PD-ABH-041
85002

ZIMBABWE

GRAIN MARKETING REFORM SUPPORT PROGRAM

AMENDMENT #1

(613-0233)

PAAD

JULY 27, 1993

CLASSIFICATION:

AID 1120-1 (8-86)

PAAD

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: 613-0233, Program Amendment No. 1

2. COUNTRY: ZIMBABWE

3. CATEGORY: Zimbabwe Grain Marketing Reform Support Program Amendment No. 1

4. DATE:

5. TO: Ted D. Morse, Director, USAID/Zimbabwe

6. OYB CHANGE NO.:

7. FROM: Patricia K. Buckles, Chief, PDIS

8. OYB INCREASE: Approved Program =$25,000,000; FY91 AUTH/OBLIG =$ 5,000,000; FY93 AUTH/OBLIG =$ 5,000,000

TO BE TAKEN FROM: DFA FY93

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 5,000,000

10. APPROPRIATION – ALLOTMENT: 72-113/41014

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: July-December 1993

14. TRANSACTION ELIGIBILITY DATE:

15. COMMODITIES FINANCED

This is not a Commodity Import Program. It is a sector cash grant.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	N/A	U.S.:	N/A
Limited F.W.:	N/A	Industrialized Countries:	N/A
Free World:	N/A	Local:	N/A
Cash:	$5,000,000	Other:	N/A

18. SUMMARY DESCRIPTION

A US$5 million non-project assistance sector cash grant is authorized for the second tranche of the approved US$25 million Zimbabwe Grain Marketing Reform Support Program, which supports the GOZ in the implementation of grain marketing policy reforms required to achieve structural adjustment objectives. With this second tranche of assistance, authorized program assistance totals US$10 million.

The program continues to contribute toward improvement of rural consumer welfare by supporting a GOZ initiative to move grain marketing towards a competitive, lower cost system by reducing market controls and allowing expanded private participation in the grain trading system. The program purpose under the second tranche remains to support specific policy and regulatory reforms which will: (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit. Disbursement of the second authorized tranche of US$5 million is conditioned on specific reform action justified in PAAD Amendment No. 1., attached. The U.S. dollar funds will be disbursed into a non-commingled Special Dollar Account to support the market based foreign exchange allocation system. The GOZ agrees to deposit an equivalent amount of local currency into a Separate Local Currency Account for GOZ budgetary support and some USAID administrative costs.

19. CLEARANCES		DATE
REG/DP :	Margot Ellis	(draft)
REG/GC/	Donald Keene	(draft)
AA/PC	Robert ARmstrong	(draft)
A/CONT	Mary Lewellen	7/2/93
AA/MR	Caltsco Chiherakles	(draft)
AA/DFPE	James Harmon	

20. ACTION: ☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE: Ted D. Morse — DATE: 7/27/93

Ted D. Morse
Mission Director, USAID/Zimbabwe

TITLE

CLASSIFICATION:

ACTION MEMORANDUM FOR THE MISSION DIRECTOR, USAID/ZIMBABWE

FROM : Jim Harmon, PDO
Calisto Chihera, ADO

THRU : Robert Armstrong, Chief, GDO
Patricia K. Buckles, Chief, PDIS

SUBJECT: Zimbabwe Grain Marketing Reform Support Program (613-0233) - Program Assistance Approval Document (PAAD) Amendment No. 1

Action Requested - Your approval is requested to support the Government of Zimbabwe (GOZ) in the implementation of grain marketing policy reforms required to achieve Economic Structural Adjustment Program (ESAP) objectives by: (1) authorizing a $5 million non-project assistance cash grant to increase the life of program authorized funding level for the subject program to $10 million; and (2) approving the obligation of said funds through a Program Grant Ageement Amendment No. 1 with the Government of Zimbabwe (GOZ).

Background - The Zimbabwe Grain Marketing Reform Support Program was conceptualized by the Mission and the Ministry of Lands, Agriculture and Water Development (MLAWD) to be implemented over five years, beginning the date of obligation, August 30, 1991. The Program contributes toward improvement of rural consumer welfare through its support of a GOZ initiative to move grain marketing towards a competitive, efficient system by reducing market controls and allowing more broadly-based participation in the grain marketing system. The program purpose is to support specific policy and regulatory reforms which will: (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit.

The program design envisaged that $25 million would be made available over the five-year life of the program through tranched authorizations and obligations, with disbursements completed upon satisfaction of specific policy reform conditionality for each tranche. The original program justification documentation included conditionality related to specific policy reforms for the FY 1991 tranche of $5 million, with indicative policy reform conditionality presented for remaining years of the program. It was expected that indicative program conditionality would be further developed and agreed upon after the GOZ completed development of a medium-term grain marketing liberalization strategy. It was envisaged in the original program documentation that each tranche of assistance for policy reforms after the initial tranche would be analyzed for program feasibility and the PAAD justification document amended accordingly.

A.I.D./W agreed with the level of program assistance and the above procedure for tranched funds authorization, obligation, and disbursement in the Executive Committee Project Review (ECPR) guidance cable, 91 STATE 211040, which reported on the Program Assistance Initial Proposal (PAIP) review held on June 5, 1991. The approval to develop the PAAD and authorize the initial

$5 million in program assistance in the field was given with the understanding that the Mission would consult with A.I.D./W prior to authorization of subsequent year increments of a multi-year program.

The disbursement of FY 1991 funds was conditioned on completion of five agreed upon actions in support of the grain marketing liberalization program. The five actions which, along with the three standard conditions requiring specimen signatures and the establishment of Dollar and Local Currency Special Accounts, comprised the complete set of eight Conditions Precedent to disbursement of FY 1991 Dollar funding are summarized below:

(a) Government formally establishes an autonomous Board of Directors at the GMB;

(b) Government formally allows sale of grain from GMB depots to any buyer at whatever quantity is demanded greater than one bag and ensures that information is disseminated to the public and GMB managers;

(c) Government, at the Cabinet level, formally approves the policy that any buyer is allowed to resell grain through any channel in Natural Regions IV and V, without paying any portion of revenues back to the GMB;

(d) Government formally allows grain to be sold at selected GMB collection points and/or other non-depot distribution points to any buyer, and ensures that this information is disseminated to the public; and

(e) Government submits a plan for development, completion, and dissemination of a medium range strategy for rationalization of national grain marketing and the development of a strong, competitive grain marketing system which permits and encourages private sector participation.

In full compliance with provisions of the Program Agreement, the GOZ was advised through Project Implementation Letter No. 3, dated May 28, 1992, that all eight conditions precedent to the FY 1991 disbursement were met, and U.S. dollar funds were disbursed in accordance with the Program Agreement to support the Open General Import License (OGIL) foreign exchange allocation system. However, subsequent to the notification by USAID that the conditions precendent were satisfied, the GMB was forced by the circumstances of the worst drought in the century in Southern Africa to rescind its earlier directive which allowed unlimited sales of grain from GMB depots to any buyer, along with the complementary action to publicize this liberalized marketing policy. The Mission determined and documented in a memorandum dated August 7, 1992, that the temporary reversal of the action on the condition precedent was warranted due to the unavailability of grain for sale because of the drought. When the end of the drought was evident in April 1993, unlimited sales to any buyer once again became GMB policy; the change in policy was was set forth in a circular on April 8, 1993.

Upon notification that all Conditions Precedent had been met, AID/W/FM established the required disbursement authorization on August 13, 1992, and the $5 million in FY 1991 funds was deposited into the GOZ Dollar Special Account No. 03336318 at the London Manufacturer's Hanover Trust on August 14, 1992. In compliance with Article 3 of the Agreement, these funds were thereafter allocated by the GOZ to the OGIL to be attributed to U.S. imports eligible for A.I.D. financing. In compliance with provisions contained in Article 3 and Annex A of the Program Agreement regarding the permitted uses of the dollar grant, the GOZ submitted a list of importers who received foreign exchange to purchase selected goods off the OGIL, in excess of US$5 million, which were sourced from the United States. An Action Memorandum was signed by the Mission Director concurring that the GOZ had satisfied its requirement for providing evidence of the importation of goods from the U.S. totalling at least the US$5 million value of the cash grant and approving a draw-down from the Dollar Special Account.

In satisfaction of its counterpart generation requirement under Article 4 of the Agreement, the GOZ deposited the local currency equivalent to the $5 million program funding into the Local Currency Special Account No. 20-13925 at the Reserve Bank of Zimbabwe on May 7, 1992. Also under Article 4 of the Agreement, the Grantee was required to satisfy two provisions regarding the use of local currency. First, in a letter dated August 26, 1992, the Mission Director concurred with the GOZ proposal for the attribution of 90% of the local currency generations to activities in support of program objectives. These activities were contained under Vote No. 9 of the Ministry of Lands, Agriculture and Water Development (MLAWD) budget for Financial Year 1992. In a September 15, 1992 letter from the Ministry of Finance (MOF) to the Reserve Bank, the MOF requested that this amount (Z$22,160,610 at the current exchange rate) be transferred from the Special Account to the appropriate MLAWD account to support Vote 9. Second, in the same letter the MOF instructed the Reserve Bank to transfer 10% of the local currency generations (Z$2,462,290 at the current exchange rate) into the A.I.D. administered Trust Fund at Standard Chartered Bank (Avondale Branch - account no. 3140113).

Discussion - While approving the Mission proposed conditionality for the first disbursement of FY 1991 funds, ECPR guidance resulting from the PAIP review emphasized the importance of the GOZ providing A.I.D. with an overall maize marketing liberalization plan. In conformance with ECPR guidance and supporting program conditionality, the MLAWD has developed a final draft of the required medium-term strategy, which lays out the steps needed to achieve the programmatic end point for the 1995/1996 marketing season. This objective is consistent with that stated in ECPR guidance, i.e., " GMB to operate as a commercial organization along side other marketing channels."

The draft of the phased, three-year GOZ "Maize Pricing and Market Liberalization Strategy" (covering years 3 through 5 of this program) was reviewed by MLAWD during May 6-8, 1993. Although results of the review have not been formally made available to the public, reports indicate that the draft strategy has been generally accepted by MLAWD. The three phase strategy includes the conditionality contained in this PAAD amendment in Phase I and continues to identify a series of inter-linked reform measures which progress to Phase III in the 1995/96 marketing season. By the end of Phase III, the GBM will operate in competition with unregulated private grain producers and traders, as well as large and small scale millers and processors.

In view of Phase I of the GOZ strategy, a set of alternative policy reform options which could be included in the FY 1993 program amendment conditionality were analyzed by USAID and the GOZ, with technical assistance. Based on the analysis, which is detailed in the attached PAAD Amendment document, it was determined that disbursement of a second tranche of US$5 million in FY 1993 cash grant resources should be conditioned upon the standard requirement for establishment of special accounts to ensure financial controls and the following specific reform action:

> Evidence that the Government, at the Cabinet level, formally approves the redefinition of Zones A and B of the Grain Marketing Act, such that Zone A refers to the factory gates of named maize buyers, while Zone B refers to all other parts of the country. This would effectively deregulate maize prices and trade throughout the country in Zone B, while maintaining floor and ceiling prices through the Grain Marketing Board's continuing role as residual buyer and seller in Zone B. GMB will remain the sole seller of maize to Zone A firms.

The regulatory implication of the FY 1993 conditionality is that only Zone A firms, or a small group of industrial millers, will be restricted to buying from the parastatal GMB. The rationale for choosing this policy reform option over other possible reforms is discussed in detail in the updated PAAD technical, political, economic, and institutional analyses.

Further, as detailed in the economic analysis, a critical reduction in the subsidy provided to industrial millers that process roller meal was needed in order to achieve the desired programmatic inpact and net benefits anticipated from the above cited policy reform action. Specifically, with the competitive advantage provided to industrial millers through the roller meal subsidy, a significant broadening of participation in maize marketing, trading, and processing, was not possible. With the removal of the subsidy by the GOZ on June 1, 1993, it is now possible for the proposed policy reform action to have the expected impact of allowing farmers, traders and small scale millers to all have the opportunity to operate profitably in a less regulated, more competitive environment.

In essence, the FY 1993 conditionality requiring the Zone A/B redefinition removes the current regulatory barriers to competition in the sale, trade and movement of maize, and the processing of maize meal. With the removal of the roller meal subsidy for large millers, small traders and millers will be able to purchase maize at a price competitive to that available to industrial millers and will thus have the opportunity to compete and earn a reasonable profit.

The broader effects of the proposed policy reform and the recent action on removal of the roller meal subsidy will be to support (a) deregulation of maize prices and trade throughout the country; (b) establishment and maintenance of the role of the GMB as residual buyer and seller of maize, while maintaining floor and ceiling prices; and (c) free movement, trade and processing of maize by any entity, with the exception of maize sales to industrial millers, which will, for the time being, be limited to the GMB. In sum, the achievement of FY 1993 conditionality promises to be a major step in reaching USAID's 1995 objective of the grain marketing subsector, i.e., for the "GMB to operate as a commercial organization along side other marketing channels."

Timing of policy reforms is a key issue in the draft GOZ Maize Pricing and Market Liberalization strategy. It is a reality that an immediate withdrawal by the GMB from maize marketing is neither probable nor likely to be beneficial (issues discussed in detail in the attached political, technical and institutional analyses sections of PAAD Amendment No. 1). Due to the historical monopoly of the GMB as the predominant buyer and seller of maize, the private sector is not currently positioned to immediately and totally replace the GMB in buying, selling, storage and transport of the entire maize crop produced in Zimbabwe or the entire consumption requirement of the country. Since most Zimbabwe maize producers and consumers depend on the GMB, a transition period will be necessary to allow the private sector to gear up sufficiently to ensure that a sizeable portion of the population is not placed at undue risk resulting from a lack of private sector capacity, a situation which could jeopardize the reform process, incurring both political and social resistance.

The primary reason for the phased marketing liberalization approach of both A.I.D. and the GOZ is, therefore, to provide for an orderly transition from the current centralized and controlled system to one which allows the private sector to increasingly perform marketing and processing at a lower cost due to competitive pressures and increased efficiency. A major issue for both the GOZ and A.I.D. is how to structure, time, and manage the transition process to achieve the potential benefits of a more competitive and market-driven system, without undermining the reform process itself. If the process is not managed properly, potentially detrimental resistance could be encountered from consumers, maize producers, industrial millers, and other groups which might, at least in the immediate-term, perceive themselves as being unduly hurt.

As detailed in the Economic Analysis of PAAD Amendment No. 1, the proposed policy reform supported with FY 1993 Program assistance will produce a net benefit of Z$14.5 million the first year and Z$72 million per year thereafter. Assuming a horizon of ten years, the Net Present Value of the program (at the official GOZ discount rate of 15%) is Z$398 million or approximately US$63.2 million at the current rate of exchange.

The PAAD contains a Monitoring and Evaluation Plan which lays out a number of key indicators against which the attainment of the program goal and purpose will be measured for programmatic impact. The original M/E plan also details how each indicator would be monitored to assess the attainment of programmatic objectives. However, due to the almost total absense of maize production during the 1991-1992 rainy season, caused by the devastating effects of the drought, it was not practical to collect the necessary baseline information to formally measure programmatic impact of the CPs against these indicators. Because of the abnormal marketing environment, the collection of baseline data during this period would have been a misleading and meaningless exercise.

In hindsight, this delay in the collection of baseline statistics may have proven beneficial for several reasons. First, due to the normal rainfall in most of Zimbabwe during the 1992-1993 rainy season, the maize marketing environment now provides a more representative scenario to provide baseline data. Second, because of significant achievements in policy dialogue between the GOZ and the donor community, including A.I.D., it appears that a number of indicators in the original PAAD have been already surpassed by events, and therefore, have become somewhat irrelevant as measures of progress in the maize marketing liberalization process. Third, the delay allowed the Mission to more closely integrate the objectives of this program with the recent development of the CPSP, under which program direction and emphasis will be aligned closely with objectives of the sorghum/millet food security and natural resources management in Natural Regions IV and V.

In effect, the drought related delay in collecting baseline monitoring and evaluation data provided the Mission with the opportunity to rethink and modify the original indicators to be more consistent with both the accelerated pace of the GOZ in liberalizing the grain marketing system and to be more in line with the Mission's overall development strategy during the next five years. These indicators, which have been expanded from the original focus on measuring activity at GMB depots to include private sector buying and selling, are detailed in the attached Update to the Monitoring and Evaluation Plan.

Issues - During a review session held by the Mission Executive Committee (EC) on June 3, 1993, a number of issues were resolved, as reported below:

(a) GOZ Approval of the Draft Medium Term Maize Pricing and Market Liberalization Strategy - In response to a question on the status of the GOZ's approval of the draft medium term "Maize Pricing and Market Liberalization Strategy", the responsible technical office indicated that the document had been reviewed the first week of June 1993. Based on informal feedback from several participants, it appears the draft document was generally accepted by senior civil servants and technical staff of the Ministries of Finance and Land, Agriculture, and Water Development (MLAWD), and the Minister of MLAWD will take the strategy to the Cabinet for approval.

