PD-ABH-190
85265

ZIMBABWE

GRAIN MARKETING

REFORM SUPPORT

PROGRAM

(613-0233)

PAAD AMENDMENT II

SEPTEMBER 30, 1993

CLASSIFICATION:

AID 1120-1 (5-86)

DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT

FAAD

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO. 613-T-608A
613-0233, Program Amendment No. 2

2. COUNTRY
Zimbabwe

3. CATEGORY
Zimbabwe Grain Marketing Reform Support Program Amendment No. 2

4. DATE
September 30, 1993

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 (1) = $ 5,000,000
FY93 AUTH/OBLIG (2) = $ 5,000,000

TO BE TAKEN FROM:
DFA FY93

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

10. APPROPRIATION - ALLOTMENT

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

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

13. ESTIMATED DELIVERY PERIOD: Sept. 1993 - Feb. 1994

14. TRANSACTION ELIGIBILITY DATE

15. COMMODITIES FINANCED

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

16. PERMITTED SOURCE

U.S. only:	N/A
Limited F.W.:	N/A
Free World:	N/A
Cash:	$5,000,000

17. ESTIMATED SOURCE

U.S.:	N/A
Industrialized Countries:	N/A
Local:	N/A
Other:	N/A

18. SUMMARY DESCRIPTION

A US$5 million non-project assistance sector cash grant is authorzied for the third 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 third tranche of assistance, authorized program assistance totals US$15 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 third 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 third authorized tranche of US$5 million is conditioned on Government, at the Cabinet level, formally approving a medium-term strategy, in form and substance satisfactory to A.I.D., for liberalising the maize pricing and marketing system in Zimbabwe. 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)	9/21/93
REG/GC	Margaret Alexander	fax 9/27/93
AA/PC	Robert Armstrong	28 Sep 93
A/CONT	Mary Lewellen	
AA/MR	Erin Hirr	28 Sep 93
AA/DFPE	James Harmon	9/27/93

20. ACTION

☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE: [signature] DATE: 9/30/93

Ted D. Morse
Mission Director, USAID/Zimbabwe
TITLE

CLASSIFICATION:

ACTION MEMORANDUM FOR THE MISSION DIRECTOR, USAID/ZIMBABWE

FROM : Jim Harmon, PDO JH
Eric Witt, AADO EW

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. 2

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 $15 million; and (2) approving the obligation of said funds through a Program Grant Ageement Amendment No. 2 with the Government of Zimbabwe (GOZ).

BACKGROUND- The Zimbabwe Grain Marketing Reform Support Program contributes toward improvement of rural consumer welfare by supporting the GOZ grain marketing liberalization program. The Program was designed to be implemented in parallel with the GOZ policy reform effort over five years, beginning on the date of the initial obligation, August 30, 1991. The GOZ program has achieved a number of key milestones in its overall plan to move grain marketing towards a competitive, efficient system by reducing market controls and allowing more broadly-based participation in the grain marketing system. A number of these key reforms coincide with program conditionality, noted below, and are attributable, in large part to programmatic policy dialogue carried out between USAID, other donors and the Ministry of Lands, Agriculture and Water Development (MLAWD).

The purpose of the proposed program amendment is to further specify 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. Programmatic objectives also support Strategic Objective No 1 of the CPSP which is "Increased household food security in communal areas of natural Regions IV and V."

The program design envisaged that $25 million would be provided over the five-year life of the program through sequenced authorizations and tranched obligations, with disbursements completed upon satisfaction of specific policy reform conditionality for each tranche. The original program justification in the PAAD included conditionality related to specific policy reforms for only the FY 1991 tranche of $5 million, with indicative policy reform conditionality presented for remaining years of the program. Indicative program conditionality was necessary in the out years to allow the GOZ to develop a medium-term grain marketing liberalization strategy. The PAAD stated that each tranche of assistance for policy reforms after the initial tranche would be analyzed for feasibility and impact in achieving overall GOZ strategic objectives.

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 program assistance in the field was given with the understanding that the Mission would consult with A.I.D./W prior to authorization of incremental funding under a multi-year program and complete PAAD amendments as necessary to formalize disbursements against specific conditionality.

To date, the program has obligated funds for two tranches of $5 million each, with the first authorized in FY 1991 under the initial PAA and the second in FY 1993 under PAAD Amendment No. 1. Each is discussed below.

FY 1991

The disbursement of FY 1991 funds was conditioned on completion of five agreed upon actions, focusing primarily on reforms at the Grain Marketing Board (GMB), in support of the GOZ grain marketing liberalization program. The five actions which comprised the substantive set of 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 Conditions Precedent to the FY 1991 disbursement were met, and U.S. dollar funds were disbursed on August 19, 1992 in accordance with the Program Agreement to support the Open General Import License (OGIL) foreign exchange allocation system.

FY 1993

Based on the analysis carried out by the Mission and MLAWD, detailed in PAAD Amendment No. 1, the obligation of a second tranche of US$5 million was executed on July 27, 1993. The FY 1993 cash grant resources are conditioned upon the standard requirement for establishment of special accounts to ensure financial controls and the following specific reform action:

(f) 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.

On July 28, 1993 the Minister of MLAWD delivered the annual Policy Statement for the 1993/1994 Agricultural Year (Policy Statement). A copy of the Policy Statement is included in the PAAD Amendment as Annex D. In the statement, the Minister announced that Zones A and B of the Agricultural Marketing Act will henceforth be redefined, thereby advising the public that the GOZ has decided to change this agricultural policy. Pursuant to this GOZ action, USAID issued PIL No 7 on July 29, 1993, requesting a written statement and evidence that the GOZ, at the Cabinet Level, formally approved the redefinition of Zones A and B, as announced in the Policy Statement. Although the required documentation has yet to be received by USAID, the MLAWD has advised that Gazetting of the Zone A/B redefinition is in process and that the Attorney General's Office is currently working on appropriate language to incorporate the change in the Grain Marketing Act.

DISCUSSION: During the initial PAIP review, the ECPR in AID/W approved the Mission's proposed conditionality for the first disbursement of FY 1991 funds and the concept of indicative conditionality in the out years. However, ECPR guidance 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 developed a draft medium-term strategy, which detailed the steps needed to achieve the GOZ's programmatic end point for the 1995/1996 marketing season. The draft maize marketing medium-term strategy was reviewed in May 1993 and further refined by MLAWD, and is now contained in Section 3.5 of the MLAWD document entitled "Proposals for the Liberalization of Agricultural Pricing and Marketing and the Development of Efficient and Competitive Marketing Boards" (this document is included in the attached PAAD Amendment). The medium-term strategy in Section 3.5 (herinafter referred to as Maize Marketing Proposals), currently under review for Cabinet approval, lays out a three phase plan for a comprehensive GOZ reform program which will achieve the end point stated in ECPR guidance, i.e., " GMB to operate as a commercial organization along side other marketing channels."

The development of a medium-term maize marketing reform strategy, needed by by MLAWD to guide the GOZ analytical and decision making process, is included under one of four Program Elements in the original PAAD as an

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essential component of the reform process. The draft Maize Marketing Proposals strategy appears to meet this need. It is now going through the GOZ approval process.

