

PD 13F-058

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CONTAINS SOURCE SELECTION INFORMATION -- SEE FAR 3.104

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

C A = Add
C = Change
D = Delete

Amendment Number

Three

DOCUMENT CODE

3

COUNTRY/ENTITY
Mozambique

3. PROJECT NUMBER

656-0218

4. BUREAU/OFFICE

5. PROJECT TITLE (maximum 40 characters)

AFR

06

Private Sector Support Technical Assistance

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

7. ESTIMATED DATE OF OBLIGATION
(Under 3. below, enter 1, 2, 3, or 4)

MM DD YY
12 31 95

A. Initial FY 90

B. Quarter 3

C. Final FY 92

8. COSTS (\$000 OR EQUIVALENT \$) =

A. FUNDING SOURCE	FIRST FY 90			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	598		598	13,500		13,500
(Grant)	(598)	()	(598)	(13,500)	()	(13,500)
(Loan)	()	()	()	()	()	()
Other U.S.						
Host Country						
Other Donors)		150	150			
TOTALS	598	150	748	13,500		13,500

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO. PRIORITATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SS	144	070		3,500		10,000	
(2)							
(3)							
(4)							
TOTALS				3,500		10,000	

10. SECONDARY TECHNICAL CODES (maximum 3 codes of 3 positions each)

011 | 019 | 963 | 968

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code ER
B. Amount 6,000 | 300 | 5,500

13. PROJECT PURPOSE (maximum 480 characters)

To improve incentives for private sector agricultural production in order to enhance the private agricultural sector's production and income.

14. SCHEDULED EVALUATIONS

Interim MM YY 11 91 | MM YY 02 94 | Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify) 935 (DPA)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 73 page PP amendment including annexes.)

IOP funding is hereby increased to \$13.5 million and PACD extended to 12/31/95 to extend and expand activities in support of policy reforms implemented under the Private Sector Support Program (656-0208)

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17. APPROVED BY

Signature: [Handwritten Signature]

Title: John M. Miller
Acting Director
USAID/Mozambique

Date Signed MM DD YY

09 11 95

18. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

| | | | |

PD-ABF 058

80312

ACTION MEMORANDUM FOR THE ACTING DIRECTOR, USAID/MOZAMBIQUE

From: Cheryl McCarthy, Program Officer
Subject: Private Sector Support Technical Assistance Project, 656-0218

Action: Your approval is requested to amend the authorization for the Private Sector Support Technical Assistance Project, 656-0218, to increase the life-of-project (LOP) funding from \$3.5 million to \$13.5 million, to extend the Project Assistance Completion Date to December 31, 1995, and to make related changes to the Project

Discussion: The Private Sector Support Technical Assistance Project (PSS/TA) was authorized in August 1989 with an LOP of \$1.5 million, in conjunction with A.I.D./Washington's PAAD approval of the Private Sector Support Program (PSSP, 656-0208). As originally conceived, PSS/TA was to provide for (1) USAID contract staff to monitor the progress of the Government of the Republic of Mozambique (GRM) on the PSSP policy reform agenda and also to manage disbursements under the PSSP-funded Commodity Import Program; (11) external evaluation and audit of the PSSP; and (111) a series of "snapshots" of policy reform impact, obtained through short-term consultancies.

In March 1991 the PSS/TA was amended to increase the LOP to \$3 million and provide for policy-related assistance in a longer-term and more collaborative mode than originally planned. This change in mode was necessary to allow the PSS/TA activities to contribute to improving the GRM's own capacity to pursue the policy reform process.

In April 1992 the project's LOP was increased to \$3.5 million to permit a modest expansion and extension of a few ongoing activities while future support for Mozambique's agriculture-related policy reforms, planned for a FY 1992 obligation, was developed, approved, and initiated.

USAID had planned on combining in FY 1992 the resources from P.L. 480 Title III and Development Fund for Africa (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 (See Maputo 2362, contained in Annex B of the Project Paper Amendment.) The implications of this decision require modification of the project assistance provided through the PSS/TA.

The Project Paper Amendment details these changes, which include (i) extended and expanded policy-related research and analysis; (ii) training activities related to the PSSP policy reform agenda; (iii) technical advisors to the GRM in two key policy reform areas -- transportation and food security; and (iv) continued implementation management and impact monitoring, including additional short-term policy analyses.

The extension of the PACD from June 30, 1993 to December 31, 1995 will allow for completion of the research activities and the technical assistance contracts initiated pursuant to this amendment, and thereby provide the bridge to the activities of the integrated program described above and now planned for a FY 1993 initial obligation

The first increment of the PSS/TA funding (\$598,000 in FY 1990) was obligated through direct A I D contracts with individuals and institutions. Subsequent increments (\$1,902,000 in FY 1991 and \$1,000,000 to date in FY 1992) were obligated through a Project Grant Agreement with the Government of Mozambique. The additional \$10,000,000 in FY 1992 funds provided pursuant to this amendment will be obligated through an amendment to the Project Grant Agreement. In sum, \$13,500,000 will have been provided over the life of the project, although only \$12,902,000 of this amount will have been obligated through the bilateral project agreement.

The following special considerations are relevant to your review and approval of this memorandum:

Notification to Congress. The U.S. Congress was duly notified of A.I.D.'s intent to obligate additional funds for the PSS/TA Project. A Congressional Notification which cleared without objection on July 15, 1992 permits obligations up to \$13.5 million

Host Country Contribution. Pursuant to FAA Section 110, the requirement for a host country contribution of 25 percent of total project costs is considered to have been met for the PSS/TA Project through the contribution from counterpart funds generated by the PSSP non-project assistance. Even with the increase in project funding under this amendment, through these local currency generations used in support of the sector policy reform program, the GRM is contributing well over 25 percent of the increased total project funding. Consequently, no increase in the GRM contribution is necessary under this amendment.

- 2 -

Initial Environmental Examination The Africa Bureau Environmental Officer has approved a Negative Determination for this project as amended 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 policy reforms supported by the project and provide for mitigation by the GRM. The IEE is included as Annex E to the Project Paper Amendment.

Authority: DOA 551 Section 4 A (2) authorizes you to amend project authorizations executed by any A I D official provided that the amendment will not result in total LOP funding of greater than \$30 million, present significant policy issues or deviate from the original project purpose, or require issuance of waivers that may not be approved by you. None of these restrictions applies here. DOA 551 Section 4 A (3) authorizes you to approve extensions of the life of a project, provided that the extension does not result in a new total life of project of more than ten years. DOA 551 Section 5 B authorizes you to negotiate and execute amendments to project grant agreements with foreign governments.

Recommendation: That you approve and authorize the Project Paper Amendment No 3 to the Private Sector Support Technical Assistance Project, increasing the LOP funding to \$13.5 million and extending the PACD to December 31, 1995, by signing below and by signing the Project Authorization Amendment No 3 and attached Project Data Sheet.

Approved



Disapproved

Date

9/11/92

Attachments

- 1 Project Authorization Amendment No 3 and Project Data Sheet
- 2 Project Paper Amendment No 3

Drafted PRM J. Born 8JUL92
Cleared ARD D McIntyre (draft, 20AUG92)
CONT G Jenkins (draft, 10SEPT92)
A/DD B Dodson (draft, 24AUG92)
RLA T Riedler (draft, 15JUL92)

PROJECT AUTHORIZATION AMENDMENT NO. 3

Name of Country **Mozambique**

Name of Project **Private Sector Support Technical Assistance**

Number of Project **656-0218**

1 Pursuant to the Foreign Assistance Act of 1961, as amended, and the provisions of the appropriations heading "Sub-Saharan Africa, Development Assistance" contained in the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1989, the project component of the Private Sector Support Program for the Republic of Mozambique was initially authorized on August 24, 1989 and amended on March 18, 1991 and on April 15, 1992 That Project Authorization as previously amended is hereby further amended as follows

(i) In paragraph 1, the phrase "not to exceed \$3,500,000" is replaced with the phrase "not to exceed \$13,500,000" and the phrase "The planned life of the project is three years from the date of initial obligation" is replaced with the phrase "Except as A.I D may otherwise agree in writing, the planned life of the project is approximately six years from the date of initial obligation."

(ii) In paragraph 2, the phrase "technical assistance and related support for research and policy development" is replaced with the phrase "technical assistance, training, and related support for research and policy development."

2 Except as amended herein, the referenced Project Authorization as previously amended remains in full force and effect



John M. Miller
Acting Director
USAID/Mozambique

Date 9/11/92

Drafted PRM J Born 8JUL92
Cleared PRM C McCarthy *McC* 10 Sept 92
ARD D McIntyre (draft, 20AUG92)
CONT G Jenkins *G* 9/10/92
A/DD B Dodson(draft, 24AUG92)
RLA T Riedler (draft, 15JUL92)



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Cost/Contract Information

Project Paper Amendment

Mozambique Private Sector Support Technical Assistance

Project 656-0218

USAID Mozambique
September 1992

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**Project Paper Amendment
Mozambique Private Sector Support Technical Assistance Project
(656-0218)**

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ANNEXES

- A March 1992 PSSP Evaluation Summary
- B May 1992 Policy Reform Progress Report
- C Food Security Analysis
- D Procurement Plan
- E Initial Environmental Examination

Project Paper Amendment¹
Mozambique Private Sector Support Technical Assistance Project
(656-0218)

1 Introduction

This Project Paper Amendment modifies the Private Sector Support Technical Assistance Project (PSS/TA, 656-0218) to extend the project assistance completion date (PACD) to December 31, 1995 and increase the life of project (LOP) funding from \$3,500,000 to \$13,500,000, in order to (i) continue and expand support for research and analysis, (ii) provide for training activities, (iii) provide technical advisors to the Government of Mozambique (GRM) in key policy reform areas, and (iv) provide for implementation and impact monitoring and for short-term policy studies

2 Background

a The Private Sector Support Program (PSSP, 656-0208)

The PSSP was initially authorized in August 1989, and has to date provided \$53,440,000 in non-project DFA assistance to support reforms in pricing, marketing, and related policies affecting agriculture in Mozambique. Funds have been disbursed through a commodity import program (CIP) enabling private sector importers and distributors to provide a range of commodities needed by private sector agricultural producers and marketing agents. In addition, about \$10 million of the PSSP-CIP has been used to specifically finance petroleum imports. The purpose of the program is to improve incentives for private sector agricultural production in order to enhance the private agricultural sector's production and income.

The policy reform agenda on which the PSSP is based (presented in Table 1) addresses six fundamental constraints to private agricultural production and marketing. This agenda was negotiated within the GRM-IMF-IBRD policy framework paper (PFP) in support of the government's own Economic and Social Rehabilitation Program.

¹Project paper approved August 1989 (along with the PAAD for 656-0208 NPA), Amendment no 1 approved March 1991, Amendment no 2 approved April 1992

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
a 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
b 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
c 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 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				- Declared policies on land redistribution including divestiture and titling procedures	- Farms privatized or closed	- Statistics on actual and planned divestitures
a Planning and implementation	- Continue case-by-case divestitures of state farms	- Implement analysis program on tenure issues	- Maintain credit and subsidy ceilings for state agricultural enterprises	- Maintain credit and subsidy ceilings for state agricultural enterprises	- Development and promotion of divestiture program	- Production increased on divested farms	- Production estimates by crop in selected divestiture areas through rapid reconnaissance and case studies
	- Identify issues and policies to be addressed in divestiture program	- Complete general divestiture program design	- Continue divestitures	- Continue closures and divestitures of state farms		- Farm income increased	- Selected farm and household surveys
	- 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	- Continue analysis of divestiture experience and development of policies and guidelines	- Constitute a National Land Commission to address land issues	- Announcement of Land Commission		
			- Develop, announce, implement procedures to increase transparency of divestiture process	- Develop, announce, implement procedures to increase transparency of divestiture process			

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

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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, Nampula, 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, DPCCN, 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 Mktg	OBJECTIVE To promote increased and more reliable access to selected petroleum products at the market exchange rate			import parity prices based on	- 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 - Trends in prices of diesel and gasoline
b Deregulation			- Complete analysis and implementation 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			

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GRM progress on policy reform benchmarks has been satisfactory in every year of this program.² Nonetheless, as discussed in the March 1992 PSSP evaluation report (see Annex A) and in the May 1992 report on policy reform progress (see Annex B), the reach of these reforms and their impact remain limited due to both war-related insecurity, compounded by the devastating drought affecting the country, and anti-market habits entrenched in the bureaucracy. In support of the Mission's overall goal of improved food security, USAID plans to continue to provide policy reform-oriented support to Mozambique for extending and strengthening private production and marketing channels.

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, as well as the need to divert attention and resources to the drought, led to a decision to postpone the new activity to FY 1993. This postponement allows the Mission to more fully analyze such areas as financial sector (and banking sub-sector) and transportation policy reforms which will be key to the policy agenda of the new program.

Thus, instead of a first tranche of funding for a major new NPA activity in FY 1992, the Mission will provide an additional \$8 million under the PSSP and extend its PACD, based on additional benchmarks under the existing policy agenda (these also appear in Table 1), in order to provide a bridge to the new integrated program now planned for FY 1993. The implications of this decision require an expansion of the project assistance provided through PSS/TA to support the PSSP policy reforms.

b The Role of Private Sector Support Technical Assistance

As discussed in previous PSSP and PSS/TA documentation, although the GRM has persevered since 1987 in restructuring from a centrally planned to a market-based economy, the country has an extremely limited capacity either to develop, analyze, and formulate policy options, or to monitor impact of the policy reforms undertaken. USAID recognized that the policy reform progress under PSSP would depend critically on helping key elements of the government to improve this capacity, and decided to provide funding for this purpose.