(b) Technical Viability of the Proposed FY 1993 Conditionality - In response to a question on the determination of the technical viability of the proposed FY 1993 conditionality, the responsible technical office reported that the conditionality had been carefully reviewed by analysts in the MLAWD, the World Bank, and the IMF, and was the culmination of a number of years of work at the University of Zimbabwe. It was further stated that the proposed conditionality was also contained in a draft of the World Bank's Structural Adjustment Credit ("SAL II"). The analysis was determined to be sufficient.

(c) Millers' Margin - The EC expressed the concern that FY 1993 conditionality did not address the issue of cushioning the impact of expected roller meal price increases. The EC was advised that the competitive pressure from small scale hammer mill operators producing a whole meal alternative to roller meal would be key in providing a lower cost alternative to low income families. For instance, a study carried out in 1992 found that hammer mills in Harare had the capacity to mill approximately 65,000 metric tons or about 41% of the city's annual consumption of maize meal. This amount exceeds the estimated demand for whole meal, given the segmented nature of the market in which a large number of consumers will continue to buy roller meal or super refined meal. A constant, year round supply of maize, which will be facilitated as soon as the policy reform proposed in USAID's FY 1993 Amendment to the Grain Marketing Reform Support Program is enacted by the GOZ, should also increase hammer mill output.

(d) Competition in Milling - The EC expressed concern about the sustainability of competition from the small scale hammer millers. The hypothetical question was asked whether industrial millers could effectively undercut the small millers for a given period of time to put them out of business? The EC concluded that the hammer millers were generally here to stay for several reasons. First, they have a history of starting up and shutting down to accommodate seasonal contract milling of limited maize supples held at the household level. Due to ease of market entry and exit, industrial millers could not keep small hammer millers out of the market over long periods of time without ruining their own profitability and economic viability. Second, maize meal has a segmented market; industrial roller meal and whole meal from hammer mills are viewed by consumers as very different products. More affluent consumers don't buy whole meal, whereas low income and rural people do. Now that consumer prices will reflect production cost differences, market segmentation should become more clear cut, with low income families finding roller meal too expensive.

(e) Political Risk - Based on the EC recommendation, the analysis of the political feasibility/impact of the proposed policy change to be included in the program amendment has been strengthened to reflect the cabinet level concerns and reactions to the roller meal price increase and the steps MLAWD will take to assuage political concerns of the effects of a roller meal price increase.

(f) Monitoring and Evaluation - The EC recommended and that the Mission Evaluation Officer and the General Development Officer should review the impact indicators in the Monitoring and Evaluation Plan to ensure they are appropriate, especially in view of the accelerated pace of the GOZ grain marketing liberalization effort and the recent development and AID/Washington approval of the Mission's CPSP. The review will be completed with the consultant team assisting in developing the Mission's monitoring and evaluation plan for CPSP implementation. The team is expected in July 1993.

(g) Use of U.S. Dollar Resources - EC was advised that GOZ reports on U.S. imports are global and therefore include imports financed under both the Open General Import License (OGIL) and the Export Retention Scheme (ERS), without disaggregating by the method of import financing. Also, it was pointed out that, since the development of the PAAD, the ERS has dramatically increased in importance, while the OGIL has become less significant. Therefore, the EC concluded that the use of U.S. dollars will still be to support the OGIL, but since foreign exchange is fungible, the global U.S. import lists will remain sufficient means for confirming that resources have helped maintain U.S. import levels.

(f) Local Currency Uses - The EC agreed that the budget attribution process carried out for the FY 1991 program disbursement was still appropriate. While it was recognized that projectized programming of local currency has merit, it was concluded that the best way to program local currency given staff and administrative capability limitations in USAID and in the GOZ is for the responsible technical office to initiate discussions with MLAWD early in the GOZ fiscal year to ensure that the local currency generations are attributed to key line items in support of A.I.D. programmatic objectives.

(g) Trust Funds - At the EC's request, the Controller has reviewed the Mission Trust Fund needs and determined that the current provision in the Program Agreement providing for 10 percent of the local currency counter deposits to be used for Mission administrative support is appropriate.

(h) Section 611(A) - It was agreed that all administrative and implementation arrangements were adequately carried out under the original FY 1991 disbursement. The EC therefore recommended a determination that all requirements for adequate planning are in place for the proposed Program Amendment No. 1. A 611(a) Legislative Action Requirements certification is included as Annex C of PAAD Amendment No. 1 for signature by the Director.

(i) Initial Environmental Examination - In accordance with an EC recommendation, the Categorical Exclusion determination of the IEE included in the original PAAD has been re-validated by the Mission Environmental Officer.

(j) Gray Amendment - The EC recommended review and re-certification of the Gray Amendment considerations determination. The re-certification for compliance is included as Annex B of PAAD Amendment No. 1 for signature by the Director.

Congressional Notification - The Congressional Notification was transmitted to Congress on July 1, 1993. The Notification period expired without objection and obligation may be incurred on or after July 15, 1993.

Authority - Under Section 4 of Africa Bureau Delegation of Authority No. 551, as amended (DOA 551), you have authority to approve and authorize projects, and amendments thereto, with a total life-of-project or program funding of less than $30.0 million. In accordance with STATE 161319, and subject to the guidance provided therein, your authority to approve the PAAD and authorize the program was confirmed. Pursuant to Section 5 of DOA 551, you have authority to negotiate and execute a $5 million program grant agreement amendment with the GOZ, bringing the total of program funding to $10 million, in accordance with the terms of the authorization of such grant.

Recommendation - It is recommended that you sign this memorandum, the attached Program Assistance Approval Document face sheet, the Legislative Action Certification and the Gray Amendment re-Certification, thereby authorizing FY 1993 funding for the Zimbabwe Grain Marketing Reform Support Program at the level of $5.0 million and approving negotiation and execution of a Program Grant Agreement Amendment No. 1 to obligate the funds.

Approve: Ted D. Morse
Ted D. Morse, Director

Disapprove: ______________________
Ted D. Morse, Director

Date: July 27, 1993

Attachments:

1. Program Assistance Approval Document (PAAD) Facesheet Amendment 1
2. Program Assistance Approval Document Amendment No. 1
3. Program Grant Agreement Amendment No. 1

Clearances:

CPDIS:P.K. Buckles		Date:
RLA :D. Keene	draft	Date: May 26, 1993
CONT :M. Lewellen	draft awaiting CN expiration	Date: June 3, 1993 ML 7/27/93
GDO :R. Armstrong	draft	Date: June 21, 1993
PRM :M. Ellis	draft	Date: June 3, 1993

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Zimbabwe Grain Marketing Reform Support Program
613-0233

Program Assistance Approval Document (PAAD)
Amendment No. 1

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ANNEXES

1. EXECUTIVE SUMMARY

1.1. Recommendations

Program Assistance Approval Document (PAAD) Amendment No. 1 justifies and recommends approval of a second tranche of US$5 million to be provided as part of a planned US$25 million program in non-project assistance to support the Government of Zimbabwe's (GOZ) grain marketing policy reform program. The approval of the second tranche of assistance will bring total program support to date to US$10 million.

PAAD Amendment No. 1 supplements the original PAAD document, dated August 30, 1991, that justified approval of the US$25 million multi-year program and authorization of the initial tranche of US$5 million provided in FY 1991. In accordance with the procedures set forth in the original PAAD document, PAAD Amendment No. 1 provides an addendum which analyses and justifies the second tranche of US$5 million to be provided in FY 1993.

1.2. Program Summary

Program Objectives - The Zimbabwe Grain Marketing Reform Support Program was conceptualized by the Mission and the Ministry of Lands, Agriculture and Water Development (MLAWD) to be implemented over five years, beginning the date of obligation, August 30, 1991. The Program goal is the improvement of rural consumer welfare through support of a GOZ initiative to move grain marketing towards a competitive, efficient system by reducing market controls and allowing more broad-based participation in the grain marketing system. The program purpose is to support specific policy and regulatory reforms which will: (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit.

USAID funded research during the 1989-1991 marketing years has documented the extent to which rural deficit households are dependent upon expensive commercially manufactured maize meal due to the unavailability of maize grain. The USAID program is designed to promote the development of a lower-cost competitive private grain trade. Analyses indicate that such developments will, in turn, make grain more available and affordable to deficit rural consumers and low-income urban consumers through increased marketing efficiency, thereby generating welfare and food security improvements. Also, the reform of the GMB's single-channel marketing system is expected to increase rural incomes as rural-based entrepreneurs are legally permitted to engage in grain marketing activities and the demand for locally milled maize meal expands.

The program design envisaged that $25 million would be made available over the life of the program through tranched authorizations and obligations, with disbursements completed upon satisfaction of specific conditionality for each tranche. The program justification documentation included specific conditionality for the FY 1991 tranche of $5 million, with indicative conditionality presented for remaining years of the program. It was expected that indicative program conditionality would be further developed and agreed upon after the GOZ completed development of a medium-term grain marketing liberalization strategy. Each tranche of assistance after the initial tranche was to be analyzed for program feasibility and the PAAD justification document amended accordingly.

A.I.D./W agreed with the level of program assistance and the above procedure for tranched funds authorization, obligation, and disbursement in the Executive Committee Project Review (ECPR) guidance cable, 91 STATE 211040, which reported on the Program Assistance Initial Proposal (PAIP) review. The approval to develop the PAAD and authorize the initial $5 million in program assistance in the field was given with the understanding that the Mission would consult with A.I.D./W prior to authorization of subsequent year increments of a multi-year program.

FY 1991 Conditionality - The disbursement of FY 1991 funds was conditioned on completion of five agreed upon actions in support of the grain marketing liberalization program. The five actions, along with the three standard conditions requiring specimen signatures and the establishment of Dollar and Local Currency Special Accounts, comprised the complete set of eight Conditions Precedent to disbursement of FY 1991 Dollar funding, and are summarized below:

A. Government formally establishes an autonomous Board of Directors at the GMB;

B. Government formally allows sale of grain from GMB depots to any buyer at whatever quantity is demanded greater than one bag and ensures that information is disseminated to the public and GMB managers;

C. Government, at the Cabinet level, formally approves the policy that any buyer is allowed to resell grain through any channel in Natural Regions IV and V, without paying any portion of revenues back to the GMB;

D. Government formally allows grain to be sold at selected GMB collection points and/or other non-depot distribution points to any buyer, and ensures that this information is disseminated to the public; and

E. Government submits a plan for development, completion, and dissemination of a medium range strategy for rationalization of national grain marketing and the development of a strong, competitive grain marketing system which permits and encourages private sector participation.

The Mission advised the GOZ on May 28, 1992, that all eight conditions precedent to the FY 1991 disbursement were met, and U.S. dollar funds were disbursed in accordance with the Program Agreement to support the Open General Import License (OGIL) foreign exchange allocation system. While approving the conditionality for the first disbursement of FY 1991 funds, ECPR guidance resulting from the PAIP review emphasized the importance of an overall GOZ maize marketing liberalization plan. In conformance with ECPR guidance and supporting program conditionality, the MLAWD has developed a final draft of the required medium-term strategy, which lays out the steps needed to achieve the programmatic end point for the 1995/1996 marketing season. This objective is consistent with that stated in ECPR guidance, i.e., " GMB to operate as a commercial organization along side other marketing channels."

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<u>Development of FY 1993 Conditionality</u> - Within Phase I of the GOZ strategy framework, a set of alternative policy reform options which could be included in the FY 1993 program amendment conditionality were analyzed by USAID and the GOZ. Based on the analysis, which is detailed in Section 6.1, it was determined that disbursement of the US$5 million in FY 1993 funding should be conditioned upon the standard requirement for establishment of special accounts to ensure financial controls and the following specific reform action:

> Evidence that the Government, at the Cabinet level, formally approves the redefinition of Zones A and B of the Grain Marketing Act, such that Zone A refers to the factory gates of named maize buyers, while Zone B refers to all other parts of the country. This would effectively deregulate maize prices and trade throughout the countryin Zone B, while maintaining floor and ceiling prices through the Grain Marketing Board's continuing role as residual buyer and seller in Zone B. GMB will remain the sole seller of maize to Zone A firms.

The regulatory implication of the FY 1993 conditionality is that only Zone A firms, or a small group of industrial millers, will be restricted to buying from the parastatal GMB. The rationale for choosing this policy reform option over other possible reforms is discussed in detail in the updated PAAD technical, political, economic, and institutional analyses.

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Further, as detailed in the economic analysis, a critical reduction in the subsidy provided to industrial millers that process roller meal was needed in order to achieve the desired programmatic impact and net benefits anticipated from the above cited policy reform action. Specifically, with the competitive advantage provided to industrial millers through the roller meal subsidy, a significant broadening of participation in maize marketing, trading, and processing, was not possible. With the removal of the subsidy by the GOZ on June 1, 1993, it is now possible for the proposed policy reform action to have the expected impact of allowing farmers, traders and small scale millers to all have the opportunity to operate profitably in a less regulated, more competitive environment.

Implications of FY 1993 Conditionality - In essence, the FY 1993 conditionality requiring the Zone A/B redefinition removes the current regulatory barriers to competition in the sale, trade and movement of maize, and the processing of maize meal. With the removal of the roller meal subsidy for large millers, small traders and millers will be able to purchase maize at a price competitive to that available to industrial millers and, will thus have the opportunity to compete and earn a reasonable profit.

The broader effects of the proposed policy reform and the recent action on removal of the roller meal subsidy will be to support (a) deregulation of maize prices and trade throughout the country; (b) establishment and maintenance of the role of the GMB as residual buyer and seller of maize, while maintaining floor and ceiling prices; and (c) free movement, trade and processing of maize by any entity, with the exception of maize sales to industrial millers, which will, for the time being, be limited to the GMB. In sum, the achievement of FY 1993 conditionality promises to be a major step in reaching USAID's 1995 objective of the grain marketing subsector, i.e., for the "GMB to operate as a commercial organization along side other marketing channels."

Timing of Policy Reforms: Timing of policy reforms is a key issue in the GOZ Maize Market Liberalization strategy. It is a reality that an immediate withdrawal by the GMB from maize marketing is neither probable nor likely to be beneficial (issues discussed in detail in the attached political, technical and institutional analyses updates). Due to the historical monopoly of the GMB as the predominant buyer and seller of maize, the private sector is not currently positioned to immediately and totally replace the GMB in buying, selling, storage and transport of the entire maize crop produced in Zimbabwe or the entire consumption requirement of the country. Since most Zimbabwe maize producers and consumers depend on the GMB, a transition period will be necessary to allow the private sector to gear up sufficiently to ensure that a sizeable portion of the population is not placed at undue risk resulting from an immediate-term lack of private sector capacity, a situation which could jeopardize the reform process through political and social resistance.

The primary reason for the phased marketing liberalization approach of both A.I.D. and the GOZ is, therefore, to provide for an orderly transition from the current centralized and controlled system to one which allows the private sector to increasingly perform marketing and processing at a lower cost due to competitive pressures and increased efficiency. A major issue for both the GOZ and A.I.D. is how to structure, time and manage the transition process to achieve the potential benefits of a more competitive and market-driven system without undermining the reform process itself. If the process is not managed properly, potentially detrimental resistance will likely be encountered from consumers, maize producers, industrial millers, and other groups which might, at least in the immediate-term, perceive themselves as being unduly hurt.

Benefits of FY 1993 Conditionality - As detailed in the Economic Analysis in Section 6.2, the proposed policy reform under the FY 1993 Program Amendment will produce a net benefit of Z$14.5 million the first year and Z$72 million per year thereafter. Assuming a horizon of ten years, the Net Present Value of the program (at the official GOZ discount rate of 15%) is Z$398 million or approximately US$63.2 million at the current rate of exchange.

Monitoring and Evaluation: The original PAAD contains a Monitoring and Evaluation Plan which lays out a number of key indicators against which the attainment of the program goal and purpose would be measured for programmatic impact. The original Monitoring and Evaluation Plan also details how each indicator would be monitored to assess the attainment of programmatic objectives. However, due to the almost total absence of maize production during the 1991-1992 rainy season caused by the devastating effects of the drought, it was not practical to collect the necessary baseline information to formally measure programmatic impact of the CPs against these indicators. Because of the abnormal marketing environment, the collection of baseline data during this period would have been a misleading and meaningless exercise.

In hindsight, this delay in the collection of baseline statistics may have proven beneficial for several reasons. First, due to the normal rainfall in most of Zimbabwe during the 1992-1993 season, the maize marketing environment now provides a more representative scenario to provide baseline data. Second, because of significant achievements in policy dialogue between the GOZ and the donor community, including A.I.D., it appears that a number of indicators in the original PAAD have already been surpassed by events, and therefore, have become somewhat irrelevant as measures of progress in the maize marketing liberalization process. Third, the delay allowed the Mission to more closely integrate the objectives of this program with the recent development of the Country Program Strategic Plan (CPSP), under which program direction and emphasis will be aligned closely with objectives of the sorghum/millet program, food security and natural resources management community-based development in Natural Regions IV and V.