GOZ maize marketing policy reforms to date indicate a strong GOZ commitment to follow through on the program. A review of GOZ actions completed to date, actions pending and estimates of future actions is included in Section 6.1, Technical Analysis of the Attached PAAD Amendment. In sum, the GOZ is moving very well on the maize marketing reforms. However, due to the complexity and gravity of the maize marketing liberalization process, there is a critical need for the GOZ Maize Marketing Proposals strategy to be approved at the highest levels of Government in order to guide the program over the next two years.

As discussed in Section 6.1 of the PAAD Amendment, a number of reforms contained in Phases 1 and 2 have already been undertaken, including freeing up buying and selling arrangements and the redefinition of Zones A and B, with several others imminent. Phase 3 reforms, scheduled for the 1995/1996 marketing year, promise to achieve the GOZ and A.I.D. goal in maize marketing reforms. Furthermore, certain Phase 2 and all Phase 3 reforms are recommended for continuing joint analysis by MLAWD and A.I.D. in supporting the reform process. An assessment of the programmatic impact of implementing a selected set of Phase 2 and 3 reforms is included in Section 6.2 , Economic Analysis of the PAAD Amendment. The Grain Marketing Reform Research Project (613-0234) was authorized on August 27, 1992 to address a critical analytical capacity constraint within the GOZ and private sector, thereby assisting to further the reform process in conjunction with this non-project assistance activity.

Due to the critical importance of the GOZ medium-term maize marketing strategy to the achievement of GOZ and A.I.D. maize marketing objectives, formal GOZ approval of the Maize Marketing Policies document has been identified as the most appropriate contitionality for the proposed $5 million dollar disbursement under program Amendment No 2. The proposed condition precedent to the disbursement of this $5 million in FY 1993 funds is:

> "Government, at the Cabinet level, formally approves a medium-term strategy, in form and substance satisfactory to A.I.D., for liberalizing the maize pricing and marketing system in Zimbabwe."

As detailed in the Economic Analysis of PAAD Amendment No. 2, the proposed policy reform supported with FY 1993 Program assistance will produce a net benefit of Z$ 45.8 million per year (U.S.$ 7 million). With a ten year time horizon and a 15% discount rate, the net present value of program benefits attributable to the proposed conditionality would be US$ 37.7 million.

In addition to conditions precedent to program disbursements for the First, Second and Third Program Tranches, it is anticipated that future conditionality will be included under this program in support of the Government of Zimbabwe's maize marketing liberalization strategy which is planned to be fully implemented by the end of 1995/96 marketing year. This

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future conditionality will be developed in consultations between the Government of Zimbabwe and USAID.

PAAD Amendment No 2 contains a Monitoring and Evaluation Plan which lays out a revision and simplification of key indicators against which the attainment of the program goal and purpose will be measured for programmatic impact. The revised indicators will simplify the process of program monitoring by focusing on only the most critical measures of attainment of programmatic objectives. The revised indicators also harmonize measurement of objectives under this program with those in other activities under USAID/Zimbabwe's CPSP Strategic Objective No 1.

Issues and Resolution: The Mission Executive Committee (EC) met on September 21, 1993, at which time the following issues were reviewed and resolved:

(a) Medium-term Strategy: The EC agreed that the proposed contitionality is an essential step in achieving both the program goal and purpose. The need for the development of a medium-term strategy is included in the original PAAD under Technical Assistance, one of four program elements. The EC discussed on-going monitoring activities, including: (a) Price and Availability by "three experts"; (b) PROBE contract currently under negotiation; (c) ULG review of initial CPs; (d) Larry Rubey's work under a PSC; (e) UNICEF monitoring; (f) Ministry of Industry and Commerce reports on price and availability; and (g) ENDA research.

It was agreed that the Grain Marketing Reform Research Project (613-0234) must be utilized early in its implementation to begin to pull together the findings, reports, etc. of the above efforts and analyze them to provide a reading on implementation of the Medium-term strategy, its impact, and where the strategy plans must be revised in view of rapidly changing circumstances.

(b) Political Risk: It was noted that with the current demonstrations on the bread price increases, there exists the possibility that the maize area could begin to feel pressures as well. However, since the June 1 removal of the roller meal subsidy and accompanying urban price increases in this staple food, there have been no meaningful demonstrations. Subsequent GOZ marketing reforms have increased competition in the marketing system and provided a lower cost whole meal option to economically strapped consumers. Both large and small farmers organizations have recognized the policy changes. The Mission Director will draft additional language to include in the PAAD Amendment No. 3 document addressing this concern.

(c) OPS Memo: Per Guidance in State 269946, Cash Disbursement Justification (OPS) Memorandums are no longer required for disbursements beyond the original one in any given activity except for the first disbursement beyond a substantive amendment to the activity. Specific AID/W/GC guidance of August 30, 1993 on this proposed program amendment states that "AFR clearance would be handled through the DAA's routine clearance of the CN."

(d) Monitoring and Evaluation: The CPSP Monitoring and Evaluation Plan team assisting with the recent API exercise made strong observations that the Goal and Purpose indicators used in Mission programs and reflected in the CPSP were far too detailed. As a result, goal and purpose indicators have been simplified and revised to be more measurable, meaningful and consistent with indicators of other programs included under Strategic Objective No 1. A series of monitoring studies of the effects of Zimbabwe's Grain Marketing Liberalization are underway which will examine the role of small scale millers in maize meal processing and marketing; analyze the demand for grain products; assess grain milling, trading and consumption in five districts in communal areas, and assess environmental impact of policy reforms.

(e) Use of U.S. Dollar Resources: The EC discussed the dynamic foreign exchange allocation system under which, to date, the Mission has supported imports under the OGIL. It was noted that with the IMF, Reserve Bank, and Ministry of Finance negotiations currently underway, it is likely that a much greater emphasis will be shifted at the macro level to supporting the ERS. As A.I.D. support for the ERS would be consistent with IMF recommendations, it would present a monitoring challenge for the Mission to be able to track the US dollars or be able to attribute them to U.S. imports. The Mission will be following the negotiations closely and may have to carry out some design revisions on uses of the U.S. dollars to comply with both IMF and A.I.D. requirements.

(f) Local Currency Uses: The EC agreed there is a need to confirm that agreed upon budget allocations were actually made under the initial disbursement of FY 1991 funds. The GDO will follow-up to obtain appropriate written documentation. The budget attribution process carried out for the FY 1991 program local currency counterpart is 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 GOZ/IMF budget agreements and 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) Status of Tranche No. 2: The GDO will liaise with the Ministry of Agriculture, the Attorney General's Office, and the Ministry of Finance to ensure completion of all actions required to satisfy the Condition Precedent of the first amendment to the Program. It was noted that while not all of the paperwork or bureaucratic signatures are in place, on the basis of the Ministry of Agriculture policy speech in July, the required policy revisions are currently in effect and movement and sale of grain have proceeded with full GOZ support.