To date, \$3.5 million in FY 1990-92 DFA funds have been provided under PSS/TA for activities in direct support of the policy reform agenda of PSSP. These activities have fallen into three categories: (i) research and analysis in support of PSSP policy reform (approximately 76 percent of the \$3.5 million LOP), (ii) direct USAID monitoring of PSSP implementation and impact (about 19 percent of LOP), and (iii) PSSP evaluation and audit (about 5 percent of LOP).

c Recent Developments

(1) The Financial Sector

The increased availability of financial services is absolutely essential to the development of markets serving agriculture in Mozambique. To the extent that formal financial services exist at present, even in major urban areas, they tend to be inefficient, expensive, unresponsive to the changing economic situation, and difficult to access except for a blessed few (on the other hand, informal financial services are widely used). With recent

²See cabled progress reports on policy reform progress: 90 Maputo 1336, 91 Maputo 1282, 91 Maputo 2221, and 92 Maputo 2362.

liberalizations in pricing and other policies intended to provide incentives to increase agricultural production and marketing, the absence of financial services has emerged as an increasingly important constraint to renewed commercial activity and investment

From the perspective of providing "normal" services and functions, Mozambique's formal financial sector is largely defunct, it provides almost no checking services, few time deposits, no interest (regardless of advertised rate) and sporadic liquidity on demand deposits, and no medium- or long-term lending. Problem areas include exchange rate policy, foreign exchange management, banking services, insurance services, credit, and the present structure of the banking sector itself. The recent World Bank Financial Sector Study³ has provided background information and analysis as well as a focus for donor and government attention in the sector. Important changes so far in 1992 have included splitting the former Bank of Mozambique into a central bank and a commercial bank, opening up the former parastatal monopoly on insurance to private entities, announcement of a new foreign exchange management system and exchange rate policy, and announced intentions to seek not only foreign partners for the state-owned commercial banks but also new foreign banks. What these changes, and others planned or hoped for, will mean to private entrepreneurs in the food and agriculture sector is currently unclear.

(2) Food Security Policy

The PSSP has been a major element of USAID's Country Program Strategic Plan,⁴ whose long-term goal is improved food security in what is at present the most food-deficient, aid-dependent nation in Africa, if not the world. Annex C contains an analysis of Mozambique's food security situation and of government and donor policies and programs in support of improved food security. While the government's food security strategy emphasizes investment in future economic growth and tries to minimize welfare programs which create long-term dependency, the degree of absolute poverty is so extreme -- and so quickly-worsening due to drought and continuing war-related disruptions -- that the government and donors continue to try to set up "safety net" programs that can help people survive.

However, the issues of food security which are of concern to the government have ceased to be simply issues of receiving and distributing food aid. The FAO and the World Bank, as well as USAID and a number of other bilateral donors, have been working with the government to develop a more coordinated and targeted approach to food security and nutrition monitoring, information sharing, analysis, and policy formulation. An inter-ministerial team (agriculture, health/nutrition, and commerce) has collaborated to prepare a report for the upcoming U N International Conference on Nutrition (Rome, December 1992). By the end of 1992 an inter-sectoral "food security policy unit" is to be created in the National Planning Commission (the advisory Ministry to the Prime Minister), with strong linkages into agriculture, health, commerce, the private sector (including NGOs), and the university. Nonetheless, despite much progress in understanding the factors in Mozambique's precarious food security situation, the critical role of markets in improving this situation is still very poorly appreciated and often neglected in government and other donor policy discussions and programs.

³Mozambique Financial Sector Study, Report No 10269-MOZ, The World Bank, January 10, 1992 ("yellow cover draft")

⁴USAID/Mozambique Country Program Strategic Plan FY 1990-92, February 1990

(3) Market Development

Since food prices began to be freed in 1990 and important non-price marketing restrictions were lifted in 1991, dramatic changes have occurred in food markets, most visibly in Maputo. The astounding increase in informal petty trade, on street corners and in hundreds of open air markets (dumba-nengues), has been a crucial survival factor for thousands of poor households as well as a boon to poor consumers who now have nearly round-the-clock markets. Similarly in some rural areas, itinerant traders have begun to offer competition to established merchants, to the benefit of small-scale agricultural producers, many of whom depend on such market agents for food purchases as well as for sales. With the eased availability of foreign exchange through the secondary exchange market established in late 1990, commercial imports of rice, corn meal, and many other food commodities -- formal and informal, large-scale (shiploads) and small-scale (pick-up trucks) -- have become common, although in aggregate these imports are still extremely small compared to market requirements. Developing market specialization is evidenced by visible wholesale markets and related services (such as milling). Even in the case of commercial food aid commodities, the government has begun to allow direct consignments to some private sector operators.

Nonetheless, there remain many policy-related disincentives to the continuation of such steps toward increased competition, improved efficiency, and reduced costs to consumers. These disincentives include unclear and restrictive licensing procedures for different types of marketing agents (importers, transporters, wholesalers, retailers, millers, etc.), a "circulation tax" structure left over from the socialist era which adds 10 percent to the commodity's cost at each transaction, uneconomic and fixed prices and margins on food aid corn products destined for major urban markets, and assured access for demonstrably uneconomic parastatals to the bulk of commercial food aid commodities at these subsidized prices.

(4) Transportation

The transportation constraint to agriculture-related marketing is affected by security risks, unreliable or poor road and bridge conditions, high cost of imported trucks and spare parts, lack of repair facilities, and licensing, tax and tariff, and other regulatory restrictions on operations. These factors together have a huge impact on the cost of marketing food and thus on both the prices faced by consumers and the incentives to producers. Even with the unusually high demand in food-deficit southern and central provinces in 1991 and 1992 due to the drought, traders could not afford the transport costs to move down much of the surplus harvest from districts in the north.

The World Bank has recently assisted Mozambique to develop a roads and coastal shipping project based on the transport sector review completed in October 1989⁵. The proposed project (under a \$54 million IDA credit) intends to develop institutional capacity for rehabilitation and maintenance of roads and small coastal ports, and to implement policy reforms in the trucking and coastal shipping sub-sectors in explicit support of agriculture-related marketing. USAID has been working closely with the Bank on identifying policy areas to be addressed under this project, and already has financed a joint USAID-World Bank team to develop specific plans and timetables for privatization of large government-owned truck fleets. Other donors involved either in the World Bank project or in other aspects of road and coastal shipping include Denmark, France, the EEC, Germany, Norway, and Sweden. International organizations (such as WFP) and NGOs are also involved in

⁵Mozambique Transport Sector Review, Report No 8656-MOZ, World Bank, October 1989

locally based road maintenance activities Associations of private transporters have become active in some provinces, but these have not yet proved a boon to increased competition and efficiency in transport services

3 Project Description

Based on the recent developments described above, the project as revised will

- Continue and expand the ongoing program of research and analysis in support of PSSP and related policy reforms,
- Permit additional training activities to build Mozambican policy and technical capacity on food security-oriented topics related to the PSSP policy agenda,
- Provide policy advisors to the GRM to supply guidance and support in two areas crucial to the project's purpose -- transportation-related policy in support of market development, and intersectoral food security policy,
- Continue the Mission's monitoring of policy development, implementation, and impact, as well as management of the commodity import program, and
- Permit studies to identify appropriate policy reform conditions in the financial/banking sector and the transport sector, and possibly in related subsectors, as a basis for new program support for Mozambique

a Research and Analysis in Support of Policy Reform

The project will continue to provide funds for applied research in support of the policy reforms made under the PSSP This element is important in order to (i) monitor the implementation of the reforms themselves, (ii) monitor the impact of the changing economic environment on private farmers (both smallholders and commercial operators) and on various types of marketing agents at all levels, and (iii) deepen understanding of the constraints and opportunities facing Mozambican households and the implications for food security.

To date, PSS/TA-financed research activities have centered on household surveys, one rural-oriented and the other in Maputo's urban and peri-urban areas, market research and establishment of a pilot market information system, and issues related to state farm divestitures Based on these, and on related research in Mozambique supported by USAID and by other donors, the additional research activities planned under this amendment to the project will zero in on a few key issues identified as crucial to the project's purpose -- food and agriculture market development, land policy development, and the informal peri-urban economy In addition, PSS/TA will fund research on targeted safety net programs, making a key complementary contribution to policy development in support of improved household food security

(1) Food Security -- Rural Households and Food Markets

Since 1990, PSS/TA has supported a program of applied food security research undertaken by Michigan State University (MSU) in collaboration with the Mozambican Ministry of Agriculture (MA) and the University of Arizona The program has centered on (i) establishing a pilot market information system to monitor prices and supplies of key commodities at producer, wholesale, and consumer transaction levels in 10 sites (in five of Mozambique's ten provinces) and then to analyze and widely disseminate this information, (ii) analysis of rural household characteristics, welfare, and constraints, based on surveys in three districts of Nampula Province and centering on household

food security; and (iii) a range of related inquiries to understand market changes observed, including trader and miller surveys, wholesale market transaction surveys, analysis of market interactions of food aid, commercial imports, and domestic production, and others. The publications and seminars resulting from the research have made a significant contribution to the development of Mozambican and donor agency understanding of pricing and related marketing constraints, and the MA-MSU work has been a particularly important contributor to USAID's impact monitoring and policy dialogue activities under both the PSSP and the P L. 480 Title III food aid program.

This amendment will provide funding to extend the MA-MSU work for an additional 16 months, in order to

- Continue research and analysis support to the pilot market information system, expand it modestly to cover additional observation sites in central and southern provinces, and institutionalize the system within an appropriate Mozambican institution.
- Conduct additional policy-oriented research in Maputo and Beira (and possibly in another site), on the organization and performance of food markets, with particular emphasis on understanding the developing informal sector.
- Further develop, through analysis and policy dialogue, preliminary proposals on reforming the programming of commercial food aid to support market development.
- Conduct additional analyses based on the rural household survey data to support continuing policy dialogue on food security issues
- Assist the Ministry of Agriculture to develop a program for additional rural household research to better understand key issues such as household food security ("coping") strategies, the structure of rural labor markets and off-farm enterprise, the structure and performance of the rural marketing system, and/or factors affecting smallholder access to land.

(2) Divestiture of State Farms

Since 1990, PSS/TA has supported a series of research activities related to state farm divestiture and land policy undertaken by the Land Tenure Center of the University of Wisconsin in collaboration with the Ministry of Agriculture and other agencies in Mozambique. The specific questions of whether and how divestitures of state farm lands to private farmers are occurring, and what such divestitures mean for agricultural producers and for the economy, are being explored in this research. Based on the creation in May 1992 of a Land Commission to assess and make policy recommendations relating to land issues in general, this amendment will provide additional funding to complete this program of divestiture-related research directly feed into the Land Commission's work

(3) Food Security -- Urban Household Welfare

With PSS/TA funding, Cornell University Food and Nutrition Group and the Food Security Department at the Ministry of Commerce have conducted a household welfare survey of about 1,800 households in Maputo city. Analysis of these data will reveal some of the economic and social characteristics of household food security and offer for the first time an opportunity to predict the impact of different policy options or welfare programs on households in different income categories. This information, and policy dialogue based on it, will help in better targeting safety net programs to the most needy and minimizing long-term dependency on the government. The first report on

preliminary analysis of the survey findings will be completed in 1992. Some World Bank funding has been provided for additional analysis of the data over the following year. This amendment to the PSS/TA project may provide modest additional funding to develop specific policy actions based on the findings through additional analysis or workshops.

(4) Peri-Urban Economy

With A I D./Washington (Africa Bureau and the Research and Development Bureau) and USAID/Mozambique funding, a consortium of U.S. universities⁶ has conducted a series of research activities in Maputo which have contributed to the policy reform process by revealing some of the interactions in the peri-urban economy between land, labor, and financial markets. This work has identified several aspects of these markets which have been affected by recent economic policy reforms on the PSSP agenda, viz informal trading activities, land pressures and disputes affecting agricultural producers, and the role of informal financial markets and the linkages between these and formal financial institutions. A full report of the baseline study was completed in October 1991, and a series of second-phase research activities is expected to be completed by the end of 1992. PSSP/TA will finance more in-depth research and analysis on topics which may include, but not be limited to:

- Changes in patterns of residential land use and implications for agricultural production in Maputo's peri-urban Green Zones.
- Land access, authorities, and tenure security, both for agriculture and for residential use.
- Petty commerce and other informal market support activities.
- Household survival strategies: types and importance of income sources.
- Informal and/or hidden credit: linkages to formal financial institutions in a developing market.
- Aspects of financial sector reform to support increased food market participation, competition, re-capitalization, and efficiency.
- Mobilization of informal savings to enable market development.
- Roles of emerging trader associations -- wholesalers, retailers, millers, etc. -- in market development.

These activities will be implemented under cooperative agreements or direct contracting mechanisms with appropriate U.S. universities or research institutions, including some of those already involved in the peri-urban research to date.

(5) Food and Agriculture Market Development

Progress in macroeconomic and sectoral policy reforms, findings of the MA-MSU research described above, a series of short-term studies related to commercial

⁶The Maputo peri-urban research has been led by Ohio State University (financial markets), with SARSA/Institute for Development Anthropology (labor markets) and the Land Tenure Center, University of Wisconsin (land markets). See "Peri-Urban Baseline Research Results. Maputo, Mozambique" (Douglas Graham et al, October 1991) and "Petty Trade and Household Survival Strategies A Case Study of Food and Vegetable Traders in the Peri-Urban Area of Maputo, Mozambique" (Peter Little and Irae Lundin de Coloane, April 1992). Other publications are in process.

food aid programming, as well as recent indications of changes in the GRM's strategies for agricultural development and poverty alleviation, all have led USAID to focus on market development as the key to growth in the food and agriculture sector and to improved household food security in both urban and rural areas. PSS/TA as amended will provide funding for policy-oriented applied research on topics related to transportation, processing, wholesaling, stock management, input supply, or other aspects of Mozambique's quickly evolving markets in food and other agricultural products. These activities will be decisive in maximizing the impact of the planned Market Recovery and Development Program (FY 1993 start) and must be started immediately.