In effect, the drought related delay in collecting baseline monitoring/evaluation data provided the Mission with the opportunity to

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rethink and modify the original indicators to be more consistent with both the accelerated pace of the GOZ in liberalizing the grain marketing system and to be more in line with the Mission's overall development strategy during the next five years. These indicators, which have been expanded from the original focus on measuring activity at GMB depots to include private sector buying and selling, are detailed in Section 7.2, Monitoring and Evaluation Plan.

2. PROGRAM CONTEXT

This section of the original PAAD remains valid. The information below is provided to up-date information on progress in implementing the Economic Structural Adjustment Program (ESAP).

The 1991/1992 period brought with it the worst drought of this century and a decline in agricultural output of more than 40 percent. The manufacturing sector experienced negative growth of 7.5 percent due to the combined impact of material shortages from agriculture, a drastic decline in domestic demand, shortages of power and water and restrictive credit policies. During the 1992 calendar year, GDP is estimated to have fallen by approximately 9 percent; the overall budget deficit excluding foreign grants is estimated to have widened to 11 percent of GDP as compared with an original ESAP target of 5.9 percent; and the current account deficit is estimated to have widened to 19 percent, compared with an original ESAP target of 11.8 percent. Further, as a result of extraordinary food imports and lower than anticipated export levels due to the drought, the debt service ratio will remain at an elevated level through the first half of the 1990's, peaking at approximately 28 percent in 1994.

Despite the setbacks of the drought, Zimbabwe has forged ahead in its implementation of the ESAP. Nearly 10,000 civil service jobs have been eliminated compared with a Program target of 8,500 positions. Tight monetary policies have been instituted to rein in drought and ESAP induced inflation levels averaging 40 percent and peaking at 49.5 percent during 1992. Substantial tightening of monetary and credit policy, including the Reserve Bank of Zimbabwe's use of open market operations, and raising of banks' reserve requirements have forced interest rates to rise to the point where short-term real interest rates are now significantly positive. This is complementing fiscal deficit reduction and exchange rate management in containing overall demand, reducing inflation, and maintaining a sustainable balance of payments.

Trade liberalization is ahead of schedule with 15 percent of goods on the OGIL, and the Export Retention Scheme rate was recently raised to 35 percent. Moreover, significant price decontrol has occurred (only five items are now under strict price controls) including decontrols in the agricultural sector. After discounting the impact of the drought, ESAP performance fell short in the area of domestic deregulation, including: the lack of title deeds making it virtually impossible for enterprises in

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"growth points" to access business financing; delayed parastatal reform; and implementation of the Social Dimensions of Adjustment Fund despite extension of the Food-for-Work Program to cover 40 percent of the population and the introduction of the Supplementary Child Feeding Program. As a result of the overall positive assessment of the Program's progress, especially macro-economic management, the World Bank released a second tranche of its US$175 million structural adjustment loan in late 1992, and has successfully negotiated a Second Structural Adjustment Program in 1993.

3. SECTORAL CONSTRAINTS ANALYSIS

The analysis presented in this Section of the original PAAD should be supplemented with information presented below.

3.3. Grain Marketing Constraints

The effectiveness of the actions taken in 1992 (as envisaged in the FY 1991 program assistance support) to deregulate maize movements in Natural Regions IV and V was considerably blunted by severe drought. With the near-normal harvest anticipated for the 1993/1994 marketing year, the magnitude of the economic gains specified in the original PAAD document will be determined by the growth rate of private grain trading and small-scale milling private sector maize marketing.

A. Policy and Regulatory Framework Constraints

Perhaps the greatest difficulty with the present organization of the grain marketing system is that it is increasingly unsustainable in an environment of parastatal subsidy reduction under ESAP. Government, at its highest level, continues to use maize pricing policy as a mechanism to promote smallholder income growth. Pan-territorial pricing, despite its economic disadvantages, provides higher prices to most surplus-producing smallholder areas than what would prevail under an unregulated maize marketing system. Consequently, there are major political pressures for the continuation pan-territorial pricing, at least for the immediate future.

As long as the Government of Zimbabwe (GOZ) forces the Grain Marketing Board (GMB) to maintain pan-territorial pricing, the GMB will insist on preserving controls on private maize trade to reduce its operating losses. But these controls create costs and impede the development of competitive markets that could eventually obviate the need for the GMB to carry out social functions in many rural areas that inflate its operating costs. It is also likely that the food security needs of rural areas where demand is geographically dispersed over wide areas can be achieved at lower cost through the development of small-scale trading networks. Given its current cost structure, the centralized GMB system usually only moves grain to depots in growth points and rarely any closer to remote smallholders. This is especially the case in the grain-deficit southern and western portions of the country where GMB has a very limited presence.

However, there is little if any indication that the withdrawal of the GMB would quickly induce a vibrant competitive private trade. Due to credit constraints, principal-agent problems, underdeveloped risk and insurance markets, poor marketing infrastructure and other problems endemic to traditional markets, there is generally an underprovision of private storage and transport services. High storage costs and their manifestations — large seasonal price increases — are what motivated politicians to impose pan-seasonal prices in the first place. The large wedges observed between prices in surplus and deficit areas are what created the equity-based pressures for government intervention and pan-territorial pricing. High marketing costs, which give the appearance of exploitative private trade, may be more a consequence of underdeveloped rural infrastructure, poor market information systems, credit market failures, import restrictions on vehicle procurement and spare parts, and macroeconomic policies, all of which contribute to low productivity, poverty and food insecurity.

It is commonly held that the way out of this problem involves government investments in roads, communications, and other infrastructural support that impede the development of private markets rather than replacement of these markets with centralized government trading agencies. While the current structure and performance of the maize marketing system may be radically different had this advice been followed decades ago, such advice is inadequate to guide Zimbabwe's market reform policy today because private markets are virtually absent and the GMB, by default, plays a politically crucial role in the system. While conducive policies may foster the development of private trade and improve economic efficiency in Zimbabwe, the length of time required to establish these markets is unknown, as is the issue of how important marketing tasks will be accomplished in the short run if the GMB withdraws from the market.

Few analysts of Zimbabwean agriculture would advocate a swift and complete withdrawal of GMB from its maize trading operations. The GMB currently plays the central role in the food marketing system, collecting the vast bulk of the country's marketed maize surplus and supplying it to the industrial millers on which the urban population currently depends. In short, the vast bulk of maize producers and consumers are dependent on the GMB, even though a reorganized system might, with the proper transition, benefit many of these producers and consumers and raise the overall level of agricultural growth. The major issue for market liberalization is how to manage the transition from a centralized and controlled maize marketing system to one which, in an intermediate phase, stimulates private investment in distribution, storage, and milling without putting large numbers of people who depend on the GMB at risk, and which over the long run allows emerging private trade to progressively perform at low cost the marketing functions that a centralized marketing board is not suited to perform.

The climate for partial reform of the maize marketing and pricing system has improved substantially over the past six months. A year ago (June 1992) the prospect for substantial deregulation of maize movement in all small holder and commercial farming areas was severely hampered by uncertainty within

MLAWD and GMB over the ability of GMB to generate sufficient throughput to continue performing price stabilization functions. On-going analytical work under the SIDA/World Bank funded Market Liberalization Study, GMB internal assessments, and USAID/MLAWD studies have increased MLAWD's and GMB's receptiveness to the proposed reform, by demonstrating that, even under a liberalized system, the GMB is likely to remain financially viable and retain its ability to perform the politically important task of maize price stabilization.

The climate for market liberalization is further improved by the elimination of the GOZ's direct subsidy on roller meal. This subsidy elimination coupled with the proposed policy change supported under this amendment should generate tangible benefits in terms of (a) stimulation of a more competitive and efficient grain marketing and trading system, and (b) reduction in GOZ budget deficits attributed to the maize sector. Table 1 below presents: i) a summary of the 1992/1993 maize pricing structure; (ii) a hypothetical scenario for the 1993/1994 marketing year - assuming no changes in previous formulas to calculate industrial millers' and retailers' margins and zero subsidies to industrial millers and the GMB; and (iii) the actual price structure of maize and roller meal on June 5 - following the June 1 removal of subsidies.

Table 1 illustrates several important pricing relationships. In essence, the roller meal subsidy provided by the GOZ created severe price disincentives and retarded the development of private grain marketing channels. Instituted in February 1992, the roller meal subsidy was administered by providing funds for the GMB to credit the monthly accounts of gazetted commercial maize millers by Z$562 (line 8) for every ton of roller meal produced. The effect was to reduce the retail price of roller meal substantially below that which it would have been without the subsidy.

This is illustrated by comparing the "effective operating margin for small-scale millers" (line 13) for the three scenarios in the table. The margin, defined as the retail price of roller meal less the GMB selling price of maize, is currently Z$675 per ton as a result of subsidy elimination. It was only Z$70 in 1992/1993, which meant that profitability for small-scale millers was capped at Z$70 per ton in 1992/1993. This amount was well below the threshhold margin of Z$300-400 per ton identified Table 1 in the economic analysis of this amendment as the spread between the GMB maize sales and roller meal retail prices needed to encourage viable hammer mill operations. The large subsidy on industrial roller meal therefore eliminated any incentive for small-scale millers, traders, or consumers to purchase grain from the GMB for eventual processing at any of the estimated 1500 existing small-scale hammer mills and thus severely restricted the development of alternative, and more competitive, grain marketing channels. (This conservative estimate of 1500 hammer mills was made by assuming there is one hammer mill in every administrative ward).

A comparison of the small-scale millers' operating margin and roller meal retail price between the hypothetical and actual scenarios for 1993/1994

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further illustrates the impact of the subsidy removal. The hypothetical scenario provides price relationships under the assumption that, except for the removal of subsidies, all other factors remain unchanged from the 1992/1993 scenario, e.g. the formula for the industrial millers' margin. Line 12 of the Actual Scenario on June 5 shows that, despite the removal of the subsidy and the loss of the accompanying competitive advantage, industrial millers are retaining previous operating margins rather than lowering prices and competing with less expensive whole meal produced by hammer millers. This has opened the door for the enhanced competition in parallel with the GMB, which is a major objective of the Grain Marketing Reform Support Program.

It is important to distinguish between the two types of subsidies which existed during the 1992/1993 marketing year. The difference between the GMB buying price of maize (Table 1, Line 1) and the GMB selling price (Line 3) can be thought of as the subsidy to the GMB (Line 5). This explicit GMB subsidy does not necessarily reflect parastatal inefficiencies, rather it may simply reflect a mandated GMB selling price that is insufficient to cover GMB acquisition and operating costs (i.e. the break-even selling price). In fact, this was the case in 1992/1993 when the GMB bought imported maize at an average price of Z$1,200 per ton and sold at the GOZ mandated price of Z$1,070 per ton, thereby necessitating a subsidy of Z$230 per ton. By contrast, the roller meal subsidy was a direct payment to industrial millers for the production of roller meal (Line 8). Although consumers do receive some of the welfare benefits from the roller meal subsidy, this subsidy can be thought of as a subsidy to industrial millers for the production of roller meal.

The principal objective of the roller meal subsidy was to ensure that consumers had access to low-cost maize-meal. However, as stated above, the roller meal subsidy had an unwanted, detrimental effect on an emerging group of small-scale traders and hammer millers who had begun to carve out a market niche by providing consumers with a low-cost maize meal product. In addition to discouraging competition, the roller meal subsidy generated enormous budgetary losses attributed to the maize sector (1992/1993 scenario, line 8). Currently, these losses have disappeared as a result of the removal of the roller meal subsidy and need for the importation of maize (line 8, June 5 Actual Scenario).

Although no studies have yet been completed, there are indications that impact of the subsidy removal has already been felt through consumer resistance to purchasing roller meal and a resultant shift toward the purchase of whole meal produced by small-scale millers. The Herald, in a June 17 article entitled Consumer Resistance hits Roller Meal sales, noted

> "Some shops and supermarkets in Harare and Chitungwiza have been hard-hit by a slump in the sales of roller meal because of consumer resistance to the recent price increases. Shop owners interviewed yesterday said owing to the recent price hikes, sale of roller meal had dropped and it was taking more than a week to clear commodity from the

TABLE 1: MAIZE GRAIN AND MAIZE MEAL PRICING STRUCTURE: 1992/93 AND 1993/94 MARKETING YEARS[1]

	1992/1993 Price Structure[2]	1993/1994[3] Hypothetical	1993/1994 (Actual) June 5
1. GMB buying price	$1200	$ 900	$ 900
2. GMB operating costs	100	170	170
3. GMB selling price	1070	1070	1070
4. GMB break-even selling price (1+2)	1300	1070	1070
5. Subsidy required by GMB to balance trading account (4-3)	230	0	0
6. Industrial millers margin			531
a. Factory costs	188	188	N/A[4]
b. Mark-up (.2270% of 3+6a)	286	286	N/A[4]
c. Distribution allowance	62	62	N/A[4]
7. Ex-mill price delivered to retailer (3+6)	1606	1606	1601
8. Subsidy to industrial millers for production of roller meal	562	0	0
9. Total subsidies to maize sector (5+8)	792	0	0
10. Ex-mill price with miller's subsidy (7-8)	1044	1606	1601
11. Retailer's margin (9% of ex-mill price)	96	145	144
12. Final maximum retail selling price of maize meal (10+11)	1140	1751	1745
13. Effective operating margin for small-scale miller (12-3)	70	681	675

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1 All prices per metric tonne. Retail price calculations based on consumer purchase of 10 kg bag.

2 GMB buying price of $1200 for 1992/93 marketing year reflects import cost of maize.

3 Hypothetical prices for 1993/1994 year assume no change from 1992/1993 scenario in the way industrial miller's and retailer's margins are calculated.

4 Not known at present

shelves. 'It is particularly bad with the 20 kg and 50 kg bags of roller meal because consumers cannot just afford the price,' said one shop owner in Chitungwiza. Many shops that were visited by The Herald had huge stocks of roller meal. The price of roller meal went up this month by more than 50 percent following the removal of the subsidy by the Government. The subsidy shielded consumers from the impact of the high maize prices. Consumers have instead, opted to buy maize from the rural areas and take it to the grinding mills. The system, though involving a lot of labour, was far cheaper than buying from the shops, they said. This was evidenced by long queues at several grinding mills which have mushroomed in Harare and Chitungwiza."

The momentum for these changes was observed over a period of time. Throughout the first quarter of calendar year 1993, there was increasing recognition within MLAWD and the Ministry of Industry and Commerce (MIC) of the negative effects of the roller meal subsidy, acceptance that the massive budgetary funds devoted to the subsidy could have been redirected to better target the needs of vulnerable groups in society, and an emerging consensus that the reduction or removal of the subsidy was a necessary prelude to further grain marketing reform. Furthermore, IMF/World Bank conditionality for the Second Structural Adjustment Loan (SAL II) addressed the roller meal subsidy issue.

As a result of the June 1 subsidy removal, the stage is now set to achieve the full impact of the FY 1993 conditionality under this program. The subsidy removal provides the opportunity for small-scale milling to be profitable, thereby placing one element of increased competition in place. The redefinition of Zones A and B will put a second key element of competion in place by allowing the free trade and movement of maize in Zone B, which is the complete Zimbabwean market except for the gates of industrial millers.

B. Transport and Infrastructure Constraints

Recent research suggests that considerable private transport capacity, marketing, and milling facilities are already available for growth of private grain trading and milling. For example, a survey of mills in the Harare area in 1992 indicates that existing hammer mills already have the capacity to mill 65,000 metric tons, or about 41% of the city's total annual maize meal consumption. This capacity already exceeds the expected demand for whole meal in the foreseeable future. The on-going USAID "Grain Demand and Policy Reform Impact Assessment" will shed further light on this conclusion. Hammer mill capacity studies do not exist for other urban areas in Zimbabwe. But unless Harare is an aberration, it appears that the decontrol of maize movement and the resultant increased demand for whole meal would not require substantial additional investment in milling capacity.

Presently, broader participation in private sector marketing, particularly strengthening the links between smallholder producers and urban buyers, is limited by the high prices of vehicles (due to limited domestic production and high import duties), limited availability of hired transport in remote areas, and the poor quality of many rural roads. Over the next two years, however, the placement of high-priority vehicles on the OGIL and alterations in the allocation of foreign exchange will relieve constraints on vehicle acquisition and expand the fleet.

C. Credit Markets and Working Capital Constraints

However, the effects of constraints on licensing, packaging, credit for procuring grain supplies, etc., need to be explored further through surveys of traders, millers, private and public lending institutions (e.g., SEDCO, Zimbabwe Development Bank) and government regulatory agencies. The current liquidity shortages in financial markets, characterized by high interest rates and limited access to credit, may constrain the rate of new investment in grain trading and milling. Further analysis of these problems may be warranted under the USAID Grain Marketing Research Project (613-0234).

