NOTIFICATION (CN) FOR THIS PROGRAM EXPIRED WITHOUT OBJECTION ON JULY 15, 1992. ADVICE OF ALLOWANCE WILL BE PROVIDED SEPTEL.

7. THE BUREAU WISHES TO REITERATE AT THIS TIME THAT ALL VEHICLE PROCUREMENT FINANCING WILL REMAIN ON HOLD PENDING DISPOSITION OF THE NAVISTAR ISSUE AND AUTHORIZATION BY THE BUREAU TO PROCEED. KANTER

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#5563

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Annex C

Evaluation Summary

**Private Sector Support Program
656-0208/18**

March 1992

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> (ESF _____)		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 _____		C. Evaluation Timing Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/> Re 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		
1. Continue support to monitor prices and constraints to production and marketing.	USAID	on-going 1992-93
2. Work for greater institutionalization of MSU activities within the Ministry of Agriculture.	USAID	on-going 1992-93
3. Monitor and influence credit and banking sector developments to support agricultural development.	USAID	1992-93
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.	USAID	1992
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	1992-93

(ATTACH COPY WHEN 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	Signature of P/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Cheryl McCarthy	Ministry of Agric.	Charles North	ADir John M. Miller
Signature				
Date	6/1/92		6/1/92	6/2/92

ABSTRACT

Evaluation Abstract for the period 1988-1991

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

1. Evaluation Costs				
Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
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. 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:

- | | |
|--|--|
| <ul style="list-style-type: none"> • Purpose of evaluation and methodology used • Purpose of activity(ies) evaluated • Findings and conclusions (relate to questions) | <ul style="list-style-type: none"> • 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 Progr December 1991
--	--	--

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. Attach if also used information from previous studies surveys, etc. from "previous" evaluation. If relevant to the evaluation report.

Evaluation in its entirety

COMMENTS

Comments By Mission, AID/W Office and Borrower/Organis On Full Report

The Mission concurs with the findings and recommendations of this evaluation.

Annex D

Updated Letter of Intent of
the Government of the Republic of Mozambique

Private Sector Support Program
656-0208/18

September 1992

[The text contained in this annex is a draft. The final version of the updated letter of intent will be reviewed and accepted by USAID, and incorporated as an annex to the program grant agreement amendment prepared pursuant to this PAAD Amendment, prior to the signing of the grant agreement amendment.]

Mr. John M. Miller
Acting Director
USAID Mozambique
Maputo

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Dear Mr. Miller:

The Government of the Republic of Mozambique appreciates the continuing significant assistance of the United States and particularly your support for the development of Mozambique's food and agriculture sector. This letter builds on its predecessors, dated August 31, 1989, July 3, 1990, May 15, 1991, and July 10, 1991, and upon the agreements reached between USAID and Government on the P.L. 480 Programs for 1989, 1990, 1991, and 1992. All measures of those agreements remain in full force and together with this letter, constitute the full range of policy issues agreed upon by USAID and the Government in the food and agriculture sector.

Progress on the Government's Economic and Social Rehabilitation Program (ESRP) was described in the Policy Framework Paper (PFP) for 1991-93, but the devastating effects in Mozambique of the regional drought have certainly affected the country's ability to meet some of the economic targets set in the PFP. Nonetheless, the overall ESRP strategy remains unchanged. This letter focuses on the policy areas within the ESRP framework which were agreed upon as the basis for USAID assistance in food and agriculture: agricultural marketing and pricing policy, divestiture to the private sector of state farms and agriculture-related state enterprises, private sector networks for agricultural inputs and related services, pricing and distribution policy for petroleum products, and access to foreign exchange. Following is a summary of progress made in these areas in the past year, and of intended policy measures for the coming year.

DRAFT

In the wake of significant price and non-price marketing liberalizations made in 1990 and 1991, there has been some evidence of both increased domestic agricultural production and more competitive commercial activity serving both urban and rural areas. As intended, the Government in October 1991 adjusted the producer floor prices for key food crops based on import parity prices then prevailing, in order to maintain minimum price incentives to production and marketing. In addition, some progress has been made this year on increasing the official prices for commercial food aid commodities (such as maize) to also more closely approximate import parity prices, because the Government does recognize the potential disincentives to increased domestic food production and marketing that subsidized prices for commercial food aid represent.

With respect to domestically produced rice, in 1991-92 the Government had intended to move this commodity to the floor price system, and allow prices at all other transaction points to reflect market demand and supply. However, because of the impact of the drought in rice-producing areas of Mozambique as well as uncertainty as to food aid rice supplies this year, the Government has not yet proceeded with price liberalization of this commodity. Instead, in July 1992 revised rice prices were announced which are based on import parity and approximate open-market prices for commercially imported rice.

With technical assistance provided by USAID, the Government has begun to monitor and analyze food market supplies and prices at various transaction levels, in order to assess the impact of the marketing liberalizations of the past three years. Non-price constraints to marketing which are being analyzed include, among others, lack of transport availability and licensing requirements. An important additional step in liberalizing food marketing was taken in 1991-92 through the establishment of a system for pre-qualifying enterprises, including private sector companies, to be direct consignees of commercial food aid. This change has contributed to a wider participation in key food marketing transactions which should lead through competition to reduced transactions costs.