(6) Safety Net Programs

The PSSP explicitly addresses the second of USAID's two sub-goals, that of increasing food supplies through production and trade to levels that meet domestic consumption requirements.⁷ The first sub-goal, that of meeting the subsistence food and basic health requirements of the absolute poor, is addressed through other projects and programs supporting capacity building, primary health care, emergency relief, and humanitarian and development activities of private and voluntary organizations and other non-governmental organizations. The PSS/TA project's applied research on household food security and market development is providing information important in the development and implementation of such activities, not just for USAID but also for other donors and government agencies involved in emergency relief programs, welfare programs, and post-war resettlement planning. This amendment will provide funds for additional applied research or studies to contribute more specifically to the development of effectively targeted food security safety net programs.

(7) Land Policy

In response to growing interest in land issues and in reaction to growing pressure for transparency in allocations and security of tenure, the Ministry of Agriculture announced in May 1992 the creation of a Land Commission to research and make recommendations on policy, legal, regulatory, and social aspects of land issues in Mozambique. The economic and political liberalizations and population displacements of recent years have only increased the urgency of these issues. New factors, such as demobilization of troops after a peace agreement, an emergent interest in ensuring land use is environmentally sustainable, and a policy of decentralizing and relying on traditional authorities for decisions formerly poorly managed by the centralized state, also have contributed to the timeliness and importance of this Commission. The Land Tenure Center has been asked to work with the Land Commission as its principal government counterpart on the divestiture research discussed above. As that research is completed, and as the Commission's work proceeds, PSS/TA will provide funds for policy-oriented applied research on more general land issues, in support of Mozambique's progress toward secure tenure and land markets.

b. Training

PSS/TA research programs have included a number of training activities integral to policy development, and the Africa Bureau's regional Human Resources Development in Africa Project (698-0463) has funded short-term training and in-country seminars and workshops under both the MSU and the LTC research programs described above. This amendment will provide additional training funds, separate from the research funding, to allow more flexibility for responding to a wider range of training needs through short courses in the

⁷USAID/Mozambique Country Program Strategic Plan FY 1990-1992, February 1990

U.S (eight participants), participation in courses and workshops in other countries in Africa (12 participants), and in-country seminars and conferences (five activities, 30-100 participants each) Participants will be government employees or individuals from the university, non-government organizations, or private sector enterprises. Examples of the wider range of training needs to be met include (but are certainly not limited to) the following: the interactions between macroeconomic reforms and agriculture, inter-sectoral food security and nutrition policy formulation, reforming government's role in agriculture to foster market-based growth; enhancing the participation and role of the private sector in policy formulation, cost-benefit analysis for food security safety net programs, and deregulation of commercial transport operations

c Technical Assistance for Government

(1) Roads/Coastal Shipping Transport Advisor

PSS/TA will provide partial funding for a two-year advisor to the Ministry of Transportation and Communications to assist government and donor efforts to reorient policy and rehabilitate infrastructure in support of a competitive, private sector-based domestic transportation industry This assistance is provided in the context of the GRM-World Bank roads and coastal shipping project discussed above, which is expected to get underway in early 1993 USAID's analyses of marketing constraints indicate that at present the barriers to expanded and competitive transportation services are primarily related to a policy and regulatory environment which is a holdover from the former centralized, controlled approach to the economy In direct support of the PSSP's objectives, this advisor will work with the government, donor agencies, and the private sector transport industry to analyze and make policy recommendations on removing these barriers. At the same time, improved information and analysis on the infrastructure constraints -- roads, bridges, parts and repair facilities, warehousing, accessible port facilities -- will assist the GRM and USAID to plan for post-war investments in transport infrastructure, in coordination with other donors.

(2) Food Security Policy Advisor

As a contribution toward the GRM-World Bank food security capacity building project and in direct support of the PSSP and P.L. 480 Title III policy agenda, PSS/TA will fund a two-year position to provide advisory services to the new Food Security Policy Unit in the National Planning Commission, to guide the unit in monitoring, assessing, and analyzing the implementation and impact of programs and projects related to Mozambique's food security situation; in publicly disseminating information on this situation; in establishing and strengthening relations with public and private entities involved in agriculture, commerce, health and nutrition, as well as with the multitude of donor agencies and NGOs involved in food security activities; and in formulating policy recommendations where appropriate. The terms of reference for this position will be developed based on design documentation and discussions of the World Bank food security capacity building project mentioned above However, the creation of the food security policy unit is not dependent on that project. It is expected to become operational in October 1992 (probably before the World Bank project development and approval process is completed), this assistance would begin about three months thereafter

d Implementation and Impact Monitoring

The PSSP carries responsibilities for monitoring policy reform progress and impact and for managing CIP disbursement and local currency counterpart fund deposits, as well as responsibility for managing specific PSS/TA project activities The project funds a USAID in-house team of U S and FSN personal

services contractors (PSCs) to fulfill these tasks under the policy direction and supervision of USDH staff. (See Section 6 and Table 5 for discussion of Mission management responsibilities)

(1) Policy Reform Implementation Monitoring and Analytic Support for Policy Dialogue

One of the key functions of the PSSP implementation team is to ensure that USAID continues to engage in the independent gathering of information and its analysis to provide timely and relevant input to the Mission's ongoing policy dialogue with the government. Under the direction of the Agricultural and Rural Development Officer (for topics specific to agriculture and marketing) or the Program Officer (for issues that are cross-sectoral, macroeconomic, or in new subsectors), the team members maintain liaison with government, private sector, and other donor agency staff in Maputo and in the provinces in order to monitor and report on the following topics of direct concern to the PSSP policy reform agenda

- Macroeconomic policy reform and impact
- Taxes and tariffs affecting food and agriculture
- Financial sector reforms, banking, insurance
- Private sector development, privatization of state enterprises
- Land policy, land tenure security
- Market development, competition, deregulation
- Agricultural productivity, public and private investment in agriculture and agribusiness
- Food security, poverty alleviation
- Transportation, including road rehabilitation

Progress to date on the PSSP policy agenda has revealed that sectors and subsectors not previously monitored are becoming increasingly critical to continued progress in agricultural and especially market development. To permit the Mission to push the policy dialogue more deeply into these sectors, this amendment provides additional staff for this in-house team, including:

- Economist (U.S. PSC), to monitor, analyze, and advise on policy, legal, regulatory, and operational issues constraining development of the financial sector and the banking subsector, as well as to monitor macroeconomic developments.
- Private Sector Advisor (U.S. PSC), to research, analyze, and advise on impediments to increased competition, private sector investment, and privatization of Government-owned or -managed enterprises, and to develop a Mission strategy to introduce sound commercial principles into the Mozambican economy.

(2) CIP Implementation

An experienced U.S. PSC Commodity Management Officer manages CIP implementation, assisted by the CIP Monitor and a Field Monitor. Local currency accounting is handled by the Controller's Office; it is expected that by December 1993 Controller staff will handle these responsibilities without need for project-funded assistance. With this amendment, a new FSN PSC position will be established, for a Commodity Arrivals Monitor in the Controller's Office, whose responsibilities will be to ensure compliance with CIP regulations and the terms of letters of commitment governing specific transactions

(3) Project Management

PSS/TA project management is now the responsibility of the Chief of the Agricultural and Rural Development Office. Under his direction, an agronomist

and an agricultural economist, both project-funded FSN PSCs, will assist in substantive and technical management of policy development and research activities as well as in the management of specific contracts and cooperative agreements

(4) Impact Monitoring

All members of the USAID PSSP team also make important contributions to understanding the people-level impact of the policy reforms and related economic and political changes, through analyses of information generated by government and other donor agencies and through site visits. The Mission's annual Assessment of Program Impact provides the forum for taking stock of impact indicators. While sources of information on some impact indicators (prices, market supplies, household food purchases) have increased and improved since the beginning of the PSSP, information on other indicators has become ever less reliable, for example, the combination of market liberalization with population displacements and changes in agricultural practices due to war-related insecurity and drought has rendered the estimating of agricultural production and yields a matter of speculation.

e Other Assistance

(1) Financial Sector Policy Studies

The PSSP has supported reforms to institutionalize market forces as the basis for allocation of foreign exchange, within a host of related reforms made by the government to improve transparency and accountability in Mozambique's budgeting, public expenditure, tax and tariff schedules, and foreign exchange management systems. Both the World Bank's recent Financial Sector Study and USAID's own preliminary research on formal and informal financial markets point to the multitude of constraints imposed on market development and agriculture by the inadequate structure and functioning of the financial sector, and in particular the banking subsector. In 1992 and 1993, PSS/TA funds will be used to assist the government to conduct policy-oriented studies in order to attach priorities to these constraints and prepare a program to reduce them. The results of these studies will serve as a basis for negotiations on new policy conditionality for future USAID balance of payments support.

(2) Transport Sector Policy Studies

As Mozambique looks toward a post-war era that will bring reconstruction of infrastructure and a reduction in security-related risks which have been inhibiting investment and operations outside large cities and principal corridors, USAID will support the government through PSS/TA-funded studies to identify policy, legal, regulatory, and other constraints to expanding and increasing competition and reducing costs for domestic transportation, and to make recommendations for addressing these constraints. The results of these studies will serve as a basis for negotiations on new policy conditionality for future USAID balance of payments support.

(3) Other Short Studies

Because the rapidly evolving economic and political reform process in Mozambique offers some significant opportunities, this amendment will permit PSS/TA funding for studies in to-be-determined subsectors directly related to the PSSP agenda. Such opportunities are difficult to foresee, but might include, for example, a decision by the government to privatize or close down parastatal marketing entities. In such a situation, PSS/TA will be able to respond to a need for short-term studies or other diagnostic or planning assistance in support of the PSSP's policy objectives.

(4) Project Office and Equipment

This amendment provides funds for office space, furnishings and equipment, and related support costs for PSS/TA-funded U.S. and FSN PSCs

f Evaluation and Audit

PSSP and the PSS/TA activities were evaluated in November 1991 (see Annex A), and the findings and recommendations of that evaluation have been taken into account in developing this amendment. Because the PACD is being extended from June 30, 1993 to December 31, 1995, this amendment provides funding for a second evaluation, scheduled for the second quarter of FY 1994. This evaluation will again assess policy reform progress and the performance of PSS/TA-funded assistance activities, but also will be able to more fully document the impact of the PSSP reforms.

Funding remains reserved for a non-federal audit of PSSP and/or PSS/TA, but no audit has been scheduled. The predecessor to PSSP (the Private Sector Rehabilitation Program and its project elements, 656-0201/02) was audited in 1990 and 1991.

4 Financial Plan

Life-of-project obligations and expenditures are summarized in Tables 2 and 3. As previously, project activities will be financed through direct A I D contracts and grants.

Private Sector Support Technical Assistance Project, 656-0218
 Table 2 -- Revised Financial Plan, August 1992

Purpose	Previous Obligations	This Supplement	Planned Total Obligations	% of LOP
TECHNICAL ASSISTANCE, POLICY RESEARCH, AND ANALYSIS			10,090,000	75
-Long-term research	2,678,000	5,772,000	8,450,000	
-Short-term analyses	0	640,000	640,000	
-Policy Advisors to the GRM	0	1,000,000	1,000,000	
TRAINING			160,000	1
-U S	0	80,000	80,000	
-Third country	0	30,000	30,000	
-In-country	0	50,000	50,000	
IMPLEMENTATION AND IMPACT MONITORING			2,882,000	21
-Commodity Import Program Mgt	313,000	619,000	932,000	
-Policy/Impact Monitoring	240,000	1,430,000	1,670,000	
-Project Mgt	109,000	171,000	280,000	
EVALUATION AND AUDIT	160,000	208,000	368,000	3
TOTAL	3,500,000	10,000,000	13,500,000	100

SOURCE SELECTION INFORMATION -- See FAR 3 104,
Do Not Disclose Sensitive Cost/Contract Information