The success of the whole reform program would be facilitated by Government initiatives to rehabilitate rural financial markets and open up foreign exchange facilities for emergent, rural and informal firms. Such measures would accelerate the growth of the agricultural and rural sector, but do not appear to be strictly necessary for the success of the reforms proposed herein.

Interest rate controls and heavy government borrowing have severely restricted the availability of credit to emerging private sector participants. To expand credit availability, the formal lending sector must be allowed to set realistic interest rates. The credit needs of traders, transporters, and small-scale millers could then be more easily met on commercial terms. The Zimbabwe Development Bank or SEDCO could also play a role by targeting credit for specific private investments, such as vehicles, construction of storage facilities, hammer mills. However, as is currently the case in Zimbabwe, as elsewhere, much trading finance will be covered by informal sources of credit such as trading partners and family networks. With improvements in credit markets the cost of both formal and informal credit will fall; but even at current credit costs, the removal of the roller meal subsidy should result in increased trading volumes, encouraged strongly by increased margins available to small-scale millers and traders.

The impact of the program will be greatly affected by government actions on macroeconomic policies as discussed above, to expand investments in private grain trading. But, in any event, the program will provide immediate net benefits under current policies, and will lay a vital foundation for future growth.

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4. PROGRAM STRATEGY

4.1. GOZ Plans and Policies for Grain Marketing Reform

This section of the original PAAD should be amended to include the following discussion of the draft medium-term strategy for Maize Pricing and Market Liberalization currently under discussion at the highest level of Government.

The conditionality in the 1991 program, agreed to and met by the Government of Zimbabwe (GOZ), supported several key reforms in the grain marketing sector, including:

A. Liberalization of grain marketing in Natural Regions IV and V, whereby transactions between any buyer and seller are now legal.

B. Promotion of the emerging private grain trade with enactment and dissemination of regulatory changes which permit any buyer to purchase grain from GMB depots and collection points (with a 90 kg minimum purchase).

C. Establishment of administrative structures which effectively grant the GMB Board of Directors full autonomy in decision-making.

Looking ahead, although the definitive statement regarding the GOZ's grain marketing reform strategy for 1993-1996 awaits the outcome of an internal GOZ review process, the strategy expected to be adopted by the Ministry of Lands, Agriculture, and Water Development (MLAWD) is likely to incorporate the phased reforms cited below over the next three years. The strategy is designed to develop greater consistency between the GOZ's food policy objectives and the performance of the maize pricing and marketing system.

<u>Phase I Policy Changes: July-August 1993</u>

A. <u>Reaffirm policy changes made to date</u>. The GMB would widely disseminate its commitment to sell grain to any buyer at any depot or collection point in any amount greater than one 90kg bag and would widely publicize the current status of maize movement restrictions.

B. <u>Redefinition of Zones A and B</u>. Zones A and B would be redefined such that Zone A is the factory gates of designated maize buyers and Zone B is everywhere else, starting with the 1993/94 marketing year. This would effectively deregulate maize prices and trade in all parts of the county, except for designated Zone A firms. The GMB would continue to operate as residual buyer and seller, maintaining floor and ceiling prices in all Zone B areas.

This policy change would require criteria for identification of Zone A firms. It is proposed that this be based on type of milling technology, milling throughput, or date the named buyer was

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gazetted. It would also require the development of a mutually-agreeable terminology between MIC and MLAWD consistent with the evolving grain marketing system: The terms "commercial" and "informal" miller would be replaced by "Zone A" and "Zone B" firms. Furthermore, the terms "approved buyer" and "approved seller" would be rescinded, as the proposed system would allow anyone to buy or sell grain to anyone else (except Zone A firms) without the need for any registration or license.

C. Implementation of a financially rational "Minimum Reserve" grain stocking policy. GMB management recently proposed the implementation of an explicit grain stocking policy. The GMB has historically not had a consistent stockholding policy; inter-annual stocks have simply been a residual, what is left after accounting for domestic consumption and exhausting export opportunities. Yet the massive importation of maize during the 1992/3 marketing year have highlighted the drawbacks of a "residual" stocking policy. In such an environment, the GMB is under political pressure to maintain enough maize stocks to meet three years of domestic demand, despite objections as to the wisdom and cost of such large stocks. The opportunity cost of the capital tied-up in a three-year maize stock would be approximately Z$4 billion without any tangible improvement in the stability of national maize consumption.

D. Realignment of white and yellow maize producer prices. In order to reflect higher yellow maize yields and net returns, the GMB would set producer and selling prices for yellow maize a fixed percentage below white maize prices. MLAWD would also work with commercial millers to assure that millers would buy yellow maize and distribute yellow maize meal along with white maize meal, to facilitate self-targeting and to reduce average costs of maize production and marketing. Also, GMB producer price for white and yellow maize would be set to reflect maize import parity. This strategy would represent a commitment to maize self-reliance rather than maize self-sufficiency at any cost.

Phase II Policy Reforms: February-March 1994

A. Implementation of graduated pricing. Graduated pricing would be implemented as a mechanism for determining producer payments. The mechanics of a graduated price system would be to announce a schedule of prices corresponding to a particular intake level several months before planting. The final price would be paid in two installments: an initial payment on delivery, followed by a supplementary payment once the total intake is known. When intake is low, the price received by producers would rise up to import parity, while when intake is high, the producer price would fall to export parity. It is important to note that the price paid to an individual producer would be linked to total GMB intake quantity, not the individual producer's time of delivery.

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Such a graduated price system would stabilize producer incomes: low producer prices in good years would be offset by high volumes, and high producer prices in poor years would compensate for low sales volume. The GMB's payout and credit demand would also stabilize since total GMB outlays would no longer exhibit large variations due to production fluctuations.

B. Revision of retail maize meal pricing formula. In consultation with MIC, the current "cost-plus" pricing formula for determination of retail maize meal prices would be revised. Possible options are a) removal of maximum ex-mill and retail price controls; b) elimination of flat percentage mark-ups in preference to itemized cost accounting; or c) removal of price controls implemented in conjunction with anti-trust legislation.

C. Establishment of a "Grain Market Information Service." This service would provide emerging traders and small-scale millers with information regarding on-going policy changes as well as monitor grain and livestock prices in 20-25 rural and urban markets. Timely collection and dissemination of information on prices of agricultural products and inputs at various locations is essential to monitor the reform process. Price monitoring, in addition to detecting emerging shortages or surpluses, provides information about the size of marketing margins, the direction of transport flows, and other key indicators of market performance.

D. Establishment of evaluation criteria for GMB performance. The evaluation of GMB performance would be based on: a) the extent to which it adequately carried out its mandated tasks; and b) the extent to which it performs mandated tasks at the least possible cost.

Phase III Policy Reforms: February-March 1995

A. Implementation of regional pricing. With pan-territorial pricing, producers in or near deficit areas (such as the majority of communal farmers) are paid less than the economic value of their product, while producers in surplus areas (such as almost all large-scale commercial farmers) are paid more. Yet there is evidence that farmers in deficit areas, to the extent that they sell their grain at prices above the GMB selling price, are already benefiting under a price structure that varies by region. Introduction of regional pricing would provide incentives for a greater volume of grain, rather than industrially-produced maize meal, to be transported from surplus areas to deficit areas. The prime beneficiaries of regional pricing would be producers in low rainfall areas and deficit rural consumers that must purchase relatively expensive commercial maize meal to meet household grain needs.

The introduction of regional pricing would necessitate the GMB setting "inter-depot transport margins" and "within-depot selling

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margins." The inter-depot transport margin would be added or subtracted from the announced base producer and GMB selling prices. The main effects of introducing transport margins would be to provide an incentive for the GMB and private traders to engage in long-distance grain transport. To account for different unit costs at each depot, the gap between buying and selling prices (the "within-depot margin") would also be allowed to vary. For depots with high unit costs, buying costs would be lower and selling prices would be higher than at depots with lower unit costs.

B. Establishment of GMB producer and selling price bands. GMB prices are currently pan-seasonal. Pan-seasonal pricing depresses incentives for the private trade to engage in storage activities. With the establishment of price bands, the GMB would set a floor producer price and ceiling selling price. These prices, adjusted perhaps every two weeks, would follow a smooth and gradual upward trend throughout the year to account for storage costs. The GMB would determine the width of this price band and would permit market-led price adjustments within this band.

If producer prices fell below the floor prices, the GMB would purchase maize from producers or private traders, while if consumer prices rose above a certain threshold, the GMB would release maize for sale to depress prices. These activities could be self-financed by a "stabilization fund" as long as floor and ceiling prices were set with the goal of breaking even within a three to five year time frame. If the government desired either a higher floor producer price or lower ceiling consumer price than the GMB required to break even, an explicit government payment to the stabilization fund could be made. With such a system, producers and consumers would experience some price variation, but would be protected from excessive fluctuations. The GMB would ensure that the pursuit of price stabilization did not exacerbate the uncertainty and risks of private sector intra-annual storage.

C. Relaxation of maize procurement restrictions on major Zone A buyers. Zone A firms would be freed from all purchasing restrictions and, in essence, the entire country would become Zone B. The phased relaxation of movement restriction is necessary to a) permit the GMB to adjust to market-led pricing without forcing severe adjustments upon market participants dependent on the current GMB marketing infrastructure and price stabilization functions; and b) allow smallholder farmers and small-scale traders and processors to have a brief head-start in developing private trading channels. Without such an advantage, the commercial farming and food processing sector might immediately capture a disproportionate market share, erasing the potential benefits of market reform.

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4.2. USAID Strategy to Support GOZ Grain Marketing Plans and Policies

This section of the original PAAD remains valid and supports the FY 1993 assistance objectives presented below.

The FY 1993 program supports Phase 1 of the GOZ medium-term Maize Pricing and Market Liberalization strategy and provides a critical foundation for future reforms. The proposed conditionality for the FY 1993 program is as follows:

> Government, at the Cabinet level, formally approves the redefinition of Zones A and B under the Grain Marketing Act, such that Zone A refers to the factory gates of named maize buyers, while Zone B refers to all other parts of the country. This would effectively deregulate maize prices and trade throughout the country in Zone B, while maintaining floor and ceiling prices through the Grain Marketing Board's continued role of residual buyer and seller in Zone B. GMB will remain the sole seller of maize to designated Zone A firms.

5. PROGRAM FRAMEWORK

5.1. Program Goal

The program goal under PAAD Amendment No. 1 remains the same as set forth in the original PAAD: "To contribute toward improvement of the welfare of rural consumers by supporting a GOZ initiative to move grain marketing towards a competitive, lower cost system by reducing market controls and allowing expanded private participation in the grain trading system. The original PAAD set forth the following indicators to be monitored to determine the proposed policy reform contributions to the program goal:

A. The number of private traders purchasing maize from the GMB in specific grain deficit areas and re-selling through various channels increases by at least ten percent.

B. GMB maize sales to informal buyers in deficit rural areas increases in volume by at least ten percent.

C. A measurable increase in the number of informal millers operating in urban areas and in specific rural areas.

D. The real income of producers in selected areas which neighbor deficit areas increases by at least ten percent.

E. Average real consumer purchase prices for maize meal in informal markets in specific grain deficit rural areas decreases by at least ten percent.

F. Average real consumer purchase prices for maize meal in informal markets in urban areas decreases by at least ten percent.

In reviewing the above indicators against the accelerated pace of GOZ marketing reforms, there is a need to expand the measurement of trading activity to include the private sector. The recently approved CPSP Strategic Objective, under which this program falls, emphasized improved aggregate and household income and increased food security in communal areas falling predominantly in Natural Regions IV and V. Specifically, the above indicators are replaced with those set forth below:

A. Marketing margins are decreased by 5% in formal markets and 10% in informal markets by December 1994.

B. The nomimal amount of maize and maize meal moving through informal channels is increased by 7% by December 1994.

C. The number of hammer mill operations in target areas is increased by 7% by December 1994.

D. The number if transporters involved in grain transport in target areas is increased by 7% by December 1994.

E. The number of hammer mill operators trading in grain meal in target areas is increased by 7% by December 1994.

The assumptions set forth in the original PAAD to be monitored for their influence on achievement of the program goal remain valid.

5.2. Program Purpose

The purpose under PAAD Amendment No. 1 remains as set forth in the original PAAD: "To support specific policy and regulatory reforms which will (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit." The expected End-of-Project Status set forth in the original PAAD remains valid.

The original PAAD set forth the following indicators and targets to be monitored to determine the extent to which the program purpose has been achieved:

A. The volume of maize sold to informal buyers at GMB depots in specific grain deficit rural areas (or in areas neighboring deficit areas) increases by at least ten percent in those areas.

B. At least 20 percent of maize intake at GMB collection points and/or other non-depot distribution points neighboring specific grain deficit areas is resold to informal buyers at the same collection point and/or non-depot distribution point.

C. The GMB annual domestic trading deficit decreases by ten percent from Z$23.8 million to Z$21.4 million.

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It now appears that the GOZ will accelerate the pace of the reform process to provide the necessary regulatory environment for increased private sector participation in buying, selling, and processing of maize. This scenario is reflected in FY 1993 program conditionality. Therefore, once the policy reform proposed to be included in the FY 1993 conditionality is executed, the purpose level impact monitoring perspective should reflect the actual consumer response under this new market situation, thus measuring impact beyond the original focus on activity at GMB depots and collection points. Therefore, indicators "A & B" are no longer relevant and should be deleted. Indicator "C" should be revised to reflect the subsidy reduction position taken by the GOZ with respect to the GMB. Revised indicators to be monitored to determine the extent to which the program purpose has been achieved are as follows:

A. Ensure that the GMB continues to make grain available to all buyers at all depots and collection points.

B. The amount of industrial processed meal consumed by rural households decreases by 10% by December 31, 1994.

C. GMB annual domestic trading deficit decreases to Z$0 - by increasing the GMB Marketing margins to cover fuel operating cost - by December 31, 1994.

The assumptions set forth in the original PAAD for accomplishment of the program purpose remain valid.

5.3. Program Outputs

The five program outputs set forth in the original PAAD related to the expected policy changes on the part of the Government have been met and remain valid. A sixth output related to the proposed additional policy change related to redefinition of Zones A and B under the Grain Marketing Act should be added:

F. Maize prices and trade throughout the country are effectively deregulated while floor and ceiling prices are maintained through the Grain Marketing Board's continued role of residual buyer and seller. GMB will remain the sole seller of maize to designated Zone A firms.

The assumptions for accomplishment of the program outputs remain as set forth in the original PAAD. Validation of output "F" should be possible from appropriate information included in the July 1993 MLAWD Agricultural Policy Statement.

5.4. Program Elements

A. Conditionality

The conditionality set forth in this section of the original PAAD remain valid, and should be supplemented with one additional policy reform:

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"F. Government, at the Cabinet level, formally approves the redefinition of Zones A and B under the Grain Marketing Act, such that Zone A refers to the factory gates of named maize buyers, while Zone B refers to all other parts of the country. This would effectively deregulate maize prices and trade throughout the country in Zone B, while maintaining floor and ceiling prices through the GMB's continued role of residual buyer and seller in Zone B. GMB will remain the sole seller of maize to designated Zone A firms.

Zone A is redefined to include only gazetted industrial or commercial maize millers utilizing imported roller mill technology, while Zone B becomes all other parts of the country. That is, maize millers that are "named buyers" under the provisions of the Grain Marketing Act and its amendments who utilize hammer mill technology would be part of Zone B.

The effect of this change will be to legalize maize purchasing, transport, and sale by anyone within Zone B. In Zone A, the GMB would act as a monopsonist, acting as the only legal supplier to industrial or commercial maize millers utilizing imported roller mill technology. In Zone B, the GMB could remain in the market as residual buyer and seller. Alternatively, Zone A could be defined as maize millers gazetted under the provisions of the Grain Marketing Act and its amendments prior to December 31, 1991. In effect, the redefinition of Zones A and B would differentiate maize millers by technology type.

B. Foreign Exchange

The following supplements the narrative in the original PAAD. Under PAAD Amendment No. 1 US$5 million is planned as a single dollar disbursement to be provided by a sector cash grant in support of proposed policy reforms. The proposed US$5 million will be disbursed on satisfaction of the proposed condition precedent related to policy reform in grain marketing. The funds will be disbursed into a non-commingled Special Dollar Account to be released therefrom in support of the OGIL, a market determined allocation system for foreign exchange resources.

The US$5 million will not be directly tied to U.S. imports. However, in light of A.I.D. concerns that resources be used to maintain foreign exchange support requirements for U.S. imports, the release of the US$5 million will be subject to review of a list of imports from the United States which were funded from foreign exchange made available under market-based allocation systems, including the OGIL and the Export Retention Scheme.

C. Local Currency

This section of the original PAAD is valid and applies to the additional resources to be provided under PAAD Amendment No. 1.