(h) Trust Funds: 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 counterpart deposits to be used for Mission administrative support is appropriate and will be continued under this amendment.

(i) Section 611(A): It was noted that as currently designed the program can be re-certified as in compliance with 611(a), since implementation systems are consistent with those presented in the original PAAD. However, should the foreign exchange allocation system be significantly changed as a result of negotiations underway with the IMF, the Mission will have to review this certification.

(j) IEE: The EC accepted that Program Amendment No 2 is consistent with the categorical exclusion included in the original PAAD, but asked that the GDO ensure that the M&E plan and baseline studies incorporate appropriate review of environmental impact related to the reforms, particularly addressing the issues identified by the Africa Bureau Environmental Officer included as an annex to the original PAAD document. On-farm storage was specifically cited.

(k) Gray Amendment: A re-certification for compliance is included as Annex B of the attached PAAD Amendment No. 2 for signature by the Director. It was noted that re-certification should reference the arrangements under the current Grain Marketing Reform Research Project with regards to a 10% set aside for Gray Amendment firms.

(l) Reporting Cable - The Mission Director asked that a reporting cable be prepared for AFR/SA and AFR/DP stating that the Mission ECPR met to review the subject program, recommending some changes. The Program Amendment was accepted for obligation subject to receipt of funds (budget allowance) and expiration of the Congressional Notification without objection.

CONGRESSIONAL NOTIFICATION: Per State 282411 the CN for this proposed incremental obligation was transmitted to Congress on September 14, 1993. Per State 298840 the Notification period expired without objection on September 29, 1993 and obligation may be incurred on or after this date. Per State 268139 the budget allowance has been received and funds may be obligated subsequent to the expiration of the CN. PAAD No 613-T-608A should appear on all documents.

AUTHORITY: Under Section 4 of Africa Bureau Delegation of Authority No. 551, as amended (DOA 551), you have authority to approve and authorize amendments to projects, 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 $15 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 additional 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. 2 to obligate the funds.

Approve: ______________________
Ted D. Morse, Director

Disapprove: ______________________
Ted D. Morse, Director

Date: ______________________

Attachments:

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

SUBJECT: **Zimbabwe Grain Marketing Reform Support Program (613-0233) - Action Memo for Program Assistance Approval Document (PAAD) Amendment No. 2**

Clearances:

CPDIS	:P.K. Buckles	(draft)	Date: 9/16/93
RLA	:M. Alexander	(Alexander/Harmon fax)	Date: 9/27/93
CONT	:M. Lewellen	(draft) ML	Date: 9/27/93
GDO	:R. Armstrong	(draft)	Date: 9/16/93
PRM	:M. Ellis	(draft)	Date: 9/21/93

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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 for 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 Gary 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 will not permit significant, if any, minority or Gray Amendment contracting. However, arrangements have been made under the Grain Marketing Reform Research Project (613-0234), which complements this non-project assistance, to provide for a 10% set aside for Gray Amendment firms.

_______________ 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 proposed policy reform, under which the Cabinat formally approves a GOZ medium-term maize marketing strategy, will be accomplished 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
Director, USAID/Zimbabwe

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

Date: ____________________

ANNEX D

GOVERNMENT OF THE REPUBLIC OF
ZIMBABWE

POLICY STATEMENT FOR THE 1993/94 AGRICULTURAL PRODUCTION YEAR

ISSUED BY
THE MINISTER OF LANDS, AGRICULTURE
AND WATER DEVELOPMENT
THE HONOURABLE KUMBIRAI KANGAI, M.P.

28 JULY 1993

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1. INTRODUCTION

It is customary for the Minister of Lands, Agriculture and Water Development to make a policy statement at this time of the year, when farmers are deciding on the 1993/94 farm production plans and are preparing their lands for their forthcoming cropping programme. The purpose of the statement is to give producers a clear and positive indication of the intentions of government in respect of marketing and other agricultural measures, in so far as these relate to the coming season. This year's statement also sets out the Government of Zimbabwe's longer term agricultural policy framework at this critical juncture in the agricultural and economic development of the country.

The price and other policy matters set out in this statement reflect the two overriding issues currently affecting the growth of the agricultural sector. The first of these is the supply and demand situation for the major agricultural products, following the recovery from the severe drought in the 1991/92 production year which affected the entire agricultural sector of Zimbabwe. In many parts of the country the drought was nothing less than a catastrophe; a complete recovery will require several years of sustained effort. However, the combination of the government's drought recovery programme and the much better rainfall in 1992/93 has led to a greatly improved production situation.

The second issue which is of major importance in this statement is the evolution of agricultural policy under the government's structural adjustment programme. Substantial progress has already been made in this direction and, in spite of the drought of 1991/92, this progress will be continued in the coming year.

The development of the government's agricultural policy as reflected in this and earlier policy statements is designed to achieve the objectives of ensuring food security, improving the living standards of farm families, sustaining and expanding employment, increasing net foreign exchange earnings, generating higher rates of econcmic growth, supplying raw materials for the domestic manufacturing industry and contributing to the food requirements of the Southern African region as a whole. The development of agricultural policy as reflected in this and earlier policy statements is designed to achieve these objectives in a more effective manner; the objectives themselves have not changed in any way.

2. CROPS AND LIVESTOCK : SPECIFIC PROPOSALS

During the past 2 years, Government has been implementing a number of reform measures targetted at the agricultural pricing and marketing system in order to improve the efficiency of marketing mechanisms, increase the role of the private sector in marketing and processing activities, and to increase the volume of production in the sector, especially among smallholder farmers.

To take this process further, the pricing and marketing policy of the major agricultural products was the subject of a very detailed study carried out with the assistance of funding provided by the Swedish International Development Agency. This was followed by a review directed by a senior committee, under the chairmanship of the Secretary for Lands, Agriculture and Water Development and discussion and approval by Cabinet. The following policy developments represent the basic decisions of Cabinet. They represent a further step in the evolution of agricultural marketing and pricing policy which has been undertaken over recent years under the terms of the government's general economic reform programme. This programme is concerned, inter alia, with the promotion of a competitive environment in which agriculture can flourish through market related exchange rates, trade policies which improve access to profitable export

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markets and a greater concentration of the available resources on resource poor small farmers.

In implementing this more market led system of pricing and marketing of agricultural production, it is necessary to ensure that there are no elements of confusion or misunderstanding among producers, the marketing boards or other interested parties arising from the flexibility that has been introduced. Government policy is to introduce changes in a co-ordinated and systematic manner; the Minister of Lands, Agriculture and Water Development must be kept fully informed by the marketing boards of any proposals for price changes or supplementary payments. This requirement arises from the fact that the Minister is the responsible authority for the overall operation of agricultural policy and for the implementation of the Acts of Parliament which govern the marketing of agricultural commodities.

As noted in the agricultural policy statement for the 1992/93 marketing year, government's decision to introduce greater flexibility into agricultural marketing is in line with the economic structural adjustment programme.

The present policy in relation to the export and import of agricultural products, both through the marketing boards and private exporters will continue and the present permit system will remain in place, with all applications considered on their merits.