Private Sector Support Technical Assistance Project, 656-0218

Table 3 -- Projected Expenditures
Revised August 1992

Purpose	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	Total Budget
TECHNICAL ASSISTANCE, POLICY RESEARCH AND ANALYSIS								
-Food Security, NSU	150,000	480,000	520,000	600,000	270,000	0	0	2,000,000
-Divestiture, LTC	0	280,000	550,000	550,000	140,000	0	0	1,500,000
-Food Sec , Cornell	0	200,000	300,000	200,000	0	0	0	700,000
-Peri-Urban Economy	0	0	0	300,000	300,000	250,000	0	850,000
-Food & Agr Market Dev	0	0	0	500,000	550,000	350,000	100,000	1,500,000
-Safety Net Programs	0	0	0	300,000	200,000	100,000	0	600,000
-Land Policy	0	0	0	200,000	420,000	480,000	200,000	1,300,000
-Roads/Shipping Transport Advis	0	0	0	200,000	250,000	50,000	0	500,000
-Food Security Policy Advisor	0	0	0	200,000	250,000	50,000	0	500,000
-Financial Sector Policy	0	0	0	100,000	100,000	0	0	200,000
-Transport Sector Policy	0	0	0	120,000	80,000	40,000	0	240,000
-Other Short Analyses	0	0	0	50,000	50,000	40,000	0	140,000
TRAINING								
-U S	0	0	0	30,000	35,000	15,000	0	80,000
-Third Country	0	0	0	0,000	12,000	8,000	2,000	30,000
-In-Country	0	0	0	14,000	20,000	12,000	4,000	50,000
IMPLEMENTATION AND IMPACT MONITORING								
U S PSC								
-Program/Policy Advisor	21,000	52,000	45,000	100,000	130,000	125,000	19,000	492,000
-Commodity Management Officer	0	20,000	20,000	125,000	140,000	135,000	0	440,000
-Agricultural Economist	0	10,000	0	0	0	0	0	10,000
-Economist	0	0	0	150,000	200,000	70,000	0	420,000
-Private Sector Advisor	0	0	0	150,000	200,000	70,000	0	420,000
FSN PSC								
-Macro Analyst/Advisor	30,000	36,000	45,000	52,000	55,000	0	0	218,000
-Sector Analyst/Advisor	0	0	0	45,000	45,000	20,000	0	110,000
-Agricultural Economist	0	0	0	35,000	40,000	0	0	75,000
-Agronomist	0	0	0	35,000	40,000	0	0	75,000
-CIP Monitor	20,000	24,000	28,000	28,000	30,000	18,000	0	146,000
-Commodity Arrivals Monitor	0	0	0	20,000	22,000	10,000	0	52,000
-Field/End-Use Monitor	26,000	36,000	45,000	45,000	48,000	33,000	0	233,000
-Local Currency Monitor	5,000	10,000	12,000	16,000	18,000	0	0	61,000
-Project Office/Equipment	0	0	8,000	50,000	32,000	30,000	0	120,000
-General/Miscellaneous	0	0	4,000	2,000	2,000	2,000	0	10,000
EVALUATION AND AUDIT								
-Evaluation	0	0	108,000	0	200,000	0	0	308,000
-Audit	0	0	0	0	0	80,000	0	80,000
TOTAL	252,000	1,108,000	1,683,000	4,285,000	3,879,000	1,968,000	325,000	13,500,000

5 Procurement Plan

Services and commodities funded under the project will continue to be procured through direct A.I.D grants and contracts, including Mission buy-ins to A I D /Washington contracts and/or cooperative agreements. Planned Code 000 procurement is estimated at approximately 86% of total life of project funding U.S. goods and services will be procured to the maximum extent practicable. Procurement details are provided in Annex D and summarized below

Table 4
Summary of Procurement Plan

Procurement Instrument	Responsible Agent	Estimated LOP Amount (\$)	Of LOP Total	Probable Source
FSN PSCs	Mission	970,000	7.2%	656
U S PSCs	Mission/RCO	2,282,000	16.9%	000
Other Direct Contracts	Mission/RCO	868,000	6.4%	000
		200,000	1.5%	656
		70,000	0.5%	899
Cooperative Agreements	Mission/RCO	2,150,000	15.9%	000
Add-Ons/- Buy-Ins	AID/W	6,300,000	46.7%	000
Grant to PIO	Mission/RCO	500,000	3.7%	899
Training	Mission/AID/W	80,000	0.6%	000
		50,000	0.4%	656
		30,000	0.2%	899
Total		13,500,000	100.0%	

6 Mission Management

The USAID Mission has grown since the PSSP was developed, and management of the various tasks related to the project and non-project assistance activities is now shared among several offices (see Table 5):

- The CIP staff in the Project Development Office manage CIP implementation and monitoring. PSS/TA funds one U S PSC and two FSN PSC positions in this office.
- The Agricultural and Rural Development Office manages the agriculture sectoral aspects of the Mission's policy dialogue and donor coordination activities, as well as the project's portfolio of research activities. Two FSN PSC positions in this office are funded under the project.
- The Program Office manages cross-sectoral policy dialogue, analysis of new policy sectors, and overall coordination of policy progress and

impact assessment. In relation to the PSSP and PSS/TA, staff have specific responsibilities for researching, and advising on issues related to food security, poverty alleviation, transportation policy (in collaboration with the Mission), macroeconomic reform, financial sector policy, and business and investment issues, including privatization; as well as coordination with other donors working in these areas. The amendment will fund three U.S. PSCs and two FSN PSCs to perform these functions, under the direction of the USDH Supervisory or other USDH supervisory staff

- The USDH Mission Engineer in the Project Development Office will provide technical and policy oversight for the project-transport advisor to the GRM, as well as for other studies and dialogue relating to the transportation sector
- The Controller's Office is responsible for monitoring transactions relating to local currency generated by the project. With this amendment, the Controller's Office also will have the responsibility to monitor PSSP CIP (and P L 480 Title I) arrivals for compliance with USAID regulations. This amendment provides funding for two FSN PSC positions in the Controller's Office

Table 5 -- Project Management

Activity	Responsible Division	Staff Member	Role
Research and Analysis in Support of Policy Reform	ARD	Chief of ARD Office (USDH)	Agr sector policy dialogue
		Deputy Chief, ARD Office (USDH)	Ag Economist, Title III mgr, project officer
		Agronomist (FSNPSC)	Impact monitoring, technical liaison, university linkages
		Agr Economist (FSNPSC)	Analysis
TA for Government Roads/-Shipping Transport Advisor	PDO	Engineer (USDH)	Technical/policy oversight and contract mgt
TA for Government Food Security Policy Advisor	PRM	Policy Advisor/Analyst (USPSC)	Technical/policy oversight and contract mgt
Commodity Import Program	PDO	Commodity Management Officer (USPSC)	CIP oversight, buy america
		CIP Monitor (FSNPSC)	CIP accounting, relations w/banks and importers
		Field/End-Use Monitor (FSNPSC)	Site visits
	CONT	Commodity Arrivals Monitor (FSNPSC)	Port inspections (CIP and Title III)
		Local Currency Monitor (FSNPSC)	CPF accounting
Policy Development and Monitoring	PRM	Supervisory Program Officer (USDH)	Cross-sectoral policy dialogue, new policy sectors, overall coordination re policy and impact
		Policy Advisor/Analyst (USPSC)	Food security, poverty alleviation, transportation policy and activities
		Economist (USPSC)	Macroeconomy, financial sector
		Macro/Intersectoral Policy Analyst/Advisor (FSNPSC)	Financial/banking sector monitoring and analysis
		Private Sector Advisor (USPSC)	Business climate, privatization monitoring and analysis
		Sectoral Analyst/Advisor (FSNPSC)	Small enterprise dev , agribusiness, monitoring and analysis

Annex A

Evaluation Summary

Mozambique 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 AID Unit		B Was Evaluation Scheduled in Current FY Annual Evaluation Plan?		C Evaluation Timing	
Mission or AID/W Office <u>A.I.D. / Mozambique</u> (ESP _____)		Yes <input checked="" type="checkbox"/> Striped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date FY <u>90</u>		Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>	
D Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated. If not applicable, put 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 extra sheets if necessary)

APPROVALS

F Date Of Mission Or AID/W Office Review Of Evaluation				(Month)	(Day)	(Year)
				Jan. - March		1992
G Approvals of Evaluation Summary And Action Decisions						
Name (Typed)	Project/Program Officer	Representative of r/Grantee	Evaluation Officer	Mission or AID/W Office Director		
	Cheryl McCarthy	Ministry of Agric	Charles North	ADir John M. Miller		
Signature						
Date	6/1/92		6/1/92	6/2/92		

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ABSTRACT

Evaluation Abstract (as required by USAID)

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 this has 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

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

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A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

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

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

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

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

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

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

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

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

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

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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 (for attachments submitted with the Evaluation Summary: Always attach copy of full evaluation report, even if one was submitted
5. attach studies, surveys, etc., from "on-site" evaluation, if relevant to the evaluation report.)

Evaluation in its entirety

COMMENTS

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

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

Annex B

**Policy Reform Progress Report
Mozambique Private Sector Support Program
656-0208/18**

May 1992

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CLASS: UNCLASSIFIED

CHRG: AID 5/28/92

APPRV: RRSS:TBORN:FJ

DRFTD: AITIP:JMILLER

CLEAR: 1.ENG

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3.AGRO

4.PO

DISTR: AID4 AMB DCM E

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AID/W FOR AFR/SA (PASS TO MENDELSON AND SCHLOTTHAUER),
MBABANE FOR RLA RIEDLER

29 MAY 1992

AD112

E.O.12356: 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 10
MILLION IN FY92 FOR ADDITIONAL RESEARCH, TA AND
IMPLEMENTATION MANAGEMENT.

2. USAID HAD PLANNED ON COMBINING IN FY 1992 THE PL480
TITLE III, DPA NPA 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 SEPTTEL ON PSS/TA.

SUMMARY

3. 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 WAR

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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, THESE 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 CAMBIO OR MSC) EXCHANGE RATE AND INCREASED THE PRICE OF DIESEL IN REAL TERMS TO ABOVE PARITY. THE GOVERNMENT IS PROCEEDING DELIBERATELY BUT WITH NO APPARENT RELUCTANCE TOWARDS THE FULL LIBERALIZATION OF THE AVGAS 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

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FOUND THAT IN ORDER TO FULLY REALIZE THE BENEFITS OF THE EXISTING (CHANGED) POLICIES, THE MISSION SHOULD BOTH MONITOR AND ASSIST THE GRM 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 KEY POLICY AREAS, 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 MARKET 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 CROP (COTTON, CASHEW, AND TEA) MARKETING, WHICH HAS REMAINED AT VERY LOW (ALBEIT 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 HAS CAUSED PARTLY BY IMPORTERS' UNCERTAINTY REGARDING THE POSSIBLE AVAILABILITY OF FOREX 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

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9 DESPITE THE DISAPPOINTING NUMBERS, THE GOVERNMENT STAYED 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 MINISTER OF FINANCE, WITH THE SUPPORT OF BOTH THE IMF AND THE WORLD BANK, ALSO STATED THAT EFFECTIVE APRIL 1, 1992, THE RATES WOULD BE MADE AVAILABLE BY THE CENTRAL BANK TO THE THREE COMMERCIAL BANKS AT AN EIGHT PERCENT DISCOUNT. THIS STEP WAS APPRAISED 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 SIDE NOW SEEKING FOREIGN PARTICIPATION TO IMPROVE ITS OPERATIONAL PERFORMANCE. THE OTHER MAJOR STATE-RUN BANK, 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 GOVERNMENT 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, MUCH OF THE NON-AGRICULTURAL PLANT, 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.

II POLICY OBJECTIVES, 1991/1992

A AGRICULTURAL PRICING POLICY

16 PAAD 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, DEREGULATE CONSUMER PRICE FOR RICE BY JANUARY 31, 1992.

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

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OCTOBER 1991 AS FOLLOWS:

- FOR CORN -- 275 METRIC/HECT (A 40 PERCENT NOMINAL INCREASE) OR DOLS 134 PER METRIC TON AT THE MSC EXCHANGE RATE;

- FOR RICE -- 375 METRIC/KG FOR PADDY (NOMINAL 40 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 MANTEIGA BEANS TO ABOUT DOLS 332/TON AND NEMBA 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 206 FOR THAI BROKEN RICE, AND DOLS 270 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 2 /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 DUE NOT 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.

21. USAID IS SEEKING ADDITIONAL INFORMATION ON WHY THE EXPECTED ANNOUNCEMENT HAS BEEN DELAYED AND WHEN IT WILL BE MADE. HOWEVER, RICE IN MOZAMBIQUE IS A RELATIVELY MINOR STAPLE (BOTH IN PRODUCTION AND IN CONSUMPTION 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.

B DIVESTITURE OF STATE FARMS

22. PAAD 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

23. THE GOVERNMENT HAS CONTINUED TO DIVERSIFY FARMS BY TURNING THEM OVER TO PRIVATE MANAGEMENT OF WHICH ALLOWING FAMILY AND PRIVATE FARMERS TO TAKE OVER PLOTS. THE MAIN DRIVING FORCE FOR THIS DIVESTMENT 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 DIVESTMENT 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 DIVESTMENT 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 IMMEDIATE 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. PAAD 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 DOLS 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. AT THE SAME TIME, RESTRICTIONS ON PRIVATE SECTOR

ACTIVITIES IN DIRECT COMPETITION WITH THE AGRICULTURE-RELATED PARASTATALS (SEED AND FERTILIZER IMPORTS, FOR EXAMPLE) WERE REMOVED. THERE ARE SOME MAJOR EXCEPTIONS, HOWEVER. WHEAT AND CORN MILLING CAPACITY REMAINS LARGELY IN THE HANDS OF PARASTATALS. SMALL-SCALE PRIVATE MILLING IN MAJOR URBAN AREAS IS INCREASING RAPIDLY, HOWEVER, AND USAID IS ENCOURAGING THIS DEVELOPMENT. (SEE REF B AND SEPTTEL ON PSS/TA.)

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 METHODOLOGICAL AND PROFITABLE MANNER ENVISAGED 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.