6. PROGRAM FEASIBILITY ANALYSES SUMMARIES

6.1. Technical Assessment

The Technical Assessment: (a) examined the various maize marketing and pricing reforms under consideration by the government of Zimbabwe; (b) identified which reforms were compatible and mutually inconsistent with one another; (c) specified the set of feasible market liberalization options, composed of various combinations of the reforms described in (a); and (d) analyzed the trade-offs between the various liberalization options in terms of government objectives and impacts on various socio-economic groups.

A. Maize Pricing and Marketing Reforms Under Consideration by GOZ

The major maize pricing and marketing reforms under consideration are:

(1) Full Deregulation of Maize Pricing/Transport/Trading - This means that the whole country effectively becomes Zone B. Maize purchases, transport and sales may be legally undertaken by anyone at unregulated prices. The GMB may remain in the market in competition with the private sector.

(2) Zone A/B Redefinition - Zone A is redefined to include only gazetted commercial maize millers utilizing imported roller mill technology, while Zone B becomes all other parts of the country. That is, maize millers that are "named buyers" under the provisions of the Grain Marketing Act and its amendments, but utilize hammer mill technology, would be part of Zone B. The effect of this change would be to legalize maize purchasing, transport and sale by anyone within Zone B. In Zone A, the GMB would act as a monopsonist by being the only legal supplier to commercial maize millers utilizing imported roller mill technology. In Zone B, the GMB could remain in the market as residual buyer and seller. Alternatively, Zone A could be defined as maize millers gazetted under the provisions of the Grain Marketing Act and its amendments prior to December 31, 1991. The effect on gazetted maize millers would be the same as differentiating by technology type.

(3) Reduction of Roller Meal Subsidy Sufficient to Allow Profitable Private Trade: The current magnitude of the roller meal subsidy stifles the development of emergent small-scale millers and traders, by squeezing the margin within which they can profitably operate. It has been estimated that the effective margin for small-scale millers (a function of the roller meal subsidy) must be Z$300-400 or more to strongly promote new investment and increase competition in maize marketing and milling.

(4) Seasonal Pricing: This refers to making monthly adjustments in GMB prices to reflect cumulative costs of storage as the season progresses. Seasonal pricing would provide greater pricing efficiency, and would promote investment in private storage.

(5) Regional Pricing: This refers to setting unique prices at GMB depots to account for regional differences in supply and demand conditions (e.g., prices at Bulawayo would be higher than at Harare). Regional pricing would provide greater pricing efficiency and promote investment in private grain distribution, especially long-distance trade.

B. Compatibility Between Reforms

An analysis indicates that several of the reforms are mutually exclusive, while in other cases, adoption of one reform requires adoption of another to be feasible.

1. Reform 1 and 2 are substitutes for one another (reform 2 is a partial implementation of reform 1).

2. Reform 1 can only be implemented along with reform 5, unless the demise of the GMB is politically acceptable. It is generally accepted that deregulation of maize movement would result in farmers close to urban areas selling directly with urban industrial buyers, bypassing the GMB and relegating it to unprofitable marketing routes in distant, low-throughput communal areas — unless the GMB moved to regional pricing so that its depot prices reflected local supply and demand conditions. Without regional pricing, full deregulation of maize trading would force GMB to operate at a substantial loss.

3. If Reform 5 (regional pricing) is not politically acceptable, then reform 1 cannot be implemented. The preceding paragraph explains why regional pricing by GMB is necessary to avoid massive trading losses associated with full deregulation. But regional pricing involves important transfers of income between various socio-economic groups. For example, studies by Masters and Nuppenau (1990) and Jayne and Nuppenau (1993) indicate that regional pricing would hurt smallholder farmers in the distant maize surplus areas and hurt grain-deficit smallholders in the southern areas of the country, other things equal. Regional pricing would also require consumers in Bulawayo to pay higher prices for maize meal than in Harare, a very politically sensitive outcome that could be construed as ethnic discrimination.

4. Without Reform 1 or 2, then there is effectively no liberalization of the maize marketing system; adoption of Reforms 3, 4 and 5, by themselves, would provide only limited economic benefits. This is because Reforms 1 or 2 are necessary to legalize maize trading between surplus and deficit areas, particularly urban areas. Therefore, the various options for meaningful market liberalization must start with either Reform 1 or Reform 2.

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5. Without Reform 3 (reduction of the roller meal subsidy), adoption of Reform 1 or 2 would provide only limited economic benefits. This is because Reform 3 is necessary to provide profitable trading incentives and investment by small-scale millers and traders. Without Reform 3, deregulation would only make informal maize trading legal, but not profitable. Therefore, Reform 3 is a necessary component of any reform option.

6. Reforms 4 and 5 are necessary for Reform 1. This follows from point (ii) above.

7. Reforms 4 and 5 are consistent with, but not required for, Reform 2 (at least in the short run).

C. Feasible Reform Options

Advantages and Disadvantages of these reform options are described in Table 2 below. Based on the above, the feasible set of options is reduced to the following:

Option 1: Reforms 1, 3, 4 and 5.

Option 2: Reforms 2 and 3.

Option 3: Reforms 2, 3 and 4.

Option 4: Reforms 2, 3 and 5.

Option 5: Reforms 2, 3, 4 and 5.

Full and immediate liberalization of the maize marketing system would call for Option 1. In this option, the GMB would remain an actor in the system only as long as it could complete with private traders.

A partial, phased liberalization strategy would involve starting with Options 2 or 3. These options allow the more sensitive reforms (regional pricing and full deregulation of maize movement) to be phased-in a later stage in the reform process. Adoption of Options 2 or 3 would not preclude the adoption of full liberalization later on. This phased approach has been incorporated into the recommendations of the MLAWD/SIDA/World Bank study on maize pricing and market liberalization.

Since Reform 3, the reduction of the roller meal subsidy, has already occurred, only Reform 2 is proposed to be included in the conditionality of the FY 1993 Grain Marketing Support Program Amendment. An analysis of the technical feasibility of implementing the proposed FY 1993 policy reform program (Reform 2) was carried out to identify and assess the operational feasibility of implementing the reform.

TABLE 2
ADVANTAGES AND DISADVANTAGES OF FEASIBLE REFORM OPTIONS

Evaluation Criteria	Reforms Option				
	1	2	3	4	5
GMB trading account	+	0	+	+	+
Development of competitive private trade (short/medium distance)	+	+	+	+	+
Development of competitive private trade (long-distance)	+	0	0	+	+
Price stabilization	-	+	+	+	+
Income support for politically important groups	-	+	+	-	-
Urban food security	+	+	+	+	+
Rural food security	+	+	+	+	+
Impact on Socio-Economic Groups:					
Smallholders:					
Maize sellers (remote surplus areas)	-	0	0	-	-
Maize sellers (close to urban areas)	+	+	+	+	+
Maize sellers (deficit areas)	+	+	+	+	+
Maize buyers (deficit areas)	0	+	+	0	0
Commercial Sector:					
Maize farmers	+	0	0	0	0
Livestock producers	+	+	0	0	0
Farm laborers (north)	+	+	+	+	+
Farm laborers (south)	0	+	+	0	0
Urban consumers					
Northern areas	+	+	+	+	+
Southern areas	0	+	+	0	0
Industrial millers	-	-	-	-	-
Informal millers/traders	+	+	+	+	+

Legend:
+ positive effect compared to existing system
0 little or nor effect compared to existing system
- negative effect compared to existing system

D. Addressing Regulatory Constraints

The analysis found that due to the existing single-channel marketing system, urban grain markets are relatively under-developed. Prohibitions on grain movements limit the amount of grain available for sale in urban areas. As a result, small-scale millers and informal private traders in urban areas have difficulties obtaining grain. Research findings indicate that the primary source of grain processed by urban hammer mills is urban production on small garden plots or illegal cultivation on municipal land. In the context of economic incentives, the primary effects of the proposed reform are expected to include: (a) promotion of competition in grain trading and milling consistent with GOZ food policy objectives under ESAP; (b) downward pressure on grain marketing costs; and (c) expanded consumer access to lower-cost staple food.

The technical assessment indicates that the principal regulatory constraint to implementing the proposed policy reform is ensuring that remaining grain marketing controls are not violated with parallel market maize sales to designated Zone A firms. The enforcement of this new marketing environment will involve altering the focus of GMB inspectorate activities from the urban road network to the factory gate of Zone A firms.

To implement the proposed policy reform, two changes in GMB enforcement procedures are advisable. Essentially what is required is to eliminate entirely the current restrictions on grain movement along highways and replace them with more limited restrictions on specific transactions at the factory gate (for industrial millers). Factory-gate control can be enforced through two complementary actions: physical spot checks of grain entering milling facilities, and audits of millers' records to ensure that their purchases from GMB match their output of milled products. These measures will be considerably easier to implement and less costly than the current system which relies on highway inspections and police roadblocks, and are likely to be considerably more effective as well.

A cornerstone of the proposed reform is expanding intra-rural trade, while temporarily maintaining GMB controls over the intake of industrial/commercial millers. The preservation of controls on industrial/commercial miller maize purchases, i.e., requiring them to buy from GMB may be viewed as a short-run step in a broader process towards full liberalization and deregulation of maize trading. The purpose of this intermediate step is to prevent GMB from being quickly marginalized, incurring a substantial decline in its trading volumes and financial position, and thus losing control over its politically-sensitive mandate of stabilizing prices for both farmers and consumers. With the introduction of regional pricing in the third phase of the GOZ grain marketing strategy, after the initial phase of reforms proposed here enable the development of competitive private trading and milling networks, a more fully liberalized system would emerge. Such a system would enable the private sector to perform many of the price stabilizing functions that only the GMB is able to perform at present.

The proposed policy reform requires that Zone A be redefined to include a limited set of "named buyers," primarily composed of industrial milling firms utilizing roller mill technology. Although there has been some discussion of including large-scale commercial (LSC) maize farmers in this category, this would greatly increase the enforcement costs associated with the new reform. As soon as the proposed reform is successful in stimulating private rural-to-urban grain trade, it would be very difficult to exclude LSC farmers from participating in non-GMB marketing channels. It would be very difficult to ascertain whether a bag of maize being sold at Mbare market was grown in a smallholder area or a commercial farming area. Thus, in order to reduce the administrative burden and ensure that the reform measures are cost effective, the simultaneous liberalization of smallholder and LSC marketing is proposed.

Therefore, the GMB would retain full control over industrial/commercial millers only, while providing floor and ceiling prices elsewhere. GMB management have stated that such reforms would be feasible, and the foregoing analysis suggests they would be the most advantageous outcome given present constraints.

E. Addressing Transport and Infrastructure Constraints

Broader participation in private sector marketing, particularly strengthening the links between smallholder producers and urban buyers, is limited by the high prices of vehicles (due to limited domestic production and high import duties), limited availability of hired transport in remote areas, and the poor quality of many rural roads. Over the next two years, the placement of high-priority vehicles on the OGIL and alterations in the allocation of foreign exchange will relieve constraints on vehicle acquisition and expand the fleet.

In the long run, the ability of smallholders to take full advantage of potentially lucrative urban marketing for grain and to engage in trade between communal areas will depend on the development of road networks and the transport fleet. Even without new roads or trucks, however, these reforms will expand trade by removing current movement restrictions. Although movement between non-contiguous communal areas is legal, it is now being hampered by GMB enforcement of urban movement restrictions: in order to prevent industrial millers from buying grain directly from farmers, GMB attempts to suppress all non-GMB grain trade in or through urban areas. The proposed redifinition of Zones A and B will eliminate these restrictions, thus allowing trade to grow with limited new investment. Much of this trade will be over relatively short distances to and from GMB depots, easily covered by the existing transport fleet.

F. Addressing Credit Constraints

Interest rate controls and heavy government borrowing have severely restricted the availability of credit to emerging private sector participants. To expand credit availability, the formal lending sector must be allowed to set realistic interest rates. The credit needs of traders, transporters, and small-scale millers could then be more easily met on commercial terms. The Zimbabwe Development Bank or SEDCO could also play a role by targeting credit for specific private investments, such as vehicles, construction of storage facilities, hammer mills. However, as is currently the case in Zimbabwe as elsewhere much trading finance will be covered by informal sources of credit such as trading partners and family networks. With improvements in credit markets, the cost of both formal and informal credit will fall; but even at current credit costs the removal of the roller meal subsidy should result in increased trading margins and volumes.

G. Addressing Storage Constraints

Benefits from the proposed reforms will be enhanced as smallholders, traders, and small-scale millers acquire the ability to store grain, thus lowering grain costs later in the year. The maintenance of pan-seasonal pricing has historically limited storage by the private sector. But even without pan-seasonal pricing, in many areas the GMB will continue to undertake all seasonal or inter-annual storage due to its greater access to low-cost credit. The private sector will, however, gradually expand its stockholding capacity, initially for working stocks (held for only a few weeks), then seasonally (for up to nine months) as facilities are constructed and credit links are forged.

H. Addressing Requirements for Dissemination of Policy and Regulatory Changes

Recent research had demonstrated that informal traders are ill-informed as to the regulations governing the grain trade. The growth of the private sector grain trade will therefore be accelerated by GOZ efforts to publicize the implications of these reforms. Special effort must by made to reach rural traders. This program explicitly addresses this constraint with publicity regarding the reforms part of the conditionality.

I. Addressing Small Scale Miller Access to Inputs Constraints

Results of on-going research have shown that small-scale mills are currently operating at far below capacity. These reforms will enable capacity utilization rates to rise, yielding rapid growth of grain trading and immediate expansion of small-scale milling activity. Some expansion will be on a custom-milling basis, but since not all urban consumers will have their own maize grain or be close to a hammer-mill, additional growth in small-scale milling activity will come from the development of continuous milling and marketing of milled products.

Increased capacity utilization rates will attract new investment in small-scale mills, whose location will depend on local government licensing practices. If zoning rules are relaxed, new mills would be located closer to consumers; but even with restrictive zoning rules, new investment in small-scale mills may occur in outlying areas, as growing links between small-scale millers and urban retailers expand the market for milled products.

J. Addressing the Barriers to Entry Constraint

Grain trading is currently subject to a number of barriers to entry in transport and storage, particularly the high costs of vehicles and credit. Relaxation of import restrictions and improvements in capital markets would, in the medium term, alleviate this constraint. Development loans targeted to specific private investments in grain trading would also increase competition. However, the relaxation of movement restrictions coupled with the expansion of marketing margins created by removing the roller meal subsidy will itself encourage entry by new participants, and increase competition in the sector.

K. Addressing the High Transaction Costs Constraint

Currently there is little specialization in grain trading in Zimbabwe, which leads to higher than normal transaction costs. The development of the grain marketing system through a skilled network of farm buyers, wholesalers, traders, transporters, and retailers will lower the costs of initiating and doing business. Historical grain movement restrictions have prevented the development of such networks, thus raising transaction costs. These costs will fall gradually as trading networks develop, beyond the family or kin group.

6.2. Economic Analysis

The original PAAD contains an economic analysis of the policy reforms under consideration at that time. This addendum to the economic analysis assesses the costs and benefits of proposed policy reform to be supported with FY 1993 non-project assistance resources, i.e., Government, at the Cabinet level, formally approves the redefinition of Zones A and B under the Grain Marketing Act, such that Zone A refers to the factory gates of named maize buyers, while Zone B refers to all other parts of the country. This would effectively deregulate maize prices and trade throughout the country, while maintaining floor and ceiling prices through the GMB's continued role of residual buyer and seller. GMB will remain the sole seller of maize to designated Zone A firms.

This analysis follows the format outlined in Annex B of USAID's Bureau for Africa, "Non-Project Sector Assistance Guidance" (October 1992) which provides a framework for NPA economic analysis. The analysis follows a "with program" vs. "without program" format, i.e., under assumptions detailed in the Economic Analysis, the stream of costs and benefits associated with the proposed policy reform is compared with the costs and benefits without the proposed policy reform. Specifically, the cost-benefit analysis examines the effects of:

A. No change to the existing boundaries of Zones A and B: versus

B. Redefinition of Zones A and B as set out above, assuming that the reduction of the roller meal subsidy will occur in either case.

Firm conclusions regarding how market reform/subsidy reduction will effect the rate of investment by small-scale traders and millers cannot be obtained without accurate information on several key issues. These include:

A. Weather;

B. The difference between the price of roller meal and the GMB producer price;

C. The difference between the price of roller meal and the GMB selling price;

D. The modalities of maize deregulation (e.g., over what geographical domain will private maize movement be legalized?);

E. Consumer demand for whole meal at various price differences with respect to roller meal and super-refined meal; and

F. The availability of vehicles, credit, processing equipment, foreign exchange, etc., for small-scale entrepreneurs to invest in maize milling, distribution and storage.