I have structured my Statement in such a way as to highlight specific changes affecting each of the major crops and to comment on other commodities and issues relevant for the coming marketing year.

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Proposals for the 1994/95 Marketing Year

2.1 Maize : The challenges facing the maize sector in the 1990's are as follows:

a) how to develop a distribution, storage and milling system at least cost while guaranteeing long term food security;

b) how to induce higher productivity from available rural resources and to promote rural income growth, especially in low-rainfall areas which were bypassed by the smallholder agricultural gains during the early and mid 1980's;

c) how to redesign the GMB so that it may perform competitive and socially valuable functions without impeding the development of private trading channels that might perform other functions more efficiently;

d) how to provide inexpensive staple food to low-income consumers without the need for massive subsidies or GMB operating losses, while providing incentives for the development of competitive grain trading networks.

A major issue in the liberalisation process therefore involves the timing and sequencing of change. It is unlikely that a vibrant competitive private maize marketing system can develop overnight. The GMB currently plays a comprehensive role in the food marketing system, collecting the bulk of the country's marketed maize surplus and supplying it to the industrial millers on which the urban and a considerable part of the rural population currently depends. A major issue for market liberalisation is how to manage the transition from a centralised and controlled maize marketing system to one which, in an intermediate phase, stimulates informal/private investment in distribution, storage and milling without putting large numbers

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of people who depend on the GMB at risk and which, over the long run, allows the emerging informal trade to perform marketing functions at low cost.

The government's strategy should be viewed as a means of promoting food access and affordability to vulnerable groups by making the market work better for consumers, in addition to the more conventionally-understood role of reducing marketing board deficits, promoting pricing efficiency and stimulating productivity.

The specific maize marketing changes to be implemented will therefore be:

a) Zones A and B will be redefined. Zone A will henceforth be at the factory gate of designated maize buyers and Zone B will be everywhere else. The designated maize buyers are the major milling companies operating in the urban centres; the list of companies will be specified by my Ministry in the relevant statutory instrument. This will effectively deregulate maize prices and trade in all parts of the country, except for designated Zone A firms. The GMB will continue to operate as residual buyer and seller in all areas defending a floor price for white maize at selected depots throughout the country, and selling white maize at wholesale price to all individuals and firms.

Three major benefits will be derived from the redefinition of Zones A and B proposed above. First, farmers will now have an opportunity to sell grain directly to urban buyers, thus opening up a huge market that is currently blocked by restrictions on grain movement. Second, the growth of informal maize movement into urban areas will promote competition in the maize processing industry and put downward pressure on maize meal prices. It is anticipated

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that small-scale mills (which are capable of producing refined maize meals with the use of a dehuller) would increase the range of alternative low cost maize products on the market, thus enhancing food security. Third, the redefinition will promote the objective of a more liberalised maize marketing system.

b) Following the withdrawal of the maize consumer price subsidy, the pricing structure is now such that there is only one GMB selling price i.e. no preferential buyers who are able to procure maize from the GMB at lower prices than other buyers. This provides a more level playing field and promotes the development of a more decentralised, competitive and lower-cost maize trading and milling system.

c) Seasonal GMB producer and selling prices will be developed. GMB prices will be revised periodically, commensurate with storage costs.

In the case of white maize, government policy is to ensure that, given normal weather conditions, production from the 1993-94 growing season should be sufficient to meet domestic requirements in full and to provide for any viable export opportunities. If white maize is produced in excess of domestic requirements, then the GMB will be authorised to export any surplus. It remains to be seen what surplus production, if any, will be available during the current season.

The government would wish to see the GMB give further consideration to the introduction of a graduated payments scheme for maize, under which the prices paid to producers would be structured in such a way as to encourage production to meet the target given normal weather conditions. Under such a scheme producers would be compensated for low yields in the event of another poor season while protecting consumers and government from excessive costs in the event of an excellent season.

2.1.1 Grain Reserve Stock Policy

The question of developing a viable stock policy for maize has been a complex issue. We need to recognise that the very large costs of stockholding (primarily interest payments and pest damage) are borne by all of us - taxpayers and consumers. However, it is the responsibility of Government to strike an appropriate balance between the cost of holding grain stocks and the need to avoid future food shortages. We must appreciate that the optimal size of national maize stocks depends on the likelihood of future requirements (consumption minus local production), the costs of storage (including both the cost of money and its availability), the returns from exporting and the costs of importing maize. An appropriate balance was arrived at by Government having taken into account two contrasting experiences. The first is the experience of the mid 1980s, when we accumulated well over a million tonnes of grain for which there was no demand and which was clogging up our silos and therefore had to be sold often at a substantial loss. This experience showed that there are very serious financial constraints in holding excessive stocks. The second is the experience of 1992 when we ran short of maize and had to import well over 2 million tonnes during the drought at considerable cost to Government.

Since periodic droughts and resulting food deficits are inevitable, Government has considered that a national food security stock over and above seasonal working stock requirements is needed in order to avoid frequent resort to imports of costly and unfamiliar foreign maize. Government has therefore set a stock accumulation target of 936,000 tonnes. This target level of stocks will not necessarily be held every year; in years of low rainfall, stocks would fall as the grain is used to supplement

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domestic production, while stocks would rise to this level after good years. However, we have given ourselves room to revise the stock level as circumstances alter.

An important element of the government's stockholding policy is therefore that the major part of the nation's stock requirements will be held by the GMB who will be responsible for planning their own grain movements (including imports and exports) to maintain sufficient working stocks for grain to be available throughout the country at all times. It will be necessary for the GMB to have the flexibility to dispose of stocks in excess of reserve requirements and also to import maize when stocks fall below the desired level.

2.2 Yellow Maize

Policy in relation to yellow maize must take into account the volume of white maize that is available for local human consumption and of D grade white maize for stock feed and other purposes. It is necessary to keep the right balance between the prices of white and yellow maize, avoiding an over expansion of yellow maize at the expense of white. Government will therefore continue the policy of allowing yellow maize to be traded freely on the domestic market without any price or marketing restrictions. Consequently, any individual or private firm is free to participate in domestic yellow maize marketing.

The GMB will continue to have full flexibility to buy the available yellow maize at a price below that of white maize, which they can move upwards or downwards depending on their stock position and requirements for yellow maize.

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2.3 Wheat

The government has reviewed all aspects of policy in relation to wheat and decided that this crop will be a regulated crop after the current marketing year. The objective of policy in relation to wheat has been to revive the steady growth in output that was interrupted by the recent drought and thus to enable national demand to be met from domestic production in the medium term. The more immediate aim is to produce 250 000 - 300 000 tonnes in 1993, provided that water supplies are available to irrigate this volume of production. In the medium term it is likely that production in excess of 300 000 tonnes will be required to meet total domestic requirements; it should be possible to produce this at a price that will be not be greater than, and possibly significantly less than, the full import parity price.