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29. MECANAGRO, THE COMPANY THAT SERVED AS DEALER OF LAST RESORT (I.E., THE DEALER FOR AGRICULTURAL AND AG EQUIPMENT WITHOUT EXISTING REPRESENTATION), HAS LOST ONE IMPORTANT SUPPLIER, FIAT, TO A PRIVATE COMPANY. THE COMPANY HAS ENORMOUS FACILITIES IN PROVINCIAL CAPITALS THAT ARE WORTH MUCH LESS COMMERCIALLY THAN WHAT WAS LISTED IN THEM. AT PRESENT, ITS FINANCIAL POSITION IS SO PRECARIOUS THAT IT HAS 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), INTERMECANO (TRUCK AND TRACTOR IMPORTS), BOROR (SEED AND AGROCHEMICAL IMPORT AND DISTRIBUTION), ENACOMO (AG IMPORTER/EXPORTER), AND STEIA (AG EQUIPMENT) HAVE ALL SUFFERED VARIANTS OF THE SAME FATE. OVERBURDENED WITH DEBT AND STAFF AND UNABLE TO COMPETE, 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 PLAN 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 MOCIMBOS, WITH 85 PERCENT OF THE SYSTEM'S ASSETS, AND THE BANCO POPULAR DE DESENVOLVIMENTO) AND ONE LIMITED SERVICE PRIVATE BANK (STANDARD TOTTA), NONE OF WHICH CAN PROVIDE EFFICIENT SERVICES WITH THE DEGREE OF ACCOUNTABILITY THAT USAID AND OTHER DONORS REQUIRE FOR CREDIT AID, (*) MANY DONORS TIE AID FOR DOMESTIC

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POLITICAL REASONS AND CANNOT EASILY UNTIE IT EVEN IF IT MAKES GOOD DEVELOPMENT SENSE.

33. IN LATE FEBRUARY, WHEN IT ANNOUNCED A REFERRAL OF UNIFICATION OF THE EXCHANGE RATES, THE GRM ANNOUNCED AN EIGHT PERCENT DISCOUNT (FROM THE DE FACTO UNIFIED MARKET-BASED 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 (IT 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 EIGHT 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

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PARTNERS DEPENDS ON A PRELIMINARY RESTRUCTURING OF THE BANKS' EXISTING DEBT, WITH THE UNCOLLECTIBLE LOANS TO PARASTATALS (AND OTHERS) BEING WRITTEN OFF OR PAID BY THE GOVERNMENT. SUCH REPAYMENT 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. PAAD 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/MONOPSONY) DISTRIBUTORSHIP. 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 PLEASED.

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-FINANCED MINISTRY OF AGRICULTURE/MICHIGAN STATE UNIVERSITY FOOD SECURITY RESEARCH PROGRAM, THE GOVERNMENT AND THE MISSION ARE CONTINUING TO ASSESS THE

IMPACT OF THESE REFORMS.

39. THE DEGREE TO WHICH LICENSING REQUIREMENTS LIMIT NEW ENTRANTS AND ACTIVITIES IN FOOD MARKETING IS STILL BEING EXPLORED. CERTAINLY MOST OF THE VISIBLE WHOLESALE AND DEALING OCCURS IN THE INFORMAL SECTOR; ITINERANT TRADERS IN THE RURAL AREAS AND STREET MARKETS IN THE URBAN AREAS, WHICH ARE UNLICENSED AND UNTAXED. INFORMAL ACTIVITIES HAVE MUSHROOMED WITH THE LIBERALIZATION OF PRICING AND REMOVAL OF NON-PRICE MARKETING RESTRICTIONS AND WITH THE EVIDENT INCLINATION OF THE GOVERNMENT, DESPITE 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, WHOLESAL-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, WHOLESAL COMMODITY OPERATIONS IN MAPUTO AND BEIRA, AND PRIVATE AND PUBLIC TRUCKING OPERATIONS, TO

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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. PAAD BENCHMARKS FOR 1991/1992: (A) 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; (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 CONSIGNED 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.

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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

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YEAR, WITH ADDITIONAL PROJECTIZED 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 GRM, WITH USAID ASSISTANCE, WILL MONITOR THE IMPACT OF THE SUBSTANTIAL FOOD AID, PARTICULARLY CORN, ON AVAILABILITY AND MARKET DEVELOPMENT (DISTRIBUTION, PROCESSING, INTERMEDIARIES) THIS MONITORING WILL PROVIDE THE GRM WITH THE INFORMATION NEEDED TO DEVELOP ITS POLICY OBJECTIVES AND PROVIDE PART OF THE BASIS OF OUR NEXT MPA PROGRAM

B. DIVESTITURE OF STATE FARMS

49. POLICY OBJECTIVES FOR 1992/1993 (A) CONTINUE TO CLOSE OR LIVEST 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

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53. COMMENT: AFTER AN INITIAL FOUR TO SIX MONTH PERIOD DURING WHICH IMPORTERS HAD GREAT DIFFICULTY IN ACCESSING THE MSC, 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 COHERENT 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 CORRECTIVE 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

7 IN ADDITION TO THE ABOVE POLICY AREAS, USAID WILL,

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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. PAAD 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

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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 WHOLESALING TO OTHER FUELS IS THE AVAILABILITY OF THE REQUIRED VOLUME OF FOREIGN EXCHANGE TO 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)

	OBLIGATIONS	COMMITMENTS	FUEL
- 1989	13,550	8,000	0
- 1990	22,500	10,200	0
- 1991	17,390	8,000	5,000
- 1992	8,000 (PROP)	11,000 (TO DATE)	5,000

PRESENT UNCOMMITTED AMOUNT 24,205

63 THE WORST YEAR FOR NEW COMMITMENTS, AS NOTED ABOVE, HAS 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, THE CARRY-OVER TO 1993 COULD BE CONSIDERABLY LESS THAN

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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 TYPED 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

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IMMEDIATELY. FOR THE SECOND STEP, THE COMMERCIAL BANKS WILL BE ALLOWED TO GUARANTEE IMPORTERS' PAYMENTS TO THE CENTRAL BANK OF THE COUNTRY VALUE 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 186082, WHICH IN PARA 4.18 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 TAKE 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 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 PSSP 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

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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 NPA SUPPORT IS FULLY JUSTIFIED.

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

70 USAID THEREFORE REQUESTS AN AD HOC AUTHORITY TO THE MISSION DIRECTOR TO INCREASE THE PSSP (656-208) LOP BY DOLS EIGHT MILLION FROM THE PRESENT AUTHORIZED LEVEL OF 54.5 MILLION TO DOLS 62.5 MILLION, BASED ON THE POLICY BENCHMARKS FOR 1992/93 SPECIFIED IN PARAS 47 THROUGH 59.

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71. IN ADDITION AND SEPARATELY, USAID REQUESTS AID/W ADVISE 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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Annex C
Food Security Analysis

I Introduction

Mozambique presents one of the most difficult development challenges in Africa. Per capita income in 1989 was estimated at \$80,¹ and at least half of all households, urban and rural, cannot meet minimum daily caloric requirements from their own resources. The continuing armed conflict prevents most rural inhabitants from taking advantage of improved economic incentives to increase production and marketing, and also limits access to raw materials which might attract investment and provide employment. Millions of rural people have been driven into cities, towns, and refugee camps, where they lack access to land, potable water, health or education services, employment, or secure food supplies.

In this crisis environment, the food issue dominates, cutting across all sectors and affecting the country's political, economic, and social viability. In addressing this issue, attention to emergency needs runs parallel to the absolute necessity to regenerate productive infrastructure and activities. Mozambique must, through whatever means available, feed its people, yet also must begin to develop a dynamic and efficient private production and marketing sector capable of ensuring the food security of the population for the future.

For purposes of this discussion, food security is defined as access for all people at all times to sufficient food for a healthy and productive life. The two essential elements to this definition of food security are, of course, the availability of food and the ability to acquire it. Research findings throughout southern Africa, including recent inquiries in Mozambique, have documented that national or aggregate availability of food (the national food balance) is an unreliable indicator of both food availability to households (supply) and households' ability to acquire it (demand).

Nonetheless, to provide a context for the following analysis, which centers on household food security, it should be noted that even in aggregate terms Mozambique is one of the most extreme food deficit countries in the world, depending on food donations for an estimated 80 percent of market requirements and an estimated 30-40 percent of total national supply (domestic production, commercial imports, and food aid) of basic foods. This situation exists despite the fact that over two-thirds of Mozambique's population still (despite war-related insecurity and drought) live in rural areas, and, of these, virtually all are involved in agricultural, primarily food, production.

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¹"World Development Report 1991: The Challenge of Development," IBRD, June 1991

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II Characterization of the Food Security Situation in Mozambique Food Supply and Sources, Effective Demand, and Linkages with Nutritional Status

While the aggregate food balance is alarming enough, there exists considerable variation among households in terms of both availability of and access to food. The range of this variation is discussed below in terms of two categories of households rural and urban. However, it should be noted at the outset that rural and urban households also demonstrate many similarities (in household food production, in income and expenditure patterns, and in coping strategies, for example), especially among the poor.

A Household Food Security in Rural Areas

1 Food Supply and Sources

While nearly all rural households depend on their own production for much of their food supply, there is considerable variation (dependent upon geographic location, land access, consumption preferences, and market opportunities) in what and how much these households produce. There is no comprehensive data on indicators of rural household food security, and the data that do exist from geographically limited samples are not of consistent reliability.

The mid-1991 Ministry of Agriculture (MA) - Michigan State University (MSU) - University of Arizona (UA) smallholder household survey in three districts of Nampula Province provides revealing information about household production and market participation in food crops.^{2 3} Key findings relevant to household food security include:

a. Land access for smallholders is much more limited than has been commonly assumed in government and donor planning documents; mean farm size cultivated in the three districts surveyed ranged from 1.1ha to 2.4ha, and in only one district did 50 percent of the households have cultivated fields totaling more than 0.75ha per adult equivalent member.⁴ This suggests that a significant number of households, dependent on their own food production and previously assumed to be more or less self-sufficient, may be in an extremely precarious situation, especially since these data show that the larger households have the smaller farms. The reasons for the small size of holdings are still being explored.

²A series of working papers based on this survey, some published and others still in process, are available from the MA/MSU project office, from USAID/Mozambique, or from MSU.

³Food crops in this discussion include maize, cassava, beans, rice, groundnuts, and sorghum.

⁴This finding has been previously indicated in other smallholder surveys: a 1989 FAO survey in Manica Province found household landholdings as low as 0.04ha and mean holding size (average of the four districts surveyed) of 1.15ha.

b. The MA/MSU/UA data show that the household's own production is at a level considerably less than self-sufficiency. Estimates of net annual income per adult equivalent range from as little as U.S \$26 to about U.S \$130

Table 1
Income Shares Expressed in Calorie Availability
Per Adult-Equivalent Household Member
in Nampula
(percent)

<u>Income Source</u>	<u>Monapo</u>	<u>Ribaue</u>	<u>Angoche</u>
Food Produced, Retained for Consumption	41 1	65 1	38 4
Food Produced, Sold	5 9	11 8	23.1
Cotton Produced, Sold	20 3	1.3	0
Cashew Produced, Sold	8 7	0.2	13.7
Livestock Sales and Slaughter	3 6	5.4	2.6
Other Ag. Sales	5 3	4.8	6.9
Cash Payments from off-farm	14.6	9.0	14.8

Note: Balance of income provided by extremely small contributions of in-kind off-farm payments and/or remittances.
Source: MA/MSU/UA Nampula Survey 1991

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c As the income sources shown above indicate, food market participation of rural households is much more extensive than previously thought

Table 2
Smallholders in Nampula Food Market Participation

Smallholder Market Behavior	Percent of Surveyed Farmers by District		
	Monapo	Ribaue	Angoche
Buy Only	7 3	4 2	2 6
Buy and Sell	13 8	5 0	5 2
Sell Only	53 2	63 0	83 5
Neither Buy Nor Sell	25 7	27 7	8 7

Source MA/MSU/UA Smallholder Survey 1991

The data in these districts also show that households that only sell and those who both buy and sell also retain more of their own food production (per adult equivalent) than those in the other two categories. The group that neither sells nor buys food has the lowest net daily calorie availability (per adult equivalent), varying between 1390 and 2178 (2100 calories per day is a commonly used estimate of minimum requirement for "normal" adult activity levels, less than 80 percent of this is considered to be "food insecure")

d. Production of cash crops usually adds to the household's cash income without reducing its self-supply of food. Households that produced a cash crop (e.g., cotton or cashew) also produced food crops in quantities equal to or higher than those produced by households that did not have cash crops (see Table 3). Even more striking, total household cash income from all sources averaged 228,315 meticalis in Monapo, where cotton provided most of the cash income, and only 138,004 meticalis in Ribaue, where sales of food crops provided most of the cash income.

Table 3
Smallholders in Nampula:
Household Production of Food Crops and Cotton

<u>District and Producer Category</u>	<u>Cotton (kg)</u>	<u>Cotton Sales as % of HH Cash</u>	<u>Food Crops (kg)</u>	<u>Food Crops Sales as % of HH Cash</u>	<u>Per Capita Food Crops (kg)</u>
Monapo (average)	216 0	70 7	1129 9	21 8	338
- Non-Producers of Cotton	0	0	1075 4	36 1	419
- Producing <100 kg	50 2	60 4	941 7	11 8	256
- Producing 100-200 kg	138.4	51 5	1140 5	15.8	267
- Producing 200-500 kg	319.7	73 1	1174 2	14.5	221
- Producing >500 kg	727 1	84 0	1288 0	7 0	351
Ribaue (average)	15 0	6 6	1327.5	60.7	298
- Non-Producers of Cotton	0	0	1156 2	68 8	272
- Producing <100 kg	21 7	12.1	1821.0	78.9	368
- Producing 100-200 kg	131.3	47.1	1908.3	37.4	336
- Producing 200-500 kg	291.7	50.1	2958.3	49.9	628

Source: MA/MSU/UA Nampula Smallholder Survey 1991

52.