Much of this information is not known and awaits further analysis (in the case of items e and f further analysis is being undertaken under Project 613-0234 funding), random future occurrences (item a) and a more precise indication of what types of reforms will be advocated and/or adopted (additional clarification of items b, c and d is contained in the GOZ draft Maize Pricing and Market Liberalization strategy, summarized in Section 4.1 herein and currently under review by the GOZ). Estimates of the effects of the program can only be made on the basis of various assumptions discussed herein. These assumptions are, in turn, based on available information, past surveys, and secondary data, which varies in its reliability and conclusiveness. The following assumptions, judged as reasonable and realistic by the Mission underlie the economic analysis:

A. Given the current pricing structure, where roller meal prices exceed those of whole meal by more than 10-15%, whole meal would constitute about 25% (at most 40%) of the maize meal market in urban areas (this assumption is drawn from two rapid appraisal surveys of consumer preferences for whole meal in the Harare area during 1991 and 1992).

B. The response by entrepreneurs to profitable new milling and trading opportunities as a result of market liberalization will be impeded to some extent by limited access to credit, forex, vehicles to by, etc.

However, precise estimates of the rate of investment would be largely guesswork, and are, in any case, a function of items b, c, d and e above.

C. Rainfall and yields for the reform period will be normal (a drought scenario can also be analyzed).

With the subsidy removal on June 1, a necessary precondition is in place for achieving the desired impact of FY 1993 conditionality. This subsidy removal was necessary in order to provide profitable rural-urban trading opportunities and small-scale milling. The need for this subsidy reduction, providing necessary operating margins for traders and small millers, is based on two benchmark margins for assessing the viability of private informal maize trade:

A. for determining the viability of buying grain from GMB depots, milling the maize and packaging and distributing maize meal to consumers, the relevant benchmark margin is the difference between the roller meal price and the GMB selling price. This is currently Z$1,140 - 1,070 = Z$70 per ton. Recent analysis has indicated that margins of about Z$300-400 per ton are necessary (depending on transport costs, product packaging and other marketing services offered) to make this type of activity profitable for traders using hammer mill technology.

B. for determining the viability of buying grain from producers, milling the maize and packaging and distributing maize meal to urban consumers, the relevant benchmark margin is the difference between the roller meal price and the GMB producer price. This is currently Z$1,140 - 900 = Z$240 per ton. Recent analysis has indicated that margins of at least Z$350 - 450 are necessary to make this type of activity profitable for traders using hammer mill technology. In addition, the legality of such trade would require elimination of maize movement restrictions between smallholder and urban areas.

The economic analysis in this amendment is based on three simulation models of the maize marketing system in Zimbabwe. These models provide analytical outputs which indicate that the FY 1993 policy change specified herein is likely to produce the following effects:

A. <u>Urban Consumption, Smallholder Grain Sales and Food Prices</u>

The proposed policy change would effectively deregulate grain trade throughout almost all parts of the country. This would allow smallholders near urban areas and grain traders to bypass the GMB/urban industrial milling system and market grain directly to urban small scale millers and consumers. The exact proportion of urban maize consumption that would be met through private channels is sensitive to consumer preferences for whole meal, relative prices and incomes. However, based on results of two urban consumer rapid appraisal surveys undertaken in 1991 and 1992, a conservative estimate is that at least 20% of the maize meal consumed in urban areas would be processed through the small- scale milling sector. Low-income urban consumers buying whole meal would spend 5% to 10% less per unit of maize meal than under the existing system. This price decline occurs because small-scale millers would be able to procure maize directly from smallholder areas at below the GMB selling price and mill it at lower cost than the industrial millers. Lower milling costs through parallel channels are partially passed on to smallholder farmers in the form of higher producer prices, especially for those located near urban centers.

Some concern has been expressed over the expected rate of new investment in small-scale milling even if profitable and legal. While this is a valid concern, it should be noted that there is substantial existing hammer milling capacity already in place. A survey of mills in the Harare area in 1992 indicates that existing hammer mills already have the capacity to mill 65,000 metric tons, or about 41% of the city's total annual maize meal consumption. This capacity already exceeds the expected demand for whole meal in the foreseeable future. The on-going USAID "Grain Demand and Policy Reform Impact Assessment" will shed further light on this conclusion. Hammer mill capacity studies do not exist for other urban areas in Zimbabwe. But unless Harare is an aberration, it appears that the decontrol of maize movement and the resultant increased demand for whole meal would not require substantial additional investment in milling capacity.

B. Grain Marketing Board Trading Deficits

Relaxation of maize movement is estimated to reduce the GMB's maize trading losses on average relative to the existing system. This is because movement decontrol would reduce the volume of maize that GMB transports along high-cost routes. The model indicates that small-scale traders and millers would take over some marketing of maize meal to urban consumers, not because they are more efficient than the GMB in transport and storage, but because they can incur substantially lower milling costs through small hammer mills. Demand for GMB grain, on the other hand, is a derived demand for industrial meal. Movement control that makes less-expensive whole meal available in rural areas would reduce demand for commercial meal, and consequently, for GMB grain. Since the GMB operates at a loss in most smallholder areas, reduced throughput would also reduce its financial losses.

C. GMB Stock Levels and Trade Implications

The expected net GMB surplus (intake minus sales under average rainfall conditions) is estimated to rise by controls on trade between smallholder zones and urban areas are relaxed. While the stimulation of private trade should reduce smallholder sales to the GMB, this should be overwhelmed by the reduction in demand for industrial meal, which in turn should reduce the demand for GMB grain.

Because of the availability of less-expensive whole meal in urban areas after movement deregulation, total national maize consumption is estimated to be higher than under the existing system. Lower marketing margins (both from more direct transport routes to grain-deficit rural areas and a shift to low-cost hammer millers) and the opening up of urban markets to private trade would create higher producer prices in many smallholder areas and stimulate national maize supplies without adversely affecting urban consumer prices and household food security.

D. Rural Food Security

As surplus production in smallholder areas is bid away by urban demand, decontrol of grain movement is estimated to raise maize prices in some smallholder zones near urban centers. This would reduce welfare for a relatively small number of grain- buying households in these areas. Targeted income or food transfers to selected consumers in rural areas could offset these effects if desired. The model indicates that deregulation of private maize trade generates very little trade between surplus and deficit smallholder areas.

The results of the cost-benefit analysis, summarized below:

A. Costs: The costs of the program are estimated to be:

(i) The increase in expenditures by grain-deficit households in particular rural areas where maize prices are likely to rise as a result of the Zone A/B redefinition (estimated at Z$7.5 million in the first year, and Z$4 million per year thereafter); and

(ii) The increase in expenditure by consumers in particular urban areas where maize meal prices are likely to rise as a result of the Zone A/B redefinition (estimated at Z$31 million in the first year, and Z$14 million thereafter).

(iii) The loss of net revenue by industrial millers and retailers due to a loss in sales of commercial maize meal (estimated at Z$77 million in the first year, and Z$142 million thereafter).

Other groups are not significantly affected by the policy changes. The total program costs (a through c) are Z$115.5 million in the first year, and Z$166 million thereafter).

B. <u>Benefits</u> The approximate benefits associated with the FY 1993 conditionality include:

(i) The net reduction in expenditures by urban consumers and laborers on large-scale commercial farms that would benefit from lower prices of maize meal (estimated at Z$29 million in the first year, and Z$55 million per year thereafter);

(ii) The net reduction in expenditures by grain-deficit rural households that benefit from lower maize meal prices compared to the existing system (estimated at Z$18 million in the first year, and Z$31 million per year thereafter);

(iii) The net increase in producer revenue to grain-selling households that receive higher maize producer prices compared to the existing system (estimated at Z$38 million in the first year, and Z$63 million per year thereafter);

(iv) The reduction in GMB transport costs and operating deficits (estimated at Z$7 million in the first year, and Z$18 million per year thereafter); and

(V) The increase in net revenue to emergent millers and traders that capture a greater share of the maize/maize meal trade as a result of the reform program (estimated at Z$38 million in the first year and Z$71 million per year thereafter).

Total (a) through (e): Z$130 million in the first year, and Z$238 million per year thereafter.

C. <u>Net Benefits</u>: Using the above estimates, the net benefit (change in social welfare, assuming that all segments of society have equal weight) is 130 - 115.5 = Z$14.5 million in the first year, and 238 - 166 = Z$72 million per year thereafter. Assuming a time horizon of ten years, the Net Present Value (NPV) of the program at the Government of Zimbabwe official discount rate of 15% is Z$398 million (US$66.3 million). If the lack of development of the private sector were limited benefits to only half of those anticipated, the program NPV would fall to Z$208 million (US$34.8 million). Because the program has a positive net benefit in the first year, the internal rate of return is effectively infinite.

<u>CONCLUSIONS</u> - The proposed policy reform outlined above can be expected to produce substantial, immediate improvements in the welfare of most smallholder maize sellers, low-income urban consumers, and maize buyers in selected rural areas. There will also be substantial savings to the government treasury and hence taxpayers.

The analysis in Table 2 indicates that smallholder maize buyers will suffer no adverse effects from any of the reform options. Maize meal consumers who elect to consume the expensive roller meal instead of the low-cost whole meal (straight-run meal) will be adversely affected by the roller meal subsidy removal. Deficit rural households that are willing and able to purchase the low-cost whole meal (straight-run) will experience no negative impact. The demand for roller meal among deficit rural households is traditionally negligible, as these households depend primarily on straight-run meal from hammer mills.

To produce further benefits after the proposed policy changes, government could undertake further measures to develop grain markets. These measures are outline in the technical analysis, and include primarily the provision of credit and foreign exchange facilities for rural transporters and millers.

6.3. Social and Institutional Analysis

The list of organizations affected by the program is unchanged from the 1991 PAAD (Annex III-D, page 1) except that NFAZ and ZNFU have now merged to become the Zimbabwe Farmers' Union (ZFU), under the leadership of the former ZNFU President Mr. Gary Magadzire. Also, the participation of the Commercial Farmers' Union (CFU) in the grain sector is primarily through the Commercial Grain Producer's Association (CGPA).

A. Government/Public Institutions

(i) Ministry of Lands, Agriculture and Water Development (MLAWD)

While there are substantial differences of opinion among the technical staff of MLAWD, particularly regarding the appropriate timing of policy changes, there is a general consensus within the Economic and Markets Branch of MLAWD that the the FY 1993 conditionality contained herein should be approved.

(ii) The Grain Marketing Board (GMB)

GMB management strongly supports the proposed FY 1993 conditionality. The likely decision by the GMB Board regarding the conditionality is unknown, although several Board members do support the reforms required by the proposed conditionality. Nevertheless, the Chairman of this Board also sits on the Board of Directors of a major commercial maize milling firm. His support for the conditionality is likely to be a crucial determinant of acceptance by Cabinet of the FY 1993 Condition Precedent. In view of the June 1 roller meal subsidy removal, the complementary step of redefining Zones A and B appears to be the logical next policy reform, at both the technical and political levels. With the greater than 50% increase in roller meal prices since June 1, the Zone A/B redefinition is needed to ensure the steady supply, particularly in the urban areas, of the lower cost alternative whole meal.

The GMB managements' earlier concern about market liberalization appears to be receding in light of new information. GMB management has seen that many African grain market reform programs have proceeded with deregulating private activities while the parastatal is still required to perform unprofitable storage and marketing services; deprived of the flexibility to alter buying and selling prices in light of evolving market conditions, many marketing boards have fallen quickly into bankruptcy. The GMB's wish to avoid this trap is perhaps motivated partly by self-interest, but analytical work shows clearly that the private sector cannot quickly replace the GMB in many areas and that even in the long run the GMB is at least potentially a very low-cost provider of some marketing services. While moving towards a lower cost, multi-channel marketing system, the proposed reforms accommodate the development of a system in which the GMB becomes a more competitive marketing agent. GMB management has stated that the proposed package is consistent with reform proposals presented in GMB documents, and that it is not likely to exacerbate the GMB's maize trading account. However, declines in GMB's trading throughput are to be expected.

B. Private Sector

(i) Large-Scale ("Industrial") Millers

The proposed CP, which expands grain access for small-scale milling, poses a substantially larger threat to the market share and profits of the four large-scale industrial millers than the 1991 reforms. The GMB General Manager expected that industrial millers would fight the proposed reforms, and suggested the industrial millers might demand that retail prices not be set by the GOZ or that millers' margins be raised to the extent that their throughput declines so as to maintain constant returns on their assets. In fact, the post-subsidy removal price of roller meal indicates that the industrial millers' margins have stayed approximately the same. (See line 7, Table 1, Section 3 - the table indicates that the current actual price of roller meal is approximately the same as the hypothetical price for 1993/1994 which assumed no change in the calculation of the industrial millers' margin.) Yet, if industrial millers' margins were expanded, this would simply accelerate the entry of small-scale and medium-scale competitors, and further reduce the industrial millers' market share. Thus, such an approach would be self-defeating to industrial millers in the long run.

In general, the only possible resolution to the on-going conflict between millers and government is the gradual expansion of small-scale and medium-scale milling, eroding the industrial millers' market power. The subsidy removal appears to have already facilitated this and the proposed Zone A/B redefinition will further erode industrial millers' market power. However, if a large proportion of urban consumers prefer the more refined meals produced by industrial millers, even given their higher cost compared to whole meal, then the industrial millers will maintain a substantial market share and will continue to fill an important role in the maize market. USAID is currently undertaking a "Grain Demand and Policy Reform Impact Assessment" to examine this issue. However, initial indications are that financially strapped consumers are shifting in large numbers to the lower cost, higher nutrition whole meal.

(ii) Small- and Medium-Scale ("Informal") Millers

The impact of the reforms on the industrial millers' market share depends largely on the ability of informal millers to expand throughput. There are two main dimensions to that growth:

(a) Expanding throughput to fulfill current milling capacity: An almost immediate consequence of the proposed FY 1993 conditionality will be that informal millers no longer face grain availability constraints. Throughput will therefore rise towards current capacity levels, fulfilling repressed consumer demand. In Harare/Chitungwiza, capacity on a service-milling basis is estimated to be on the order of five thousand metric tons per month, while demand is likely to be substantially higher. Capacity utilization rates could rise if millers could go beyond service milling (which restricts output by the need for inefficient batch processing) to continuous milling and marketing of a branded final product. With substantial use of continuous processing, throughput could reach seven or eight thousand tons per month without substantial new investment.

(b) Investing in increased milling capacity: As milling profitability rises and capacity utilization rates increase, there may be increased investment in new milling capacity. On-going USAID assessments of grain demand and small-scale milling will indicate how large the equilibrium market shares of each milling technology is likely to be, and how much expansion is likely to be profitable. Substantial capacity expansion might be constrained by such factors as foreign exchange availability and exchange rates, credit availability and interest rates, and city/town council operating licenses. The USAID "Grain Demand and Policy Reform Impact Assessment" should help in identifying these problems and in developing proposals for addressing them. Further discussion of these issues in contained in the section on Technical Constraints.

(iii) Traders and Transporters

Emergent traders are expected to enter the grain market from many different avenues. Some of the most important groups are listed below.

(a) Rural Businessmen: Some emergent traders will enter the grain trade from already-established grinding mills or rural shops; such businessmen often have strong knowledge of local conditions, and may have credit relationships with customers. Those personal relationships will give them a competitive edge in performing both bulking-up and retailing services. In strongly surplus areas they would specialize in buying from farmers and bulking-up for onward distribution, while in strongly deficit areas they would specialize in buying from wholesalers and retailing to consumers. In each case they need cover only their normal business area, so the new grain handling tasks would require little new infrastructure. Handling grain in this way would also involve only very short-term (under 30 days) credit, which is not very costly. Thus there are few barriers to entry, and this sub-sector is likely to be no less competitive than other rural trading activities.

In areas with a significant number of both deficit and surplus households, millers and shopkeepers might do both bulking-up and retailing, and holding their own seasonal stocks over a six to nine month period. But doing so would require substantial amounts of seasonal working capital, which many small businessmen can provide only at very high real interest rates. Thus, the bulk of seasonal storage is expected to be provided either by the GMB or by private wholesalers, who have access to larger amounts of lower-cost seasonal credit.

(b) Rural Transporters: Some emergent traders will enter the grain trade from the transport business; currently these agents move grain between individual farmers and the GMB on a fee-for-service basis, using scotchcarts, tractors, pick-ups and larger trucks. Under the new rules, these transporters will also be allowed to move grain between any type of buyer and seller, such as between the rural businessmen identified above and the GMB or wholesalers at growth points and towns. Much of this transport is likely to continue being on a fee-for-service basis, unless the transporter also owns trading facilities at the origin and/or destination of the grain and can buy and sell grain on his or her own account.

(c) Urban Wholesalers: A third category of emergent grain traders will be the larger, diversified wholesale trading organization (such as Metro Peech, Bhadella, Jaggers etc.), who have established transport networks around the country, and established relationships with rural businessmen. Currently their trade is almost exclusively an urban-to-rural flow of industrial goods, although some wholesalers (e.g. Metro Peech) have also served as Approved Buyers and traders in uncontrolled farm produce such as sugar beans or vegetables. It should be relatively eas- for wholesalers to expand into the rural-to-urban and intra-rural grain trade, since they have access to substantial storage and transport facilities, working capital, and a broad network of rural customers. Furthermore, they might enjoy a substantial transport cost advantage over the GMB through higher load factors, to the extent that they can use two-way trading to increase backhaulage, while the GMB almost always tenders for one-way shipments.