Following the decontrol of flour and bread prices, effective from September 1993, wheat will just be a regulated crop with the GMB authorised to determine the selling price of wheat. For the 1994/95 production year, producer prices for wheat will be determined by the GMB, after consultation with producer organisations. However, the producer and selling prices should be communicated to Government before implementation. In future, it will be possible for direct transactions to take place between producers and millers in competition with GMB.

2.4 Small Grains

The basic policy thrust in regard to the production of small grains remains unchanged. The main objective is for production to meet consumption in the areas in which small grains are produced, except for the quantities grown under contract for industrial purposes (e.g. for brewing in the case of red sorghum) and whatever quantities are required by the Grain Marketing Board

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to meet viable market opportunities.

While the objective is to achieve a breakeven situation for the GMB, it is not the intention that each marketing year should be seen as an entity in itself; rather the objective is to ensure that, taking one year with another, the GMB develops a viable and sustained marketing programme for small grains. At the same time industrial processors will be encouraged to enter into direct contracts with producers, especially smallholders, to meet their requirements in terms of both quality and quantity.

2.5 Cotton

For the past two seasons Government allowed the producer prices for seed cotton to be market determined with the Cotton Marketing Board authorised to negotiate prices with producers. This policy will be continued in 1994/95; CMB will have full responsibility for all producer prices, including grade and variety differentials. Producers are therefore expected to enter into direct bilateral discussion with the Board to ensure that there is a full understanding of the factors and policies which will underlie the decisions on prices taken by the CMB.

However, the requirement that all cotton must be delivered to the Board's ginneries or to agents appointed by the Board will be abolished. With effect from the 1994/95 marketing year, all regulations restricting entry by others in the domestic marketing and processing of cotton and cotton products will no longer apply except for those relating to health, safety and the environment. This effectively expands the present pricing and marketing arrangements for cotton to allow other players to participate in the processing and marketing of cotton and cotton products to the domestic textile industry. The CMB and private firms will be free to purchase, process and sell cotton and cotton products on the domestic market to best advantage. Furthermore the policy of allowing unrestricted cotton lint imports under the Export Retention Scheme will be maintained.

In addition to price incentives, the GMB will be authorised to continue to supply inputs on credit to smallholder producers in order to accelerate increased production in the coming season. The credit input scheme is on a cost recovery basis and is expected to be a regular feature of cotton production in future years.

2.6 Sunflower and Other Oilseed Crops

In the last Policy Statement, Government introduced major changes in the pricing and marketing of soyabeans and groundnuts. This time, the major policy changes relate to sunflowers. In 1994/95, sunflowers will cease to be a controlled crop; prices will be set by the GMB and private traders will be allowed to buy and process sunflower seeds, as is happening with groundnuts and soyabeans.

I am sure you are all aware that total intake of sunflower seeds has grown rapidly in recent years with over 90 per cent of sunflower seed deliveries to GMB coming from the small scale sector. You will also be aware that prior to 1992/93, sunflower and soyabeans were fully controlled crops, while groundnuts were a regulated or partially decontrolled crop. However, there is now an urgent need to increase the production of all oilseeds at a price which leaves the product affordable to the consumer but without government subsidies.

Government has also decided that the pricing arrangements which applied to sunflowers, soyabeans and groundnuts in the 1993-94 marketing year should be further modified for 1994/95. Under this pricing system, the GMB is now authorised to buy and sell all oilseeds to best advantage. The GMB thus has the flexibility to buy oilseeds at prices to be determined following consultation with producers, based on expected market realisations. It will also be expected to develop its own long term export marketing strategy, where appropriate in partnership with other parties directly interested in the sale of oilseeds.

2.7 Beef

I am pleased that the CSC have now appointed a new General Manager. He will be expected to play a key role in the restructuring of the CSC and in turning round the fortunes of the parastatal.

The beef sector was severely hit by the 1991/92 drought and is likely to take a number of years to recover. In developing appropriate policy measures for this sector, it was necessary to consider the underlying difficulties that have faced beef producers in recent years. These factors include serious overgrazing, relatively low levels of sales from smallholder farmers, the role of the CSC and private abattoirs in the marketing of cattle, and the incentives available to producers to increase the total supply of cattle for slaughter in order to meet consumer requirements both in Zimbabwe and on export markets. These are complex problems for which there are no simple solutions.

The question of overgrazing and low levels of offtake from the communal and resettlement sector is no longer an immediate one. The important issue is to prevent over-grazing recurring in the medium to longer term; to this end Agritex will promote rotational grazing and other techniques needed to facilitate a more rational use of grazing facilities in the smallholder areas. The other issues (ie the role of the CSC and private abattoirs, and the provision of incentives to increase output and meet consumer requirements) will need to be met by more flexible

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marketing and pricing arrangements. For the 1994/95 marketing year, the following changes will be implemented :-

(a) the floor on producer and wholesale beef prices sold on the domestic market is eliminated;

(b) CSC is free to negotiate prices with producers, without restriction of any sort;

(c) CSC will determine its wholesale selling prices for all grades of beef and offals depending on the market situation;

(d) CSC and other buyers will compete at cattle sales and auctions;

(e) slaughter quotas at all abattoirs are eliminated and private traders will participate in the marketing of beef without restriction, provided they conform to the stipulated hygiene standards and public health regulations; these health standards and regulations will be reviewed to ensure that public safety is maintained without relying on production quotas;

(f) strict control over cattle movement will be maintained to minimise the risk of foot and mouth disease outbreak, although local requirements will be kept under review to ensure that no unnecessary hardships arise.

2.8 Dairy

I am pleased with the performance of the DMB this season. The DMB has managed to record a significant profit position so soon after the drought. In this sector, the specific policy change is the encouragement of new entrants and private participation in processing, marketing and exporting of dairy products. However, it will be necesary to ensure that any such developments meet public health requirements in full.

The policy in relation to milk and milk products in 1994/95 will be as follows:-

(a) Government will continue the policy of allowing milk and milk products to be unregulated commodities as announced in March 1993;

(b) DMB will be allowed to continue to purchase milk at prices that are to DMB's best advantage;

(c) the present health standard regulations will be reviewed to insure minimum health standards for milk production;

(d) export regulations will be reviewed with the objective of permitting private individuals and firms to export dairy products;

(e) responsibility for licencing of dairy enterprises will be transferred to the Ministry to facilitate fair competition between DMB and any new entrants into the industry.

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4. THE FUTURE OF THE MARKETING BOARDS

The policy in regard to single channel marketing of agricultural products, through statutory monopoly marketing boards is no longer relevant in an environment of a liberalised agricultural pricing and marketing system. The thrust of Government policy is now towards the reform of both agricultural price policies and the role of parastatals in agricultural marketing, as part of the objectives of the government's economic reform programme which include enhancing the role of market forces in the economy.

Thus, as we move towards greater emphasis on the need to achieve commercial viability in our agricultural marketing boards and the development of a multi-channel marketing system, the role of the agricultural marketing boards in enforcing various legislative requirements comes into question. The agricultural marketing boards, as single channel marketing organisations, have responsibility for enforcing legislative requirements, some of which impact on their competitors. It is not realistic or economically healthy to have a Board engaged in direct market competition with other commercial organisations also supervising regulations directly impinging on its competitors. Government has therefore decided that in order to create a more effective framework, most of the current legislative responsibilities of all the agricultural marketing boards will be placed directly under the aegis of the Ministry of Lands, Agriculture and Water Development.