2 Effective Demand

Household size in rural areas varies but is often thought to average six to seven members, of which three are adults (16 years or older). Data from Nampula show somewhat smaller household size than these commonly cited averages.

Table 4
Household Characteristics
in Nampula

<u>Characteristic</u>	<u>Monapo</u>	<u>Ribaue</u>	<u>Angoche</u>
Household Size (Mean)	4 06	5 1	4 2
Number of Adults (Mean)	2 50	3 22	2 80
Age of Household Head, Years (Mean)	41	40	42
Polygamous Households (Percent)	8 5	17	10
Displaced Households (Percent)	5	5	9
Female-Headed Households (Percent)	8	7	5

Source: MA/MSU/JA Nampula Household Survey 1991

Cash income and physical access to food markets are the critical factors in effective demand for the food these households require but do not produce themselves. Although there is evidence that the food marketing system in rural Mozambique is no longer entirely useless to rural consumers, market supplies in all areas, even in district seats, are still extremely unreliable due to factors such as security problems (which interrupt supply lines) and the seasonality of availability of different commodities. Mozambicans in rural areas still cannot depend on markets for survival, even though, as the data above indicate, they do not produce enough food to meet their own consumption needs.

As for "purchasing power" in the rural areas, very little data is available to either support or correct prejudices. The Swiss Monitoring Program in Cabo Delgado has price data from 1986 (pre-economic rehabilitation program) through 1990⁵. These show that the changes in prices of key (albeit mostly non-food) consumer goods, deflated to incorporate concurrent agricultural producer price changes, were virtually all increases (e.g., 20 percent for cooking oil, 190 percent for sugar). But price monitoring in rural areas still does not indicate either the level of or changes in consumers' effective demand. Until 1990, rural households found consumer goods either cheap but scarce (through official distribution channels) or expensive and more or less available (through parallel market channels), now, such commodities are perceived as expensive but abundant (through open market channels).

Although net increases in prices were reported, the Swiss Monitoring Program also reported that surveyed households said they bought the same amounts of key consumer goods (sugar, salt, cooking oil, rice, and non-food commodities) in 1990 as in 1989. Still, 35 percent of the households reported "difficulties" in feeding household members. Household food shortages were met through help from family members and neighbors and from emergency food distribution programs, 80 percent of such help was in the form of food commodities, not cash.

The emergency food distribution programs include free food for households displaced or affected by the war, often in combination with packages of seeds and tools to permit these households to quickly reestablish production in their new areas, food for work programs also are used in some areas. It is estimated that approximately 1.8 million internally displaced people and returning refugees will be in need of such emergency food assistance during 1992, although this estimate may rise as the full effects of the region-wide drought are felt. Emergency food supplies are principally managed and distributed by the GRM's Department for the Prevention and Control of Natural Calamities (DPCCN), under the National Executive Committee for the Emergency. Although it is directly very active in all provinces, DPCCN also depends upon a number of NGOs to assist in this distribution.

In sum, then. Although information is neither reliable nor comprehensive, the indications are that even in a "good" year rural households produce significantly less than their consumption needs of food products, that cash income from sales of food or non-food crops and off-farm employment is important but unlikely to meet the households' needs, and that market supplies of food commodities are still undependable even for those who have cash.

⁵Data from 1991 have been collected but reports on the analysis of these data have not yet been published. The source of this information is "Monitoring Adjustment and Rural Poverty in Mozambique: Results from the Swiss Monitoring Programme in the Province of Cabo Delgado, 1990," Dr. Rolf Kappel, Swiss Development Cooperation, August 1991.

B Household Food Security in Urban and Peri-Urban Areas

1 Food Supply and Sources

On the whole, urban populations in Mozambique are at present market dependent for their food supplies. Non-market food sources can include

- own production 37 percent of peri-urban Maputo households reported growing at least one crop,⁶ which contributes as much as 5.6 percent of the household's income.⁷ In other urban areas of the country, the importance of own production is likely to be even larger since land availability is probably lower and wage employment probably higher in Maputo than in the other cities.
- NSA In Maputo, the moribund government ration system (Novo Sistema de Abastecimento, NSA, which exists only in Beira and Maputo) provides participating households about 9 percent of their cereals, 8.3 percent of their edible oils, and 10.4 percent of their sugar supply.⁹
- consumer cooperatives
- employers Some employers provide an in-kind supplement in the form of food, for those who receive it, this source may approximate 1 to 2 percent of the household's income.¹⁰
- family and neighbors
- remittances Maputo household data which is still being analyzed suggests that these households receive a significant percentage of their supply of white maize products through in-kind remittances from family connections working in South Africa.

⁶"Peri-Urban Baseline Research Results: Maputo, Mozambique," Graham et al., Ohio State University, October 1991.

⁷"Inquerito as Famílias Relatorio sobre os Resultados do 1 Modulo do Inquerito na Cidade de Maputo," Government of Mozambique, National Planning Commission, National Directorate of Statistics, December 1991.

⁸An August 1990 report of the GRM/Ministry of Commerce-Food Security Department, "Situacao Actual de Producao, Consumo e Avaliacao Nutricional na Cidade de Nampula -- Pesquisa," reported that of the households surveyed in Nampula City, 90 percent produced cassava, 58 percent produced groundnuts, 39 percent produced maize, and 26 percent produced rice.

⁹Ibid.

¹⁰Ibid

Market sources include food shops and the open markets (dumbanengues) Recent government survey results indicate the relative importance of these two sources for basic commodities

Table 5
Household Basic Food Expenditures by Source

Commodity	Percent Spent In		As Percent of HH's Total Expenditures	
	Shops	Markets	Lowest Incomes	Total Sample
Cereals	10 3	50 7	31 5	23 8
Edible Oils	49 5	42 2	4 1	3 9
Roots/Tubers	71 5	28 5	2 7	2 5
Fruits and Vegetables	62.0	38 0	16 9	13 3
Sugar	34 9	54 6	5 5	4 0

Source: GRM-CNP-Statistics December 1991 Maputo Survey Report

The critical food commodities both from the nutritional point of view (that is, providing the bulk of calories, proteins, and nutrients) and from the household budget point of view are the cereals. For urban residents in Mozambique, these comprise principally maize flours (white and yellow, various meal qualities) and rice, although wheat products are also important in Maputo.

Much has been learned recently about the types of maize products commonly available, the preferences among these products as expressed by prices, and the implied cross elasticity of demand among maize products and rice. While research on these issues continues, the available data show clearly that the traditionally preferred and domestically produced white maize products have largely given way in market importance to yellow maize products provided by U.S. commercialized food aid programs.¹¹ This dramatic shift in market importance has occurred in the only five years since yellow maize began to provide approximately 40 percent of urban Mozambique's total cereal requirement.

Yellow maize food aid is commonly sold as (i) grain, (ii) a relatively high quality, partially degermed flour (85 percent extraction rate) produced from the yellow grain at large parastatal mills, or (iii) a straight-run whole flour (99 percent extraction rate) produced from the yellow grain at small hammer mills located in neighborhoods or market areas. Although supply is not reliable (see Annex 8), for the most part yellow maize products are widely available in open markets throughout the Maputo and Beira (in Maputo, more than 30 sizeable markets exist at present, as well as innumerable smaller neighborhood markets, there are significantly fewer in Beira). White maize products, including domestically produced grain, flours made from domestically

¹¹Some yellow maize products diverted from U S emergency food aid programs also make their way into urban markets

produced or from imported grain, and higher quality flours imported from Swaziland (for Maputo) and Zimbabwe (for Beira) are also available in these markets

2 Effective Demand

Assessing the effective demand of consumers in Mozambique's urban and peri-urban areas is difficult, but as more information has emerged through recent studies and monitoring activities, the gravity of the situation has only increased. The most recent estimate¹² is that approximately 50 percent of Maputo's population live in absolute poverty, while anecdotal information from the nine provincial capitals and the city of Nacala suggest that the situation in these other urban areas is probably similar. The current working definition for absolute poverty is a per capita expenditure of less than 30,000 meticals or U S \$12 (at the current parallel exchange rate) per month

Table 6
Per Capita Expenditures Per Month
by Households in Maputo

<u>Per Capita Meticals/month</u>	<u>Per Capita Equivalent U S \$/year</u>	<u>Percent of Sample</u>
<20,000	(<U S \$96)	29.7 Destitute
20-30,000	(U S.\$96-144)	21.0 Absolute Poor
30-40,000	(U.S.\$144-192)	14.8
40-50,000	(U S \$192-240)	10.0
50-100,000	(U S \$240-480)	15.9
>100,000	(>U.S \$480)	8.5

Source: Bernd Schubert, GTZ, quoting GRM National Directorate of Statistics

As recently emphasized in a discussion of poverty alleviation¹³ based on the Statistics Directorate's findings, these "absolute poor" are a very heterogeneous group, and several sub-categories of absolute poor have been named. Some of the truly destitute -- those households where, for example, there is a large number of total household members (mouths to feed) and a very small number of employable adult members (breadwinners) -- are thought to have virtually no effective demand. This report estimated that if they tried to maintain a balanced diet from available resources, households in this sub-category would have to survive on less than 1,400 calories per person per day

¹²National Directorate of Statistics, op cit.

¹³"Alleviating Destitution in the Cities of Mozambique: An Attempt to Design an Effective and Efficient Urban Safety Net," Bernd Schubert (GTZ), April 1992 (first draft)

In Maputo's urban and peri-urban area alone, it is estimated that 30 percent of the population falls into this category of destitution. Improvements in market supplies and prices of food are not likely to improve their household food security.

Leaving aside this group, for which non-market safety net programs are being developed and implemented, we find 70 percent of the population with some effective demand. For the 21 percent of the population classified as absolute poor but not destitute, this effective demand is not large, certainly not sufficient for a healthful diet, and it varies over time depending on changes in employment situation of household members as well as on changes in market prices of basic commodities. These extremely rough estimates suggest that at present only 50 percent of urban households can obtain anything approaching an adequate year-round diet. But a large portion of even this group is only slightly better off than the "absolute poor." With the tremendous volatility in market prices of basic food commodities due to unreliable supplies (and to other factors), as many as half of these households also cannot be categorized as food secure.

C Linkages between Food Security and Nutrition Status

Even the scanty information that does exist on household food security in both rural and urban areas of Mozambique cannot predict or be confidently correlated to nutritional status of household members, aside from the simple observation that where there is clearly not enough food available to the household, at least some of the members are certain to suffer some form of malnutrition due to undernourishment. Furthermore, information on overall household food security as estimated based on the availability of calories from a few staples (grains, principally maize, and tubers, principally cassava) can give no indication of the adequacy of diversity in the diet, which is crucial for balancing nutrients within a more or less calorie-adequate diet. Finally, even if indicators of both household-level food security and nutritional status were available, little is known about the role of disease in nutritional status of Mozambicans; in particular, the impact of unsafe water and inadequate sanitation (the rule rather than the exception among both rural and urban households), which are known to boost the incidence of a whole array of diseases which impede the individual's absorption and utilization of the food consumed.

There are no comprehensive data on nutritional status among rural or urban households in Mozambique. There are regular clinical data from government health facilities which include such indicators as growth faltering or incidence of low birth weight, but since only about 30 percent of Mozambicans have access to these health facilities, the extent to which these data reflect the real situation is not known. Besides the clinical data, both the Ministry of Health's Nutrition Department and numerous non-governmental organizations involved in emergency relief activities conduct many special nutrition surveys, although these are generally on very specific at-risk populations (for example, in areas with high numbers of war-displaced households or where natural disasters -- drought, flood -- have struck). The following comments are based on the available data and thus are indicative only.

1. Low Birth Weight

Reported nationally, this indicator (birth weight less than 2500 grams) varies seasonally from a low of about 12 percent in September to a high of about 18 percent in February, disaggregated provincially for the last quarter of 1991, the highest incidence was reported in Zambezia province (17-18 percent) and the lowest in Maputo province (7 percent)

2 Growth Faltering

Nationwide for 1991, this indicator (for children less than three years old) also demonstrated seasonal variation, ranging from about 13 percent in January to a high of 15 percent in March-May, falling to a low of 10 percent in August, and reaching 12 percent by December. The nationally aggregated curve is below the "alarm" line, which is drawn at 16 percent, and the disaggregation for the last quarter of 1991 showed all provinces below this line, ranging from about 8 percent in Gaza to about 13 percent in Maputo and Cabo Delgado. The nationally aggregated curve, which in 1987 was above the "alarm" line, has remained below since 1989, but has not continued to fall, one hypothesis is that dramatically increased food aid supplies which followed when Mozambique (with World Bank and IMF support) began its Economic Rehabilitation Program in January 1987 were sufficiently large to bring the curve down, but that the next "increment" needs something more -- possibly more food, a different dietary composition, or improved access to water, sanitation, and/or health facilities.

A provincially disaggregated comparison between growth faltering rates in the first six months of 1991 and those in 1990 showed little change despite presumed increases in agricultural production in 1990

One Ministry of Health report disaggregated 1989-90 quarterly growth faltering data for Inhambane province to show rural-urban differences. This clearly demonstrated that incidence of growth faltering in all quarters of the year is higher among urban populations, and the greatest difference, in the second quarter of 1989, was between 19 percent for rural and 30 percent for urban children. One hypothesis for this significant difference is that urban populations, which include significant war- or drought-displaced populations, have less access to land for household food production yet are still unlikely to have sufficient income to buy food

3 Wasting

This indicator measures weight for height among children less than five years old, and is the single common indicator presently utilized by all the nutrition surveys done in Mozambique. Worldwide, an incidence of wasting higher than about 3 percent is usually "cause for concern," in Mozambique, the more than 90 nutrition surveys conducted in 1991 reported incidence of low weight for height ranging from less than 2 percent (in a camp for the displaced receiving regular supplies of food aid) up to 28 percent (also among the displaced), but only 10 of the surveys reported an incidence less than 3 percent.