DRAFT

In 1992-93, the Government intends to complete the liberalization of rice prices by indicating only a minimum producer price based on import parity and a comparable parity-based price for food aid rice, and freeing prices of both domestic and imported rice at all other marketing levels. To address transportation-related constraints to marketing, the Government intends to (i) develop and begin to implement a program for privatizing a number of Government owned or managed truck fleets, including those of AGRICOM, DPCCN, and CAMOC; and (ii) lift all fixed tariffs for private road transport, to permit private trucking services to negotiate costs based on local conditions. Finally, the Government also intends in 1992-93 to continue to analyze, and to identify corrective measures to relieve, non-tariff barriers to increased private sector marketing activities such as wholesaling, storage and stocks, processing (including milling), and transport from surplus to deficit regions.

Recognizing that improved land access and tenure security is a critical factor in encouraging investment, growth, and sustainability in agriculture, the Government has taken significant steps in this area during the past year. The closure, restructuring, and divestiture of state farms and agriculture-related state enterprises has continued on a case-by-case basis. In addition, the Government has also begun to address broader land policy issues through the establishment of a high-level, semi-autonomous Land Commission. The start-up of this Land Commission has benefited from assistance provided by USAID, and the Government hopes that such support can continue to inform the complex tasks facing the Land Commission.

In 1992-93, the Government intends to maintain credit and subsidy ceilings for state agricultural enterprises as established under the ESRP and to continue closures and divestitures of state farm lands to private operators, including family sector farmers. The Land Commission's tasks include developing and implementing guidance and procedures to improve the transparency of this divestiture process. Furthermore, the work of the Land Commission is expected to lead in 1992-93 to recommendations on the structure and role of a more permanent National Land Commission to address land issues in Mozambique; this is a most pressing need as the Government looks forward to the prospects of peace and stability.

DRAFT

Another objective of the Government's agricultural development strategy is to enhance the reach, competitiveness, and viability of private sector networks providing agricultural inputs and services to farmers nationwide. The USAID Commodity Import Program has effectively supported progress toward this objective for several years. In the past two years, import support provided by other donors has also been increasingly focused on the private sector. We have also noted your recent agreement to permit more flexible utilization of U.S. balance of payments assistance to Mozambique by significantly broadening the range of commodities eligible for import financing. At present, private sector competition is now permitted and encouraged for virtually all goods and services supporting the agriculture sector, even including such services as banking and insurance as well as more technical services related to equipment and input supply.

In line with the overall objective of inducing increased economic productivity, the Government will continue in 1992-93 to privatize management and ownership of agriculture-related state enterprises. In addition, the Government in 1992-93 will continue to ensure that USAID import support financing is utilized only by the private sector, with the single exception of any portion of this financing specifically reserved for importation of petroleum products as discussed below.

In reference to reforms in the pricing, importation, and distribution of petroleum products, the Government has taken significant steps in 1991 and 1992 to promote increased and more reliable access to these products at market-based prices. Pump prices for both gasoline and diesel, although still fixed, have been increased regularly and frequently to reflect full import parity at the market exchange rate. With USAID assistance, the Government completed an analysis of the market for avgas in Mozambique, and has begun implementing recommendations for deregulating the importation, distribution, and pricing of this product. In 1992-93 the Government intends to continue this process by allowing private imports of avgas and, by January 1993, amending relevant laws and regulations to permit its free importation and distribution. An important aspect of this process of liberalization for avgas will be for the Government to monitor and analyze its impact on prices and availability of this product, as we consider the steps and timing for similar liberalization for other petroleum products. Based on the avgas experience, the Government specifically intends in 1992-93 to develop proposals for moving toward a free market in the domestic distribution of diesel fuel and gasoline.

49

DRAFT

One of the most critical factors for private agricultural activity is market-based access to foreign exchange; progress in this area also has been significant, despite the complexity of Mozambique's transition toward market-based financial structures and the still massive insufficiency of foreign exchange available to meet all the urgencies of this devastated economy. In 1991-92 the secondary foreign exchange market was expanded to include non-traditional exports and an extremely wide range of commodity imports, thereby reducing the categories of goods to which the fixed official exchange rate applied, even as adjustment of the official rate continued to bring it closer to the market rate. As well, in April 1992, the official and secondary market exchange rates were unified in a new market rate which fluctuates according to supply and demand. Finally, the Government has begun to permit private sector participation in foreign exchange operations and to encourage truly commercial, including privately owned and managed, banking operations.

In the coming year, the Government intends to (i) maintain and improve private sector access to foreign exchange through the mechanisms described above, (ii) streamline and make more transparent the procedures for commercial banks to access foreign exchange based on market rates, and (iii) analyze more deeply the constraints to a truly functional commercial banking sector and set priorities, within the framework of the ESRP, to address these.

In conclusion, the Government reaffirms its intention to pursue the food and agriculture sector policy objectives identified in the Policy Framework Paper and in the specific USAID agreements and previous Letters of Intent cited above. We intend to take significant steps in 1992-93 toward achievement of these objectives. These actions will in large part depend on USAID's continuing support, both financial and technical, in this sector. We look forward to continuing our close and productive collaboration.

Sincerely,

Jacinto Soares Veloso
Minister of Cooperation

49