Concurrently with this development, the four agricultural marketing boards must work to achieve much greater efficiency and profitability in their own operations. The liberalisation of agricultural marketing will require detailed consideration of proposals for changing the parastatal status of the present Boards. The transition to Government-owned companies, broadening the Boards to include direct participation of producers, processors or private marketing organisations and the establishment of joint ventures, will be examined. The possibilities of direct joint ventures with major commercial organisations should be considered by the Boards.

The change to more commercial orientation of the Marketing Boards and introduction of multi-channel marketing will require that the existing requirements of the Boards to buy all that is offered to them at a uniform price should be reconsidered, with the possibility of introducing contractual supply arrangements using graduated pricing where appropriate. There should however be a clear distinction between the marketing requirements of large scale and small scale farmers; large scale farmers are in a much better position to negotiate and adhere to contract supply arrangements while smallholder farmers face much greater difficulties on both scores; this needs to be recognised in any future supply management schemes.

All non-commercial activities of the Marketing Boards will be reviewed and only those specifically approved by government will be maintained, with the cost paid directly from the Treasury for such activities. In all cases, Boards must determine the precise cost to be paid and seek formal Government approval before these activities are maintained or undertaken. The costs of all non-commercial activities will be made fully transparent.

In addition, Government is concerned about the capital structure of all the major agricultural parastatals. At the present time, these parastatals are financed primarily by loans. Proposals for debt-equity swaps and debt write-offs will be examined and implemented where appropriate.

A number of these changes will require that the legislation in relation to agricultural marketing be revised and replaced by a legal environment which is fundamentally in tune with the new marketing policy. The agricultural marketing boards have already been asked to examine the existing legislation governing their activities and to propose a new format that would accurately reflect their current and anticipated future roles. This will be a substantial task which will take some considerable time to complete.

Furthermore, export and import regulations of all agricultural products including yellow maize, cotton, beef and dairy products (based on the review of health standards at abattoirs and dairy enterprises respectively) and oilseeds, will be reviewed by the Ministry of Lands, Agriculture and Water Development, with the objective of allowing private individuals and firms to export these products. In this regard, Government will announce the policy changes for the 1994/95 marketing year based on this review. For these new arrangements to work properly, the Ministry is developing a centralised agricultural marketing information system to monitor stocks, prices, import and export volumes and health regulations affecting all agricultural commodities. It is also in this connection that a privately owned Zimbabwe Agricultural Commodity Exchange (ZIMACE) has been established to provide transparency in the marketing of agricultural commodities outside traditional channels.

4. DEVELOPMENT OF SMALLHOLDER FARMING

One of the most important problems facing Zimbabwe is to generate substantially greater farm output from smallholder farming (communal, resettlement, small scale commercial) in order to meet direct household consumption needs and to generate greater net farm cash incomes. Past policy measures to achieve this objective included : improved provision of government services by Agritex, AFC, DR&SS etc; providing better marketing arrangements for the products of small farmers; reforming the marketing system, in particular, market access; improving irrigation facilities; and, proposals to build one medium dam per year in each province; improving access to farm machinery and equipment through various aid programmes (including programmes supported by the World Bank, the Japanese and German governments and other donors).

Following the completion of the first phase of the agricultural drought recovery programme, the Ministry of Lands, Agriculture and Water Development has had an opportunity to review the out-turn and assess constraints and lessons experienced in implementing the programme and to consider proposals for an extended 1993/94 drought recovery programme in the light of requirements by input type, operational procedures and estimated costs.

One major lesson is that after a disastrous drought, assistance in the form of subsidised inputs is necessary to enable small farmers to get back into production; that it is important to guard against creating a dependency syndrome by continuing to hand out free inputs irrespective of need; that it is important to invest in input distribution warehouses and small earth dams, in order to encourage small farmers to diversify; that implementation procedures, financing arrangements and screening of beneficiaries must be reviewed and tightened in line with budgetary considerations and the need to target assistance to the most deserving small producers.

Although the 1992/93 production season has been very much better than the previous season in terms of amount and rainfall coverage, some areas received low rainfall during the beginning of the season, resulting in poor germination. Other places experienced late dry spells which adversely affected the maize crop at the tasselling stage. Hence, although smallholder farmers are expecting a good harvest, some will have only enough for their food requirements and income for purchasing agricultural inputs will therefore be limited. Government has therefore decided that the 1992/93 Agricultural Drought Recovery Programme will be extended with particular emphasis on livestock and fertilizers in targetted areas, taking into account the fact that the provision of fertiliser packs to small-holders in the 1992/93 cropping season was a major factor in the production of over 1,2 million tonnes of maize by this sector. However, small scale producers will be expected to start making their own arrangements to procure inputs instead of waiting for free distribution, because this will not be sufficient to meet all their requirements for maximum production.

5. CONCLUSION

The government's agricultural policy measures for the 1994/95 season are dominated by the need to sustain the rapid recovery from the drought. Production incentives, particularly for the major crops, have been largely successful in achieving a sharp increase in output not just to meet immediate food needs but also in rebuilding stocks and providing essential raw materials for the industrial sector.

At the same time the longer term expansion of agricultural production must also be considered. This requires pricing, marketing and other policy measures that are directed towards achieving a substantial growth in agricultural output in a way which meets consumer demands both at home and abroad without imposing a long term financial burden on the national treasury. The modification of the pricing arrangements for controlled agricultural products, already established under the economic structural adjustment programme, will be carried further in the 1994/95 marketing year and in the immediately following years. This will give further impetus to the full realisation of the government's agricultural policy objectives.

The purpose of this statement is to set out the immediate policy developments in the context of the need to continue the recovery from the drought and to ensure that the measures required to generate medium to long term growth of agriculture are effective. These measures should be seen as part of the further evolution of agricultural policy, as set out in the government's economic reform programme and in the various agricultural policy statements of recent years. The continued development of the agricultural sector is an urgent priority in the government's economic policy. The measures announced in this statement are a major step forward in that development, to the benefit of both farmers and consumers throughout the country and to the national economy as a whole.

<u>MINISTER OF LANDS, AGRICULTURE AND WATER DEVELOPMENT</u>

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Section 3.5

A PROPOSED MAIZE PRICING AND MARKETING LIBERALISATION STRATEGY

This section outlines a three-year phased strategy for liberalizing the maize pricing and marketing system in Zimbabwe. The strategy is based on the analysis in Section 4 and is designed to develop greater consistency between the Government of Zimbabwe's food policy objectives and the performance of the maize pricing and marketing system. Each phase of the strategy is composed of (a) specific policy changes, (b) studies to initiate in order to inform and guide subsequent policy decisions, and (c) specific points to proactively dissiminate to Cabinet to facilitate the Government of Zimbabwe's maize sectoral objectives and avoid future conflict over the ends and means of market liberalization.