(d) Urban transporters: The large, urban-based transporters (such as Unifreight, TECS, Elcombe, etc.) are likely to continue in their current role tendering for GMB transport; they may also provide contract services to wholesalers. In either case, they appear to provide the lowest-cost long distance transport - but substantial further cost reductions could be achieved if backhaulage load factors could rise. It is unlikely that urban-based transporters will do much grain movement on their own account since this would represent an entirely new type of business for them.

CONCLUSIONS - The proposed policy reform can be expected to produce substantial, immediate improvements in the welfare of most smallholders maize sellers, urban consumers with a preference for whole meal, and maize buyers in selected rural areas. There will also be substantial savings to the government treasury and lower GMB operating deficits. There will be a decline in the welfare of maize buyers in selected rural and urban areas which are likely to experience higher maize prices after the Zone A/B redefinition, to the extent consumption does not shift from roller meal to straight run meal.

The program is expected to produce a net social benefit of Z$14.5 million in the first year, and Z$72 million per year thereafter. The program's Net Present Value (NPV) is estimated at Z$398 million (US$66.3 million); or Z$208 million (US$34.8 million) if only half the expected increase in private sector activity materializes. Because the program has a positive net benefit in the first year, the internal rate of return is effectively infinite.

Within the maize trading and milling sectors, the reforms are expected to benefit small-scale millers and traders, commercial farmers that vertically integrate into maize milling. Large scale industrial millers will be adversely affected. The reforms would present challenges to the GMB to restructure its operations in line with the changes that the reform process would create. With or without the reforms, however, the GMB will remain an important actor in the grain marketing system for the foreseeable future. The main advantage of proposed conditionality is that it will help move the grain sector toward a more efficient multi-channel marketing system which, if judiciously implemented, will benefit the majority of Zimbabwe's grain producers and consumers.

6.4. Political Assessment

This analysis is intended to: (1) Update the material presented in the memorandum from David F. Gordon, REDSO/ESA, included as Annex III-F in the original PAAD; and (2) Extend that analysis to include the policy change to be undertaken under the FY 1993 program.

Background to the Reform - The climate for the grain marketing reform program in particular, is more favorable than that described in the 1991 analysis. Over the past 18 months since the 1991 PAAD preparation, the draught generated costs resulting from maize importation during 1992, the enormously high treasury losses to the maize sector, and the 50% rise in the price of roller meal since the June 1 subsidy removal, 1993 have greatly intensified the pressures on government for reform of the system. USAID has been advised by World Bank representatives that the magnitude of the treasury losses has prompted the World Bank and IMF to rationalize disbursement of the next tranche of the Structural Adjustment Loan in view of reforms in the maize sector to reduce the magnitude of overall subsidy.

Goals of Major Participants in the Maize Sector with Respect to the Market Liberalization Process - The Government of Zimbabwe has committed itself to a number of agricultural policy changes under the Economic Structural Adjustment Program. The Framework for Economic Reform Document (FER) of 1991 indicates that the GOZ will:

A. " move from the category of strict control to that for which the government announces fixed maximum or specified prices. These include agricultural produce, including food or cash crops..."

B. The government is studying the modification of pricing and marketing arrangements for cotton, dairy products, meat, coffee and grains to eliminate subsidies and allow progressive development of private marketing channels";

C. Retain variations in prices and greater participation by private traders in marketing are goals which will be considered as part of the medium-term strategy of deregulation and reationalizing the operation of GMB";

D. "For reasons of food security as well as efficiency, the government plans to eliminate existing restrictions on crop movements";

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E. "Measures will be prepared and implemented to provide targeted assistance for the population groups particularly vulnerable to the short term effects of price increases and the rationalization of PE [parastatal enterprise] structures. These targeted payments will be limited mainly to the poorer maize producers and consumers and to retrenched employees of the PEs concerned"; and

F. ....the government plans to cut the subsidy to the Grain Marketing Board (GMB) from Z$59 million in 1990/91 to zero in 1994/95".

These statements, in conjunction with other GOZ policy pronouncements, indicate that the major objectives against which to evaluate alternative market liberalization strategies include: urban and rural food security, removal of subsidies and marketing board deficits, protection of low-income segments of the population, broad-based income growth and more flexible pricing and marketing arrangements to reduce marketing costs and promote smallholders' and consumer welfare.

While the FER document identifies the broad direction of change to the system, the specific modalities and phasing of the liberalization program have yet to be completely articulated and finalized. Various interest groups in the maize sector have registered their position regarding the liberalization program. Their objectives and concerns, which have been carefully considered in the development of the proposed policy reform are summarized below:

Discussions with the GMB management have indicated that GMB favors a liberalized system that:

A. Avoids the need for GMB to devote substantial resources to monitor and enforce regulations to perform mandated functions in a cost-effective manner;

B. Retains GMB's status of monopoly seller to the commercial millers, at least for an intermediate period;

C. Allows GMB to operate as a strictly commercial enterprise, i.e., to be able to conduct maize purchases and sales at its own prerogative, rather than be forced to accept all grain offered to it at a fixed price as at present, if GOZ imposes upon GMB the requirements that it operate at no loss, and

D. Allows all operations deemed by GMB as "non-commercial" to be performed by some other marketing actor or by GMB with funds provided by GOZ under a separate "social account".

GMB management has also expressed its willingness to adopt a system of graduated pricing and regional pricing if GOZ so desires, although it has officially stated that the latter is likely to have adverse political repercussions. Lastly, GMB is concerned that the GOZ may not share its view as to the definition of "commercial" operations.

Informal discussions with representatives of the Commercial Farmers' Union indicate that this groups's vision of a liberalized system includes:

A. A strong and efficient GMB that aggressively seeks profitable export opportunities for Zimbabwean maize growers;

B. Reliable, stable and remunerative domestic market outlets for maize growers, especially for large-volume transactions; and

C. The avoidance of relying on unregulated informal marketing actors for crop disposal where legal recourse is difficult and costly in case of breach of contract.

The CFU supports efforts to introduce regional pricing and graduated pricing. The CFU's view is that regional pricing would provide higher prices for the majority of its farmers. Graduated pricing (i.e., final maize prices are determined as a function of endstock levels, similar to the South Africa model) is supported because it is felt that this would reduce the vulnerability of the price determination process to sporadic jumps followed by gradual declines, thereby maintaining greater stability and viability in maize pricing.

Discussions with representatives of the Zimbabwe Farmers' Union indicate that this group's vision of a liberalized system includes:

A. One which expands the potential for informal trade across zones and into urban areas, thus increasing the number of potential market outlets for smallholders;

B. The maintenance of uniform GMB producer prices, based on the belief that most smallholder maize sellers would be disadvantaged by a regional or seasonal pricing scheme;

C. An expansion of grain buying and selling points by GMB and other reliable market actors; and

D. Increased government support to smallholders in the form of infrastructural development, transport, improved arrangements for credit disbursement, market information systems, training in farm management and accounting, and other measures to redress historical imbalances in resources that currently would allow well-equipped commercial farmers to capture the bulk of the production gains from market liberalization.

Representatives of the Commercial Millers' Association indicate that they would support a maize market liberalization strategy that:

A. Assured a "level playing field," i.e., one which would allow commercial millers to buy grain directly from farmers if informal millers were allowed to do so;

B. Maintained a strong GMB to procure grain from world markets to stabilize supplies in event of national shortfalls.

The commercial millers do not support a liberalization strategy in which they must continue to purchase maize from GMB while informal millers would be allowed to source grain at unregulated prices form smallholder areas. This fact may provide an incentive to push the market liberalization process past the Zone A/B redefinition to full decontrol of the movement of maize in an expedited timeframe. The commercial millers also oppose regional pricing on the grounds that it is likely to raise suspicion about why maize roller meal should cost more in grain-deficit and remote areas than in, for example, Harare.

Representative of the Indigenous Business Development Council and small-scale informal millers indicate that they would support a maize market liberalization strategy that:

A. Gave them unhindered access to GMB maize at the same price as commercial millers;

B. Allowed grain to be freely traded in urban as well as rural areas; and

C. Redresses historical imbalances in resource allocation by shifting disbursement of available credit and foreign exchange in favor of small-scale, informal entrepreneurs.

<u>Likely Political Support and Opposition to the Proposed Policy Reform</u> - Based on preceding assessment, it is likely that support for the policy reform will come from:

A. The Zimbabwe Farmers Union
B. Indigenous Business Development Council
C. The Grain Marketing Board Management
D. The Ministry of Lands, Agriculture and Water Development

It is likely that opposition to the proposed CP will come from the Commercial Millers' Association. The following groups' position on the proposed CP is uncertain:

A. The Commercial Farmers Union
B. The Board of Directors of the Grain Marketing Board (the Chairman of this Board also sits on the board of Directors of a major commercial milling firm).

<u>CONCLUSIONS</u> - The reforms necessitated by the proposed policy reform are consistent with GOZ commitments to: 1) more equitable access to production and marketing opportunities for small-scale entrepreneurs; 2) increased efficiency in crop marketing; and 3) recovery and growth of the maize sector. The bulk of the opposition to the reforms will come from

the Commercial Millers' Association, an association of companies widely viewed as enjoying undue oligopolistic market power. Nevertheless, although the benefits of Zone A/B redefinition far outweigh the costs, it is a tenant of political theory that a small, cohesive interest group facing large potential losses is often able to defeat reform measures that offer large aggregate net societal benefits since the potential benefits to any one consumer or taxpayer are relatively small.

Thus, although the impetus for the reforms is strong at many levels of Government and among several interest groups, broad-based acceptance of every aspect of the MLAWD medium-term Grain Pricing and Market Liberalization Strategy is not a foregone conclusion. It is highly likely that donor support such as this multi-sector assistance program and the Grain Marketing Reform Support Research Project will provide essential support to the GOZ grain policy reform process.

There is apparently strong support for the proposed policy reform to be included as the condition for disbursement of the second tranche of US$5 million in non-project assistance proposed under the program. Support has been indicated by the Economics and Markets Branch of MLAWD up to the Permanent Secretary level, the GMB (Chief Executive), several members of the GMB Board of Directors, the Zimbabwe Farmers Union, and the World Bank team working with the GOZ on agricultural market liberalization in connection with disbursement of their SAL II.

The position of the Commercial Farmers Union with respect to the CP is uncertain. Their analysts are in the process of assessing the implications of the proposed redefinition of Zones A and B on commercial maize production incentives, the likely impact on the Grain Marketing Board, and legality of commercial farmers vertically integrating into milling activities. The President of the Commercial Grain Producers Association has stressed that CFU's vision of a liberalized grain marketing system includes a strong and efficient GMB that assures "orderly marketing" and aggressively seeks profitable export opportunities for domestic maize growers. On the other hand, CFU is aware of how the proposed redefinition of Zones A and B provides commercial maize growers with strong incentives to invest in maize milling activities.

The FY 1993 program policy reform will almost certainly be resisted by industrial millers. represented by the Commercial Grain Millers Association. The Institutional and Economic Analyses indicate that this politically powerful group will lose a share of the urban maize meal market due to increased competition as a result of the reform program. It is uncertain how Cabinet may react; despite wide recognition within Government that increased competition at the milling stage would bring substantial long-run benefits in terms of consumer welfare and a reduction in Treasury losses. Cabinet might wish to avoid a situation in which the industrial millers threaten to stop manufacturing maize meal before a vibrant small-scale trading and milling system is in place (based on the industrial millers' response to continue production following the June 1 subsidy removal, it does not appear likely that a stoppage will occur).

7. PROPOSED IMPLEMENTATION ARRANGEMENTS

The original PAAD is amended to include the material presented below.

7.2.B. Dollar Tracking

In view of the performance of the GOZ in attributing U.S. dollars provided under the FY 1991 tranche of $5 million, it was decided to continue to provide cash transfer support under the FY 1993 tranche for imports with attribution made towards U.S. imports. This choice of the cash transfer mechanism was approved by the Acting Assistant Administrator for Africa on June 21, 1993.

7.2.C. Local Currency Management

In review of the PAAD Amendment No. 1, the issue arose as to whether local currency generations should be programmed instead of the joint GOZ/USAID attribution process used for FY 1991 generations to support agricultural sector development objectives. It was determined that the attribution process was the best method to ensure timely assistance by programming funds through the GOZ budget process and to reduce the management workload at the Mission, which proved to be an administrative burden for the Mission under earlier programs which projectized the local currency.

7.5. Monitoring and Evaluation Plan

The PAAD contains a Monitoring and Evaluation Plan which requires that field surveys be conducted in specific areas. The main purpose of the surveys is is to monitor the impact of the program on the real incomes of grain producers and consumers and increased activities at government grain depots and collection points. However, the effects of the drought made the collection of baseline data during the 1992/1993 marketing season, as originally scheduled in the PAAD Monitoring and Evaluation Plan, an impractical exercise. Information collected in the aftermath of such a poor grain harvest would have drastically distorted the baseline scenario, and therefore, would have been thoroughly inadequate as a benchmark for measuring program impact.

However, with generally normal rainfall and maize yields expected during the current 1992/1993 production/marketing season, certain monitoring and evaluation work, revised to respond to current conditions, has already begun and other related activities are in the final planning stages. Also, an excelerated pace of reforms by the GOZ, not envisaged in the original PAAD design, makes it necessary to revise a number of indicators to expand the focus of measuring maize intake and sales from the previous emphasis on GMB depots and collection points to include farmers and private traders.

The recent development of the Country Program Strategic Plan also required a rethinking of indicators of program impact, to measure grain marketing reforms in view of the larger strategic objective of increased household and aggregate income and food security in Natural Regions IV and V. Brief background information regarding the impact of the drought on the monitoring process, and appropriate revisions to impact indicators resulting from the excelerated GOZ pace of reforms, follows.

Regarding the basic strategy to collect data and process information, there is no change in the original PAAD monitoring/evaluation implementation plan to contract for the services of a consulting firm(s): to conduct field surveys, to collect required data, and to analyze and report on the results over the course of the program. Also, the monitoring exercise must still be a collabotative exercise, with participation of the GMB, MLAWD and USAID.

With regard to duration of the evaluation exercise, certain changes are needed. Whereas the original PAAD proposed a two year timeframe (during the course of the FY 1991 program and the preceding year), it is now appropriate to complete the collection of baseline data as soon as possible, but not later than the next 9 to 10 months, with updated information collected to measure impact through the 1995/1996 marketing season which is the goal line of the GOZ Maize Pricing and Market Liberalization Program. Program performance will be measured against the key indicators, with certain modifications from those of the original PAAD, as noted below, and to periodically monitor changes in these indicators as the policy reforms are implemented.

In accordance with scopes of work prepared by the Mission, the firm(s) will be responsible for the selection of survey sites, survey design methodology, sampling of survey respondents, etc. These detailed survey implementation arrangements will be prepared by the contractor(s) in collaboration with, and approved by USAID. As stated in the original M/E plan, the firm(s) will also be required to monitor the key assumptions described in the monitoring and evaluation plan. Per the original M/E Plan in the PAAD, the firm(s) will be responsible for submission of evaluation reports as specified in their Scopes of Work, with the evaluation exercise funded either by the Grain Marketing Reform Support Project (613-0234) or PD&S.

Indicators:

A. FY 1991 Program Impact: A contract was signed with the local firm ULG on May 5, 1993 to provide a report to the Mission on the following issues:

(1) Current compliance by the GOZ on 5 FY 1991 CPs

(2) Evaluation of FY 1991 program impact

(3) Recommendations for future program amendments

B. <u>Grain Products Demand Analysis and Survey of Milling Industry</u>: The PAAD analysis contains a number of assumptions regarding key issues such as small milling capacity - present and potential, credit availability, preferences for different types of maize meal, etc. To gather critical information on these variables, a contract was signed on February 24, 1993 with a local consultant, to carry out an extensive survey in rural and urban areas. The consultant, with significant local experience in grain marketing and MLAWD, will be responsible for the submission of a report to USAID which details:

(1) baseline information on consumer preferences for various types of processed meal

(2) an assessment of the implications of the on-going and proposed policy reforms on the maize milling industry

To assist the consultant with surveys, a separate contract was signed with the local firm, Probe, to provide survey enumerators, analytical and logistical support. Results of this work are to be submitted to the Mission by November/December, 1993.

C. <u>Purpose</u>: The PAAD M/E Plan and the Action Memorandum supporting the Program Authorization contain the following set of purpose level indicators:

(1) volume of maize sold to informal buyers at GMB depots in specific deficit rural areas (or in areas neighboring deficit areas) will increase by at least ten percent.

(2) at least 20 percent of maize intake at selected GMB collection points neighboring specific deficit areas will be resold to informal buyers at the same collection point.

(3) GMB annual domestic trading deficit will decrease by ten percent from Z$23.8 million to Z$21.4 million.