III Causes of Current Food Security Situation

A Historical Background

Traditional food systems in Mozambique were based on subsistence production by households (in fact, there is little evidence of the existence of indigenous trading systems of intra-rural markets or rural-urban transactions, such as those so vibrant in west and central Africa). Under colonial rule, these traditional food systems were undermined by plantation production of non-food crops with forced labor (e g , cotton, also sisal, tea, tobacco), by contracts between the colonial powers to provide Mozambicans as laborers to South African gold mines, and by the imposition of a "head tax," forcing Mozambicans into wage labor on the plantations or in the mines

The expansion of urban-based administrative and commercial activities during the colonial era further contributed to draw Mozambicans away from subsistence production. Little attention was directed toward increasing productivity to create surplus food production by those remaining on the land (although in the areas where such surpluses were produced, Portuguese shopkeepers did trade in these surpluses at government-fixed prices). In sum, Mozambique's urban areas, and in particular those in the central and southern part of the country, were never adequately supplied by domestic food production, while food production in rural areas was ravaged by the loss of household farm labor.

The political and economic path chosen at independence worked to enlarge the gap between food production and consumption needs, through an emphasis on state farm production (which actually expanded the plantation approach of the colonial Portuguese), on industrialization, on continued labor contracts with South Africa (and new ones with Soviet bloc countries), and on government control of administrative, social, and commercial activities which intentionally promoted urbanization and expanded public employment rolls.

In this climate, food supply was secured by the government through imports, including food aid. Food access in the most populous and most food deficit urban areas (Maputo and Beira) was addressed through a ration system (Novo Sistema de Abastecimento, NSA, established in 1981) intended to provide a minimum food basket (maize, rice, beans, edible oil, sugar; also soap) to everyone in an era of overall scarcity. At the same time, the government fixed food prices and transaction margins pan-territorially and pan-seasonally for all commodities and areas outside the NSA, and controlled food distribution activities in accordance with centrally determined annual plans.

B Macroeconomic Framework

The overriding objectives of Mozambique's Economic and Social Rehabilitation Program (started January 1987 with support of the World Bank and the IMF) are to stabilize the economic devastation of the mid-1980s and to establish the conditions for sustainable growth through a market economy. Tremendous changes in economic and political policies have occurred since this program began, including

- increasing transparency and accountability in the government's budgetary and fiscal operations,
- liberalization of policies to reduce administrative allocations of productive resources, in particular foreign exchange at non-market prices,
- deregulation of a wide range of economic activities to permit competition in sectors formerly monopolized or closely regulated by government,
- liberalization of pricing and related marketing policies to provide incentives to production, importation, storage, processing, exportation, and marketing of agricultural commodities, and concomitant employment generation; and
- a new national Constitution enabling multi-party political activities as well as decentralization of administrative authorities

Despite these reforms and the already detectable -- in some sub-sectors dramatic -- impact they have had on economic activity in both urban and rural areas, the outlook for the next generation is grim. Even under the rosiest assumptions (6 percent growth per annum, continued extraordinarily high levels of support from donors), it has been estimated that it will take Mozambique until the year 2015 to raise the level of per capita income to that which Mozambicans enjoyed in 1980. In light of the continuing drought in the southern Africa region, which has struck Mozambique particularly hard in 1991-92, decimating domestic production in most areas of the country -- and given the economic effects sure to be evidenced as a peace agreement is reached, troops are demobilized, and refugees return -- even 1980's modest level of well-being may be an ambitious target.

IV Policies and Programs to Ameliorate the Food Security Situation

A. Government Policy and Strategy

Following World Bank assistance in the preparation of a food security study,¹⁴ a "Food Security Strategy and Action Plan" was prepared for the 1989 Paris Consultative Group Meeting. The basic strategy is to concentrate resources on increasing productivity of smallholders and creating sustainable

¹⁴Mozambique Food Security Study, World Bank Report No 7963-MOZ, October 1989

employment and income-generating opportunities for the most vulnerable households, rather than on hand-outs of free or subsidized food on a large scale. While the action plan is neither realistic nor prioritized (attempting to address the whole spectrum of producer, market, and consumer constraints to secure food access), the key elements of the strategy are clear:

- A recognition that it is important that public expenditure on food security be directed most towards investment in future economic growth and least towards transfers which create long-term dependence on costly welfare programs
- A recognition that limited resources and near-infinite need make it especially critical that food security interventions be designed so that benefits go principally towards the poorest and most vulnerable sections of the population.
- An intention to expand the role of food and other aid beyond the temporary relief of hunger to become a source of economic growth which raises the incomes of the most vulnerable in a self-sustaining way; the aim is that food and other aid should be directed primarily towards improving access to farm and market food sources.
- An objective of raising household incomes by increasing labor productivity, improving the value of assets (for the poor, principally "human capital," to be improved through health and education services), and creating new jobs.
- A recognition that direct and indirect income transfers will be necessary for families without employed members or with low or uncertain incomes or large numbers of dependents, and that such transfers should (i) augment but not displace household income earned from other sources, (ii) be self-targeting to reduce administrative costs, (iii) be regarded as temporary, to be reduced as soon as possible, and (iv) where provided from public resources, be kept within limits to avoid creating permanent budgetary imbalances.

Although much progress has occurred since 1989 in understanding the food security equation in Mozambique, the equation also has increased in complexity during this period. The strategy outlined above, however, continues to guide government and donor efforts. Government policy reforms specifically supporting this strategy have included liberalization of prices and of non-price restrictions on marketing activities, changes in the foreign exchange management regime and in restrictions on import and export transactions; and legal changes to permit the existence of non-governmental health and education facilities and activities. In addition, the costs and benefits of existing and proposed "safety net" programs have been more critically assessed.

By the end of 1992, the implementation of this strategy will be centered in an inter-sectorally oriented Food Security Policy Unit to be established at the National Planning Commission

B Donor Agency Support

Mozambique has mobilized support for an array of food security programs and projects from a large number of donor agencies. These include but are not limited to:

- Food aid commodities to be commercialized, providing improved reliability of market supply to reduce price volatility (USAID, EEC, France, Canada, Italy, Netherlands, Britain, Australia, and others),
- Market support activities (USAID, World Bank),
- "Safety net" activities (USAID, Germany, World Bank Social Dimensions of Adjustment), and
- Production- or infrastructure-oriented activities (FAO, WFP, Priority Districts Program, World Bank's Agricultural Services Rehabilitation and Development Project)

Given this array of donor-supported programs and projects, the World Bank and FAO have taken the lead in developing a food security capacity building approach that will (i) improve coordination of efforts, both to ensure resources are focused on priority activities and to reduce duplication, (ii) generate and publicize information in order to build knowledge of food security issues, and (iii) enable policy and investment recommendations based on empirical data and sound analysis. This capacity building effort will provide project support for both the Food Security Policy Unit mentioned above and the Faculty of Agriculture and Forestry at the Eduardo Mondlane University.

C. The Market

Even given all the difficulties of inefficiency, high transaction costs, and inaccessibility for the large number of Mozambicans without effective demand, the developing market structures in urban and rural Mozambique are the key to the strategy outlined above and to the longer-term food security of Mozambican households. Supporting, through policy reforms and investments in infrastructure, the continued development of food market systems and related market services for the rural areas, will have both broad and deep effects on food availability and food access for Mozambicans, even in a shorter time frame. Government and donor agencies, including USAID in a lead role, are exploring ways to foster the expansion and competitiveness of market structures

D Government Welfare Programs

Since its creation in 1981, the principal government vehicle for income transfers has been the Maputo and Beira ration system (Novo Sistema de Abastecimento, NSA), however, evidence gathered and analyzed during the past two years has documented the inefficiency and ineffectiveness of this system in ameliorating the food insecurity of vulnerable households in these cities, and the NSA is slated for termination in mid-1993

Through the Policy Alleviation Unit at the National Planning Commission, associated other government agencies, and supporting donors, a number of alternatives to the NSA have been explored, all of them focusing also on relief for the urban destitute

- A National Social Insurance Scheme operating since 1990 will in the long run have a positive impact on social security in the formal sector, but this impact is probably a generation away
- A Wage Supplement Scheme for public sector employees with low household income and large families targets a very limited population and reportedly has reached very few of these since its inception in 1990
- A Cash Transfer Scheme (also called Food Subsidy Scheme) which began in 1990 has been redesigned to more efficiently identify destitute urban households and provide a modest cash supplement each month to augment household food availability
- A national Secretariat of State for Social Action was created in 1990 (and provincial services for social action are planned) to identify and implement poverty alleviation activities for, e.g., orphans, the aged, the disabled, although the impact of activities underway so far is probably negligible

As noted, these programs have to date demonstrated little capability to quickly and efficiently address critical needs of the destitute. During the next six months, USAID will assist the government to explore additional options to the NSA which might efficiently provide targeted assistance to food insecure households.

E. Non-Governmental Organizations

Although there are nearly 150 international NGOs working in Mozambique, these have mostly concentrated on relieving emergency-related misery, there is enormous potential to boost the specific benefits of the activities of these groups for household food security. The government has recently made an important step in this direction by legally providing for such organizations to undertake neighborhood or village-based activities in health (including nutrition) and education. Private sector availability of these services will certainly lead to expanded coverage and, eventually, increased access. Since NGOs are accustomed to mobilizing resources from communities (local and overseas), they can also provide important complementary investments to what government and donors are able to do.

In the longer run, for-profit companies also have a role to play, especially those working with households producing agricultural commodities or those involved in labor-intensive activities (such as construction) At present, however, the incentives and disincentives to such activities are complex, the investment planning horizon for most companies will remain quite short until economic and political stability become more certain

V USAID's Objectives and Role in Improving Food Security in
Mozambique

USAID/Mozambique's long-term program goal is to ensure access for all Mozambicans at all times to sufficient food for a healthy and productive life ¹⁵ Fully in line with (and to some degree guiding) the government's food security strategy, USAID's approach has been to concentrate program resources on broadening and deepening competitively functioning food markets rather than developing large scale welfare programs as food security "interventions" To this end, the Mission is pursuing a supply side strategy of stabilizing consumer prices of basic staples by stabilizing supply, strengthening competitive markets, and stimulating increased private sector involvement

As USAID has learned more about how food markets function in Mozambique, we have identified a critical near-term objective of establishing (where they don't yet exist) and strengthening (where they do) competitive wholesale food markets Based on the analyses and insights of the MA/MSU applied food security research program, USAID is working with the government and other donors to develop mechanisms for ensuring that the large quantities of food aid provided for commercialization both support the development of competitive private sector markets and adjust as domestic production and commercial (non-food aid) imports grow over the coming years ¹⁶

The questions of how and when increased market efficiency will result in a real lowering of consumer prices must continue to be researched Some of the market-based solutions which USAID would like to propose, such as pricing yellow maize food aid at or close to import parity, will have differential effects on households in the different income categories discussed above, and the welfare of those now on the edge of "absolute poverty," those market-dependent households who are just barely getting by, may not be improved by market solutions

¹⁵"Mozambique Country Program Strategic Plan, FY1990-1992," February 1990

¹⁶"Reflections on Relationships between Food Aid and Maize Pricing/Marketing in Mozambique," Weber et al , March 1992 (fourth draft)

At the same time, the USAID program includes a demand side strategy which seeks to provide, where needed, an efficient and effectively targeted food security safety net of direct and/or indirect income transfers, but in ways that do not distort the market or undermine the larger efforts to get normal supply and demand factors functioning. The Mission has explored some ideas in this direction, but next steps will require the results of a nearly completed household expenditure and welfare survey by Cornell University's Food and Nutrition Policy Program and the government's Food Security Department at the Ministry of Commerce. These results, expected in mid-1992, will help define the degree of "effective demand" of Maputo's urban population, and to identify the characteristics of households with little or no access to food markets. Furthermore, USAID will continue to explore ways to ensure that emergency relief programs, including food aid, and such other Mission activities as NGO support grants, training activities, and health/child survival/water and sanitation activities can complement and supplement the broader and longer-term food security objective.

Annex D

Procurement Plan

Services and commodities funded under the Private Sector Support Technical Assistance Project (PSS/TA, 656-0218) are procured through direct A.I D. grants and contracts, including Mission buy-ins to AID/Washington contracts and/or cooperative agreements. Planned Code 000 procurement is estimated at approximately 86 percent of total life of project funding. U.S. goods and services will be procured to the maximum extent practicable.

Host Country Responsibilities

Given the policy reform agenda the project supports, a range of host country institutions have roles to play in developing and approving specifications for technical assistance and training activities in support of policy dialogue and policy reform, and (in some cases) for contractor/grantee selection. Institutions involved in these ways in the procurement process include (but may not be limited to) various departments and directorates of the Ministry of Agriculture, the Ministry of Commerce, the National Planning Commission, the Ministry of Transport and Communications, the Ministry of Finance, the Bank of Mozambique, and/or the Eduardo Mondlane University. The degree of consultation and collaboration with these institutions varies with the different types of assistance provided.