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3.5.1 Phase 1

Policy changes

It is proposed that MLAWD recommend the following policy changes to take effect with the 1993/94 marketing year):

1. Redefine Zones A and B: Zones A and B 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 country, 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 not alter the language of the Grain Marketing Act, but would simply redefine the areas that are to be designated as Zones A and B.

2. Establish criteria for identification of Zone A firms: MLAWD (in conjunction with Ministry of Industry and Commerce) develop explicit criteria for designation of Zone A firms. It is proposed that this be based on milling throughput, e.g., Zone A firms will refer to all maize milling firms with a maize milling capacity of over X metric tonnes in an 8-hour work day.

   MLAWD would then widely disseminate the new rules, to allow traders and millers to fully respond to the opportunities created by the reforms.

3. Develop mutually-agreeable terminology and administrative procedures 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. The terms "commercial" and "informal" would have no legal meaning or distinction in the system proposed above. Furthermore, the terms "approved buyer" and "approved seller" would be rescinded, because the newly 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.

   The development of implementable rules consistent with evolving grain marketing reforms will require coordination with the Ministry of Industry and Commerce, so that the regulations and procedures followed by this Ministry are compatible with those of MLAWD. For example, according to a representative of the Ministry of Industry and Commerce,[35] the status of "commercial miller" may be conferred only by that Ministry, and can only apply to firms that (a) produce

[35] Mr. Magwaza, Food and Drink Section on 21 January 1993.

roller meal and super-refined meal, and (b) package the maize meal for sale. There are apparently additional requirments pertaining to the physical structure of the milling facility, but there was apparently no explicit set of criteria used to establish conformity with these requirements. It is likely that the current process of application for commercial mill status impedes new entry in grain milling and entrenches the dominance of the existing oligopolistic milling sector. To avoid confusion both by government officials trying to implement policy and by emergent businessmen trying to understand how to legally enter the maize trading or milling, the active coordination of policies and procedures will be important between MLAWD and MIC.

4. Reaffirm Government of Zimbabwe's position that any individual or firm may buy or sell maize at unregulated prices in any amount within Zone B area.

5. Reaffirm and widely publish GMB's commitment to sell grain to any buyer at any depot or collection point in any amount over one 90kg bag.

6. Maintain a pricing structure in which there is only one GMB selling price, i.e., no preferential buyers which are allowed to procure maize from the GMB at lower prices than all other buyers. This will provide a more level playing field and promote the development of a more decentralized, competitive and lower-cost maize trading and milling system. It is equally important that a subsidy on roller meal is not reintroduced through a different mechanism, e.g., direct payment to millers from another treasury account, as this would maintain the same constraints on informal maize trade as the current subsidy administered through preferential GMB selling prices.

7. Set the GMB selling price within the range of Z$50 to Z$100 per tonne higher than the GMB producer price. This corresponds roughly to Scenarios A or B in Table 7 (Section 4.9). The main benefit of keeping the GMB selling price relatively low is that losses on the GMB's trading account would be outweighed by savings in treasury losses from the subsidy on roller meal. This is because a Z$1 decline in the GMB selling price would reduce the consumer price of maize meal by more than Z$1, because the established MIC formula for deriving maize meal margins is based on a mark-up on the GMB selling price.

For example, if Government of Zimbabwe feels that a 27% increase in the roller meal price is politically acceptable (this would constitue a drop in the real price, considering that the prevailing inflation rate is roughy 35%), then the total subsidy to the maize sector could be reduced from about Z$792 to around Z$150 without requiring an increase in the inflation-adjusted price. This is demonstrated by

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the alternative pricing structures proposed in Table 7.

The indicative pricing proposals in Table 7 would (a) allow the GMB to sell maize to all buyers at the same price; (b) reduce GMB operating losses associated with selling maize far below cost to commercial millers; (c) permit the price of straight-run meal to be below that of roller meal; (d) not necessitate an increase in the real price of roller meal to consumers; and (e) reduce the overall treasury loss to the maize sector.

8. Maintain maize stock levels similar to that proposed in the GMB's "Minimum Reserve Stock" paper. The report advises against the accumulation of a three-year stock, since this would involve large costs without any tangible improvement in the stability of national maize consumption. The opportunity cost of the capital tied-up in a three-year maize stock would be roughly Z$4 billion. To put this in perspective, this amount is about 20% of the gross domestic product in Zimbabwe in 1991.

9. Set GMB producer and selling prices for yellow maize 10% to 15% below white maize prices, to reflect the relative difference in production costs. Over time, the white maize/yellow maize price ratio would be based on relative yields, production costs and consumer preferences.

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. This experiment could be assessed after several months to evaluate consumer receptiveness to yellow maize meal (at a price discount that reflects yellow maize's lower production costs) under conditions when white maize is readily available in the market.

10. Set the GMB producer price such that it does not exceed the import parity price for yellow or white maize. This strategy would represent a commitment to maize self-reliance rather than maize self-sufficiency at any cost. The cost savings from a self-reliance strategy could in turn be passed on to consumers without requiring costly subsidies. Any effort to keep maize prices higher than import parity would result in a transfer of income from urban and rural consumers (or the treasury) to maize sellers. As shown in Section 4.1, the beneficiaries of a high-priced maize policy are a very small group of commercial farmers and well-equipped smallholders. The losers from a high-priced maize policy include urban consumers as well as a large proportion of smallholders in the drier rural areas.

11. Expand and strengthen the price collection system by the National Early Warning Unit withing AGRITEX. Develop a bi-weekly price

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reporting system for maize, maize meal from small-scale mills, maize meal from large-scale mills (disaggregated by type of meal), and other important crops. Prices would be collected in communal areas, urban and peri-urban areas, and Zone A farming areas. A mechanism would be established to allow quick transfer of price reports from ennumerators in the field to data processors to national and regional GMB managers. Since GMB would be the most likely actor to retain the function of price stabilizer within a price band specified by Cabinet, the price information management system would probably be administered most effectively if shifted to the GMB.

To be useful, such surveys must be performed on an on-going, continuous basis, over all provinces, in urban as well as rural areas, and with a short time lag between data collection and assessment.

Points to include in Ministry Policy Statement (1993)

It is proposed that MLAWD stress several points in its 1993 Policy Statements to develop a closer consensus between MLAWD technical analysis and the views of senior-level policymakers:

1. A high-priced maize policy does not necessarily contribute to broad-based rural income growth. The GMB's own data on maize intake shows that most smallholders do not sell grain to GMB. This is because most rural households do not possess sufficient assets or live on land productive enough to produce a reliable maize surplus. Many rural farmers are in fact maize purchasers. The vast bulk of GMB expenditures on maize procurement is captured by commercial farmers and a small number of well-equipped smallholders in high-potential areas. Overwhelming survey evidence indicates that most smallholders in the drier parts of the country are purchasers of maize and maize meal. Higher maize prices, to the extent that they put upward pressure on maize meal prices, work against the welfare of these households. High food prices also work against crop diversification in the semi-arid areas. In short, given the skewed concentration of assets among the rural sector, it is unlikely that the Government of Zimbabwe's objective of promoting broad based rural income growth is compatible with a high-priced maize policy.