Due to information received by the Mission from the MLAWD and other donors, it appears the GOZ will accelerate the pace of the reform process to provide the necessary regulatory environment for increased private sector participation in buying, selling and processing of maize. This scenario is reflected in FY 1993 program conditionality which details the redefinition of Zones A and B of the Grain Marketing Act. Therefore, as of the enactment by the GOZ of FY 1993 program conditionality, purpose level impact in point 1 should be expanded from the current focus on activity at GMB depots and collection points to include increases in private sector trading as well. Further, indicator 2 is no longer relevant and should be deleted. Revised indicators follow:

(1) Ensure that the GMB continues to make grain available to all buyers at all depots and collection points.

(2) The amount of industrial processed meal consumed by rural households decreases by 10% by December 31, 1994.

(3) GMB annual domestic trading deficit decreases to Z$0 - by increasing the GMB Marketing margins to cover fuel operating cost - by December 31, 1994.

The General Development Office is currently working on a Scope of Work for a contractor to carry out this activity. It is anticipated that the work will be carried out by a local contractor or international contractor, depending on a determination by the General Development Office regarding the complexity of the assignment. It is envisaged the work will commence not later than October 31st, 1993 and continue throughout the implementation of the remainder of this Program. The contractor will submit periodic reports to USAID, with the schedule to be determined by the Mission, which will track progress of policy reforms and associated impact derived from this program. These reforms and their impact will be included under FY 1993, 1994, 1995 and 1996 conditionality, as measured against the GOZ Maize Pricing and Market Liberalization Strategy, the draft of which will shortly be reviewed and approved by MLAWD. This exercise might be coordinated with ongoing evaluation efforts of MLAWD.

D. Goal: The PAAD Action Memorandum, supporting the Program Authorization, and the M/E Plan contains the following set of Goal level indicators:

(1) The number of private traders purchasing maize from the Grain Marketing Board (GMB) in selected deficit areas and reselling through various channels is expected to increase by at least ten percent.

(2) A measurable increase in the number of informal millers operating in selected urban and rural areas occurs.

(3) Average real consumer purchase prices for maize meal in informal markets in specific grain deficit rural areas and in selected urban areas will be monitored to determine if the program has helped contribute to a measurable decrease in such prices.

As was the case with Purpose Level indicators, the accelerated pace of GOZ marketing reforms dictates an expansion of the benchmark indicator 1 from GMB sales to all maize traded. The recently approved CPSP Strategic Objective, under which this program falls, emphasized improved aggregate and household income and increased food security in communal areas falling predominantly in Natural Regions IV and V. Therefore indicators redefined below are also consistent with impact measurement in Regions IV and V, which are a subset of the more broadly-based urban and rural development objectives of this program. Indicators have been modified as follows:

(1) Marketing margins are decreased by 5% in formal markets and 10% in informal markets by December 1994.

(2) The nomimal amount of maize and maize meal moving through informal channels is increased by 7% by December 1994.

(3) The number of hammer mill operations in target areas is increased by 7% by December 1994.

(4) The number if transporters involved in grain transport in target areas is increased by 7% by December 1994.

(5) The number of hammer mill operators trading in grain meal in target areas is increased by 7% by December 1994.

The General Development Office is currently working on a Scope of Work for a contractor to carry out this activity in conjunction with the Purpose level activity. Contractor selection criteria, duration of the activity, reporting requirements and all other aspects of this exercise will be the same as for the purpose level monitoring. At the end of the program monitoring period the consultant will be required to submit to USAID a final document which sets out program impact with respect to both purpose and goal. This includes data on indicators at each monitoring interval and a summation of total impact at project completion. The report will include an analysis of impact which can be directly attributed to the policy reforms, and to the extent possible, to demonstrate this causal relationship.

4. Environmental: In addition to assessing impact on program beneficiaries, the contractor should address the following environmental concerns, which remain unchanged from the M/E Plan in the original PAAD:

— The extent to which the policy change has resulted, if at all, in new land being put under cultivation;

— If new land has been put under cultivation, the extent to which intensification of farming has resulted in practices that are environmentally unsound;

— The extent to which changes in grain marketing have also brought about changes in grain storage techniques, e.g., more or less dependence on least-toxic pest management techniques.

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ANNEX A

ACTION: AID-1
INFO: ECON-1 DCM-1 AMB-1

DISTRIBUTION: AID
CHARGE: AID

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DATE	ACTION	INFO
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INFO RUEHSA/AMEMBASSY PRETORIA 1879
BT
UNCLAS STATE 161319

AIDAC, PRETORIA FOR RLA
E.O. 12356: N/A
TAGS:
SUBJECT: DELEGATION OF AUTHORITY FOR ZIMBABWE GRAIN MARKETING REFORM SUPPORT (613-0233) AND BUSINESS DEVELOPMENT PROJECT (613-0232)

REF: STATE 321268 - 92

OFFICIAL FILE

1. REFCABLE, REPORTING THE RESULTS OF THE AFR BUREAU REVIEW OF THE FY 94 ANNUAL BUDGET SUBMISSION FOR ZIMBABWE COMMUNICATED THE BUREAUIS DECISION TO GRANT PROGRAM CONCURRENCE FOR SUBJECT AMENDMENTS, BUT TO WITHHOLD DELEGATIONS OF AUTHORITY UNTIL THE MISSIONIS CPSP AND OVERALL STRATEGY HAD BEEN FULLY DEFINED, SUBMITTED TO AID/W AND APPROVED.

2. BASED ON THE RECENTLY COMPLETED AFR/W REVIEW OF THE CPSP, AID/W CONCLUDES THAT THE PROPOSED OBJECTIVES UNDER THE ZIMBABWE GRAIN MARKETING REFORM SUPPORT AMENDMENT AND THE BUSINESS DEVELOPMENT PROJECT ARE CONSISTENT WITH THE STRATEGIC OBJECTIVES IN THE RECENTLY APPROVED CPSP. BASED ON THIS CONCLUSION THE ACTING AA/AFR HEREBY CONCURS IN THE USAID/ZIMBABWE DIRECTOR'S EXERCISING HIS DOA 551 AUTHORITY TO AUTHORIZE THE PROPOSED AMENDMENTS TO THE GRAIN MARKETING REFORM PROGRAM AND THE BUSINESS DEVELOPMENT

PROJECT. AID/W UNDERSTANDS THAT FOR GRAIN MARKETING THIS WILL RESULT IN A NEW AUTHORIZED LOP OF DOLLARS 25 MILLION IN PROGRAM ASSISTANCE AND DOLLARS 5.5 MILLION IN PROJECT ASSISTANCE FOR BUSINESS DEVELOPMENT. THIS DELEGATION SHALL BE EXERCISED IN ACCORDANCE WITH ALL THE OTHER TERMS AND CONDITIONS OF DOA 551. ??
CHRISTOPHER
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RE-CERTIFICATION FOR COMPLIANCE WITH GRAY AMENDMENT

I, Ted D. Morse, USAID/Zimbabwe Director and the Principal Officer of the Agency of International Development in Zimbabwe, do hereby certify that the Zimbabwe Grain Marketing Reform Support program was developed with full consideration of maximally involving minority and women-owned firms, or Gray Amendment organizations, in the provision of required goods and services, if any. The non-project assistance sector cash grant nature of the A.I.D. U.S. dollar assistance, however, will not permit significant, if any, minority or Gray Amendment contracting.

_________________________ Date: _________________________

Ted D. Morse
Director
USAID/Zimbabwe

LEGISLATIVE ACTION REQUIREMENTS: FAA 611(a)

Analysis of legislative requirements and the political/administrative environment for the proposed policy reform strongly indicates that the necessary legislative actions in furtherance of program objectives can be expected to be achieved in a timely manner.

For the successful implementation of the proposed program amendment, there is only one condition precedent. This condition requires legislative action. Based on discussions with Government officials and representatives of the Government, it is the Mission's understanding that the requirement under which Government formally amend the Grain Marketing Act to redefine Zones A and B of the Grain Marketing Act, in accordance with program conditionality, will be gazetted in a timely manner to permit implementation of the program.

Based on the foregoing representations of senior GOZ personnel, the analysis of legislative requirements, and the recent relevant experience and favorable political environment, it is reasonable to conclude that the simple timely action required for the negotiated and agreed upon program will be accomplished.

Approved: Ted D. Morse
Ted D. Morse
Director, USAID/Zimbabwe

Disapproved: ____________________
Ted D. Morse
Director, USAID/Zimbabwe

Date: July 27, 1993

Doc 1675M

PROGRAM POLICY/LOGISTICAL FRAMEWORK
ZIMBABWE GRAIN MARKETING REFORM SUPPORT, AMENDMENT NO. 1
(613-0213)

PROGRAM	INDICATORS	VERIFICATION	ASSUMPTIONS
<u>GOAL:</u>			
To improve the welfare of rural consumers by supporting a GOZ initiative to move grain marketing towards a competitive, lower cost system by reducing market controls and allowing expanded private participation in the grain marketing system.	a. The number of private traders purchasing maize from the GMB in specific grain deficit areas and reselling through various channels increases by at least ten percent.	Government and private sector statistical anaylses. Survey of Rural HH	a. The Government will come to grips with the redistribution of land in a way that does not reduce investment, financing, and, ultimately agricultural productivity.
	b. GMB maize sales to informal buyers in deficit rural areas increases in volume by at least ten percent.	GMB Records, GMB Annual Report	b. Adverse public opinion of private traders does not significantly restrict or retard expansion of private participation in grain trade.
	c. A measurable increase in the number of informal millers operating in urban areas and in specific rural areas.	GMB records, Annual Report	c. The distribution of grain from surplus areas into grain deficit communal areas is not being adequately accomplished by either the the public or the private sectors.
	d. The real income of producers in selected areas which neighbor deficit areas increases by at least ten percent.		d. Market reform is accompanied by GOZ initiatives that alleviate major non-policy as well as policy barriers to private sector entry and investment in grain trading, storage, transport, and rural processing.
	e. Average real consumer purchase prices for maize meal in informal markets in specific grain deficit rural areas decreases by at least ten percent.		e. Policy changes will be uniformally implemented once they have been made law.
	f. Average real consumer purchase prices for maize meal in informal markets in urban areas decreases by at least ten percent.		f. Weather conditions are normal.
	<u>Note</u> Above indicators could not be realistically measured due to aberations in the marketing system resulting from the 1991/1992 drought. These indicators have been subsequently replaced by those shown below, which measure impact resulting from both the FY 1991 and FY 1993 conditionality:		

PROGRAM POLICY/LOGISTICAL FRAMEWORK
ZIMBABWE GRAIN MARKETING REFORM SUPPORT, AMENDMENT NO. 1
(613-0213)

PROGRAM	INDICATORS	VERIFICATION	ASSUMPTIONS
	a. Marketing margins decrease by a 5% in formal markets and 10% in informal markets by December 1994.	a. M & E contract, GMB Reports, Farm Management Reports.	No change in assumptions
	b. Nominal amount of maize and maize meal moving through informal channels increases by 7% by December 1994.	b. GMB Reports, M & E contract	
	c. The number of hammer mill operations in target areas increases by 7% by December 1994.	c. M & E Contract, Grain Marketing Research Studies.	
	d. The number of transportors involved in grain transport in target areas increases by 7% by December 1994.	d. M & E Contract, Grain Marketing Research Studies.	
	e. The number of hammer mill operators trading in target areas increases by 7% by December 1994.	e. M & E Contract, Grain Marketing Research Studies.	
PURPOSE:			
To support specific policy and regulatory reforms which will: (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit. At the end of the proposed program (two years from signing of the Program Agreement), it is expected that the indicators herein will be evident.	a. The Grain Marketing Board will be operating with greater autonomy.	Survey of producers	a. The GOZ follows through with its plans to decontrol grain movements between communal and commercial areas.
	b. New enhanced private sector marketing channels will begin to meet producer and industrial consumer requirements.	Survey of Rural HH	b. Costs associated with selling at collection points is lower than the combined costs of transporting grain onward to main depots, handling and storing the grain by the GMB, and transporting processed meal or drought relief back into these same areas.
	At least 20 percent of maize intake at GMB collection point neighboring specific grain deficit areas is resold to informal buyers at the same collection point.	Survery on Urban HH	
	c. There will be increased grain availability in semi-arid and rural areas.	GMB records MOF records	c. City by-laws are amended to permit informal milling in non-residential areas or the existing restrictions in in non-residential areas are not enforced.
	The volume of maize sold to informal buyers at GMB depots in specific grain deficit rural ares (or in areas neighboring deficit areas) increases by at least twn percent in those areas.	Terms of reference	

PROGRAM POLICY/LOGISTICAL FRAMEWORK
ZIMBABWE GRAIN MARKETING REF RM SUPPORT, AMENDMENT NO. 1
(613-0213)

PROGRAM	INDICATORS	VERIFICATION	ASSUMPTIONS
	d. Government deficits derived from GMB operating costs will be reduced. The GMB annual domestic trading deficit decreases by ten percent from Z$23.8 million to Z$21.4 million.		d. Transportation will be adequate to support increased private sector grain marketing activities in rural areas. e. The development of reliable informal trade will improve grain availability and access in rural areas. f. Improved grain availability and access will reduce the number of hunger-prone households. g. The reduction in the number of hunger-prone households will reduce the size and costs drought relief and supplmental feeding programs h. Most rural hunger-prone consumers are within 100 km of grain sale point. i. The GOZ follows through with its plan to reduce GMB subsidies from Z$59 million in 1990/1991 to Z$30 million in 1991/1992 and to Z$18 million in 1992/1993. j. The GMB incurs no new domestice grain trading losses.

PROGRAM POLICY/LOGISTICAL FRAMEWORK
ZIMBABWE GRAIN MARKETING REFORM SUPPORT, AMENDMENT NO. 1
(613-0213)

PROGRAM	INDICATORS	VERIFICATION	ASSUMPTIONS
	Note: As with goal indicators the above could not be realistically measured due to the drought and have been replaced by those shown below which measure impact resulting from both FY 1991 and 1993 conditionally:		No change in assumptions.
	a. The GMB continues to make grain available to all buyers at all depots and collection points.	a. GMB Records, M & E contract, Grain Marketing Research Studies.	
	b. The amount of industrial processed meal consumed by rural households decreases by 10% by December 31, 1994.	b. GMB Records, Grain Marketing Research Studies.	
	c. The quantity of grain maize purchased by rural households from private traders increases by 10% by December 31, 1994	c. M & E contract, Grain Marketing Research Studies.	
	d. GMB annual domestic trading deficit decrease to Z$0 - by increasing the GMB Marketing margins to cover full operating cost by December 31, 1994.	d. GMB Financial Statements.	
OUTPUTS: FY 1991 Conditionally			
Autonomous GMB Board of Directors	1. Legislation for the establishment of a board.	1. Formal Documentation	1. An autonomous Board will be able to make independent decisions re grain marketing.
	2. Appointment of board members.	2. Formal Documentation.	
Open sales of grain from GMB depots to any buyer at whatever quantity is demanded greater than one bag and publicize the change in policy.	1. Changes officially gazetted or otherwise enacted.	1. GOZ Gazette, other source.	1. Policy changes will be uniformally implemented.
	2. Announcements in newspapers, radio and TV; postings at GMB depots and collection points; and/or other medium.	2. Transcripts, articles and postings	

PROGRAM POLICY/LOGISTICAL FRAMEWORK
ZIMBABWE GRAIN MARKETING REFORM SUPPORT, AMENDMENT NO. 1
(613-0213)

PROGRAM	INDICATORS	VERIFICATION	ASSUMPTIONS
GOZ allows approved buyers to resell grain through any channel, in Natural Regions IV and V without having to repay any portion of revenue to the GMB and publicize this change in policy.	1. Changes officially gazetted or otherwise enacted. 2. Announcement in newspaper, radio and TV; postings at GMB depots and collection points; and/or other medium.	1. GOZ Gazette, other source. 2. Transcripts, articles and postings.	
GOZ allows grain to be sold at selected GMB collection points to any buyer and publicizes this change in policy.	1. Changes officially gazetted or otherwise enacted. 2. Announcements in newspapers, radio and TV; postings at GMB depots and collection points; and/or other medium.	1. GOZ Gazette, other source. 2. Transcripts articles and postings.	
GOZ formally establishes the plans for a medium range strategy for liberalizing national grain markets and promoting the development of a strong, competitive private sector marketing system, in form and substance suitable to A.I.D.	1. Terms of Reference submitted and approved.	1. Officially approved by USAID.	
<u>FY 1993 Conditionally</u>			
The GOZ formally approves the redefinition of Zones A and B of the Grain Marketing Act, such that Zone A refers to the factory gates of named maize buyers, while Zone B refers to all other parts of the country.	1. Change officially, gazetted, announced or enacted. 2. Amendment of the Grain Marketing Act.	1. Formal Documentation, eg GOZ Gazette. 2. Formal documentation.	1. Policy change will be uniformally implemented.

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