Services

Personal Services Contracts. Key positions for project management and impact monitoring are filled through project-funded PSCs. To the extent that the required skills are available locally, these are long-term FSN PSCs selected through USAID/Mozambique's usual hiring procedures, which include local advertising, competitive selection, and informal negotiation. Due to specialized requirements, U.S. PSCs are sought for some long-term positions. In addition, the project may fund a two-year U.S. PSC for a food security policy advisor to the GRM, although this advisory position may be included under one of the research contracts or cooperative agreements discussed below. Previously, U S. PSC positions under this project have been filled through informal competition and negotiation with qualified U S. citizens resident in Mozambique, but new positions in this category are expected to be filled through full and open competitive procedures and with the advice and assistance of the Regional Contracting Officer (RCO) based in Swaziland

Other Direct Mission Contracts. These are generally small value or local procurement actions They include, for example:

- Services in support of project management and monitoring activities, such as office space/utilities, these contracts will be informally competed locally by the EXO, USAID/Mozambique
- Short-term studies, audits, and/or evaluation services; these will be procured through regional or A I D /Washington IQCs either by the RCO or MS/OP
- Short-term specialized local expertise in policy areas being monitored or researched by the project, which will be informally competed locally by either the USAID EXO or the RCO.

Cooperative Agreements. One of PSS/TA's policy research activities (a household welfare survey in Maputo) has been implemented under a cooperative agreement, negotiated and executed by the RCO, between A.I D. and a U.S. university. This procurement mode is planned to be utilized for two additional research activities, with start-up in mid-FY 1993; however, based on discussions between the Mission, the GRM and the RCO, these services may instead be acquired through A.I.D. direct contracts. RCO's advice will be sought on competition requirements for these procurements, which may be based on unsolicited proposals or on proposals solicited by the RCO.

Grant to Public International Organization (PIO). The project includes funding for a transport policy advisor to the Government of Mozambique with expertise in roads and coastal shipping. A.I.D. funding for this position is being provided as an integral part of coordinated multi-donor funding, led by the World Bank, in support of policy reform and capacity building in this sector. It is probable that a direct Mission-executed grant to the World Bank will be the procurement mode selected to obtain these services, which are scheduled to begin in mid-FY 1993. If it is determined to proceed with such a grant to the World Bank, the justifications and analyses required by A I.D. Handbook 13, Chapter 5 will be prepared.

Buy-Ins/Add-Ons to A.I.D./Washington Cooperative Agreements or Contracts. Nearly half of total LOP funding will be utilized to procure policy-oriented research, technical assistance, and related services. These services are planned to be procured through add-ons to cooperative agreements or contracts with U.S. institutions under existing or planned A I.D./Washington projects. Two such buy-ins have already been executed, and two

more are planned. However, based on discussions between the Mission, the GRM, and the RCO, these services may instead be acquired through A I D direct contracts. Likely sources for the new buy-ins include the centrally funded Food Security II project, the Access to Land and Water Resources II project, and the Food Security and Nutrition Monitoring project. Before a decision is made on such a buy-in procurement, the Mission, appropriate GRM authorities, and the RCO will discuss the best procurement mechanism for the required services. Should a buy-in approach be selected, a PIO/T will be forwarded to A I.D./Washington for action.

Training

No long-term participant training is planned under the project. Of the total estimated training expenditures, about half are for activities in the U.S., including short courses, workshops, or conferences. Training activities will be managed by the Mission or through PIO/P requests to A I.D /Washington, Office of International Training (OIT). In accordance with existing DFA procurement guidelines, third country training in Code 899 countries may be approved by the Mission Director without special approval by the Director of OIT.

Commodities

Commodity procurement is a minor element of the PSS/TA expenditures, expected to amount to approximately three percent of total LOP. Direct Mission contracts are used for small value procurement of office furnishings and/or equipment for project-funded U.S. and FSN PSCs. Any such procurement of microcomputer hardware, software, or accessories is expected to be from U S. sources.

Recipients of project-funded cooperative agreements and contracts as described above will be responsible for procurement of commodities such as office furnishings/equipment, vehicles, supplies for field research, etc. Such procurement will be in accordance with A I D. regulations and, in the case of cooperative agreements, the recipients' own procurement procedures. A total of four to six small utility vehicles may be procured under the various project-funded contracts and cooperative agreements. Because right-hand-drive vehicles are the norm in Mozambique, and because no U S.-manufactured vehicles have maintenance and repair facilities in country, the probable source and origin of these vehicles is Japan. However, the availability of suitable U S -manufactured vehicles will be assessed prior to each specific vehicle procurement to ensure compliance with DFA guidelines and A I D /Washington guidance.

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International Travel

All travel and transportation financed by A.I.D. to and from the United States will be limited to U.S flag carriers, subject to documented exceptions. Because U.S flag carriers currently do not fly into southern Africa, non-U S. carriers will be used for this leg of project-financed travel and transportation.

Ocean Shipping of Commodities

To the extent that the project finances ocean shipping of commodities, the requirements of the Cargo Preference Act will be met.

Summary of Procurement Plan

<u>Procurement Instrument</u>	<u>Responsible Agent</u>	<u>Estimated LOP Amount</u>	<u>Of LOP Total</u>	<u>Probable Source</u>
FSN PSCs	Mission	970,000	7.2%	656
U.S. PSCs	Mission/RCO	2,282,000	16.9%	000
Other Direct Contracts	Mission/RCO	868,000	6.4%	000
		200,000	1.5%	656
		70,000	0.5%	899
Cooperative Agreements*	Mission/RCO	2,150,000	15.9%	000
Add-Ons/- Buy-Ins*	AID/W	6,300,000	46.7%	000
Grant to PIO	Mission/RCO	500,000	3.7%	899
Training	Mission	80,000	0.6%	000
		50,000	0.4%	656
		30,000	0.2%	899
		13,500,000	100.0%	

*Based on discussions between the Mission, the GRM, and the RCO concerning specific procurement actions, these may be direct A I.D. contracts rather than cooperative agreements or buy-ins to cooperative agreements

10

Annex E

Initial Environmental Examination

Mozambique Private Sector Support Technical Assistance Project
656-0218

September 10, 1992

I. Program and Project Purposes and Objectives:

The Mozambique Private Sector Support Program (656-0208) is designed to stimulate greater production and marketing for domestic agricultural products. Components of the program include an NFA support for commodity imports and project-funded technical assistance. This last component is implemented through the PSS/TA Project (656-0218).

According to Maputo 02362, under the PSSP, some progress has been made in policy reform in several important areas, though much remains to be done in terms of program monitoring. Also, the Mission is constrained by the need for further information and analysis in key policy areas.

Also, according to Maputo 02362, the 1992/1993 policy reform areas of concern will be:

1. Agricultural Pricing Policy
 - a. Complete the liberalization of rice pricing;
 - b. Assess impact of price changes, esp. yellow corn pricing;
2. Divestiture of State Farms
 - a. Continue to divest state farms and make resources available to private sector;
 - b. Improve transparency of the divestiture process;
 - c. Constitute a national land commission with a mandate to address issues re land allocation, administration, policy reform, use planning and conflict resolution;
3. Private Agricultural Sales and Service
 - a. Continue closing or privatizing parastatal agricultural enterprises;
 - b. Limit PSSP CIP financing to private importers and end users;
4. Access to Foreign Exchange
5. Private Marketing Channels
 - a. Continue analysis of disincentives to market participation;
 - b. Develop program for privatization of major parastatal trucking fleets;
 - c. Identify constraints in wholesaling, storage, processing and transport;
 - d. Lift all fixed tariffs for private truckers;
6. Petroleum Importation and Marketing
 - a. Begin private importation of avgas;
 - b. Amend regulations to permit this;
 - c. Develop study of free markets for diesel and gasoline;
 - d. Monitor the impact of price liberalization in this sector;
7. Changes to the level and range of the CIP

II. Background:

An Initial Environmental Examination for the commodity import component of this amendment to the Private Sector Support Program (656-0208) has already been approved by the Bureau Environmental Officer and the GC/AFR (5/10/91) for a negative determination. The earlier IEE essentially allowed petroleum products to be added to the positive list. Future changes in the commitment under this program would allow expansion of the list of eligible commodities, and a further effort towards policy reform.

The technical assistance project (656-0218) is recommended for a categorical exclusion pursuant to Reg 16 (Section 22 CFR 216.2 (c)(2)(i)), as technical assistance, per se, is not expected to have a direct significant environmental impacts.

However, because, as noted above, the PSSP program includes many items bearing on policy reform, Section 496 of the Foreign Assistance Act, which sets out the terms of the DFA, should be noted. This specifically requires that "policy reforms shall also include provisions to protect...long-term environmental interests from possible negative consequences of the reforms."

Meeting this requirement will be difficult, because little is known for sure either about the impacts of policy reform on the environment or about how to mitigate those impacts.

This requirement of the DFA calls for an analytical consideration of the kinds of policy reforms which are likely to have an impact on the management of the environment in the long run. At a glance, the list might include reforms which have some impact on:

- the forms of land tenure which are permitted by law or tradition;
- how land is used, and how its use responds to economic change;
- structures for marketing and pricing agricultural products;
- trade policy and the terms of trade between agriculture and industry;
- import pricing, subsidies, quotas, tariffs, and other trade policy tools; and
- exchange rates.

III. Long Term Impacts:

Most of the policy reform areas to be undertaken in the PSSP program (see list above in Section I), will not have any direct adverse environmental impact, however there may be adverse impacts over the long-term in the areas of: a) Agricultural Pricing Policy (impacts on land use patterns, especially intensification at farm level, e.g., as a result of chemical inputs, or increased erosion on plots, and extensification, e.g., encroachment on forested areas, etc.); b) State Farm Divestiture (private sector farming

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practices could result in negative environmental impacts); and c) Private Marketing Channels (where increases in market participation, privatization of major trucking fleets, and lifting fixed tariffs for private truckers, could result in long-term adverse impacts relative to urban traffic, protected areas and pressure on the sustainable resource base).

Since impacts may occur, however far down the road, the PSSP program would more appropriately qualify for a negative determination, providing that the following conditions are met during program implementation.

IV. Environmental Monitoring, Evaluation and Mitigation:

In order to address the above concerns, the PSSP program should carry out a short-term Environmental Impact Review as part of the PSS/TA activities. This EIR would particularly concentrate on the adverse impacts over the long-term in the areas of:

- a) Agricultural Pricing Policy (impacts on land use patterns, especially intensification at farm level, e.g., as a result of chemical inputs, or increased erosion on plots, and extensification, e.g., encroachment on forested areas, etc.);
- b) State Farm Divestiture (private sector farming practices could result in negative environmental impacts); and
- c) Private Marketing Channels (where increases in market participation, privatization of major trucking fleets, and lifting fixed tariffs for private truckers, could result in long-term adverse impacts relative to urban traffic, protected areas and pressure on the sustainable resource base).

In addition the EIR would consider the impact of policy reform on the natural resource base of the country, and would also outline for the GOM a monitoring and evaluation program, by which any negative environmental impacts can be discovered and reviewed. This is referred to as an "Environmental Monitoring and Mitigation Plan" (or "EMEMP"), and it should be outlined in the EIR. The EIR should also identify specific environmental indicators to be used by the GOM, and it should indicate which of the responsible GOM institutions will be providing the data that could be used to monitor performance in the environmental sector. Further, a listing of appropriate actions needed to mitigate impacts, should be drawn up, and actions indicated as needed from the responsible GOM agencies and in-country organizations.

The intent of this Environmental Impact Review would be to demonstrate how information derived from environmental indicators and evaluation of performance can be fed back to the GOM perhaps this could be done during annual conferences or workshops put on by different ministries or in-country organizations. At these

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sessions the latest data acquired could be compared to any existing baseline data to determine whether impacts are significant, and whether they are positive or negative. Alternatively, if baseline data are lacking, the Environmental Impact Review should recommend the depth and quality of baseline data needed.

Lastly, in order to ensure that mitigation will be taken up by the GOM, the EIR and the results of any conferences connected with it, and the Environmental Monitoring and Mitigation Plan (EMEMP) outlined in the EIR, will be presented to the Secretariat of the National Environmental Action Plan which is now being put forward in Mozambique.

V. Summary:

The policy reform component of the Private Sector Support Program (656-0208) amendment is recommended for a negative determination under Section 216.3(a)(2), with the provision that an Environmental Impact Review will be carried out early in the program amendment implementation, that will identify any long-term environmental impacts and provide for mitigation by the GOM. The commodity import component of this program has received an earlier negative determination (1991) which still applies.

Technical Assistance Project Amendment (656-0218) is recommended for a categorical exclusion under Section 216.3(c)(2)(i).

The PSSP Environmental Impact Review will be carried out early in the project amendment implementation under the Private Sector Technical Assistance Project (656-0218). This EIR will:

- (a) consider the impact of policy reform on the natural resource base of the country, especially in the areas of:
 - a) Agricultural Pricing Policy;
 - b) State Farm Divestiture;
 - c) Private Marketing Channels;
- (b) outline for the GOM a monitoring and evaluation program, (referred to as the "Environmental Monitoring and Mitigation Plan", (EMEMP) by which any negative environmental impacts can be discovered and reviewed;
- (c) identify specific environmental indicators to be used by the GOM;
- (d) identify the responsible GOM institution(s) that will be providing the data that could be used to monitor performance in the environmental sector;
- (e) provide a list of appropriate actions needed to mitigate impacts to be brought to the attention of the responsible government agency by the project staff;
- (f) demonstrate how information derived from environmental indicators and evaluation of performance can be fed back to the GOM (e.g., during annual conferences or workshops put on by different ministries or in-country organizations);
- (g) at such sessions the latest data acquired could be

- compared to any existing baseline data to determine whether impacts are significant, and whether they are positive or negative; and
- (h) if baseline data are lacking, the Environmental Impact Review should recommend the depth and quality of baseline data needed.