2. It is important that these points not be construed as arguments for artificially low maize prices. The main point is that Government of Zimbabwe may wish to reconsider its objective of maize self-sufficiency if it conflicts with the objectives of broad based income growth and food security. Results from GMB's

own econometric analysis indicates that a pricing policy geared toward maize self-reliance may allow Government of Zimbabwe to procure needed white maize supplies at significantly lower costs through a combination of domestic production, stockholding and trade. These results apply under drought, normal and good weather scenarios.

3. The importation of moderate quantities of maize as a deliberate policy to reduce average procurement costs does not necessarily constitute an agricultural policy failure. Recent statements by the press and by lobby groups have suggested that maize imports are a national disgrace. While it is correct that low maize prices during the 1985-91 period have contributed to the current production shortfall and the expenditures on maize imports, it is not necessarily true that future maize policy should unquestioningly commit itself to maize self-sufficiency without evidence that this is consistent with the Government of Zimbabwe's goals of broad-based income growth, food security, minimization of budgetary losses. The analysis reported in Section 4.1 (presented in greater detail in Annex 2) indicates that, even if maize import prices exceeded the producer price needed for expected self-sufficiency, a mix of domestic production and imports would reduce GMB expenditures on maize procurement, and would allow government to pass on these cost savings to consumers without subsidy. The importance of maintaining tolerable prices for maize meal in the current environment of ESAP cannot be underestimated.

4. The maize shortages experienced in the first half of 1992 were not due to the drought or dependence on world markets. The crisis underscores a poor interface between technical analysis and senior policymaking. In August 1991, the GMB and National Early Warning Unit both forecasted the impending depletion of maize stocks and predicted that imports would be required to cover the period January to May 1992. These forecasts were reported a full four months before the Government actually purchased maize from world markets. By this time, in January 1992, maize stocks were virtually depleted. Zimbabwe's experience in 1992 highlights the need for timely identification and dissemination of emerging food supply trends, and a mechanism to translate this information into timely action. Timely decisionmaking based on timely analysis of indicators would avoid the need to hold two years' worth of national maize consumption in government silos (see Section 4.3). The GMB document, "The Minimum Reserve Stock" (undated) also stresses this point and demonstrates that a reduction in the time required to pass through procedures between the identification of the need for imports and awarding of countracts -- noted in the document to be at least six months -- could substantially reduce the needed size of maize buffer stocks.

5. MLAWD may use the experience with maize shortages in 1992 to stress the need to develop a mechanism -- one which would be viewed as credible by Cabinet -- for generating timely interpretation of emerging food supply trends, and a mechanism by which the information generated by this unit can be acted on in a timely way. This might be facilitated by upgrading the analytical capacity of the National Early Warning Unit within AGRITEX. This unit has made advances by beginning to collect informal grain price data in selected communal areas. The Early Warning Unit might become a useful asset for Government of Zimbabwe during the maize market liberalization process if it were able to (i) develop more timely collection and interpretation of price data and other information, (ii) generate more credible and timely analysis of emerging trends and indicators, and (iii) reorganize the monthly Early Warning Bulletins so that the first page contains a section identifying policy issues requiring immediate attention and action. More timely analysis and a more efficient response mechanism to alleviate forecasted shortfalls would alleviate the need to hold massive stockpiles.

6. The accumulation of a three-year stock would involve large costs without any tangible improvement in the stability of white maize consumption. It is also questionable that a three-year stock could be accumulated over the next several years from domestic production; importation on a large scale would probably be necessary. The opportunity cost of the capital tied-up in a three-year maize stock would be roughly Z$4 billion. To put this in perspective, this amount is about 20% of the gross domestic product in Zimbabwe during 1991 (CSO 1993). As indicated by the analysis of evolving maize supply and demand trends (Section 2.2), it is unlikely that GMB intake will greatly exceed sales over the next several years, even at import parity price levels. It is therefore unrealistic to assume that the three-year stock (about 2.8 million tonnes) could be quickly accumulated from domestic production.

7. The appropriate structure of maize pricing and stockholding policies is fundamentally contingent on the Government of Zimbabwe's policy toward yellow maize consumption. If Government decides to confine human maize consumption to white maize, then it is important to recognize that this decision would require relatively higher stock levels, relatively higher white maize producer prices, relatively higher import prices (when these are necessary), relatively higher maize meal prices for consumers, and relatively higher levels of food insecurity. If, on the other hand, yellow maize is traded at unregulated prices and processed into maize meal according to the level of consumer demand, then there may be considerable potential to reduce GMB stockholding costs (of holding secure white maize stocks) by

relying more on the world market for residual maize requirements. It is recommended that MLAWD

Provide concrete guidance concerning the costs and benefits of relying soley on white maize, vs. allowing consumer preferences to determine the quantity produced, traded and processed into maize meal. The ongoing study on consumer preferences by L. Rubey (MLAWD/UZ) will be very informative in this regard.

8. Recommend that the responsibility of setting maize meal prices be shifted to the Ministry of Lands, Agriculture and Water Development. It may not be fully appreciated how maize meal prices and margins are determined, and how this process affects the performance of the maize sector. MLAWD would recommend a revision in the format for determining maize meal prices and margins, from a formula based largely on a mark-up on the GMB selling price to one in which milling margins are based entirely on explicit milling costs (electricity, labor, transport, administration, asset depreciation, etc.). The ability to promote competition at the milling stage of the maize system may put downward pressure on milling margins and quickly turn the official control prices into ceiling prices under which most maize meal transactions would occur.

It is also proposed that the Statement also delineate how, under existing conditions, the price and subsidy on roller meal affects what crops farmers plant, through which channels they market their crops, the demand for GMB grain, exportable maize surpluses or import requirements, and the ability of agricultural policy to promote a more decentralized and competitive grain marketing system (see Section 4.9). The planning of maize producer and selling prices and maize meal prices within a unified framework under one ministry would facilitate better coordination in price setting and would also avoid the costly battles between millers and GMB that result from the fact that MIC usually announces new maize meal prices after MLAWD revises maize grain prices. Moreover, it would also avoid the fragmented price structure in which GMB social functions are rendered ineffective and costly because these activities are not taken into consideration before setting maize meal prices (see Section 4.9).

If the transfer of maize meal pricing to MLAWD is not politically feasible, then it is proposed that MIC consult with MLAWD on price levels prior to forwarding its recommendations.

9. <u>Advocate the reduction of the subsidy on roller meal, at least to a level whereby roller meal would not be cheaper than straight-run meal.</u>

<u>Studies to initiate/issues to resolve</u>

A critical question for the Ministry of Lands to resolve is whether the Government of Zimbabwe should be receptive to yellow maize imports during national maize shortfalls, or whether the consumption of sadza should continue to be exclusively in the form of white maize. The implications of this decision for maize pricing are as follows:

(a) If a sufficient number of urban consumers appear to be receptive to yellow maize meal, then this would allow national requirements to be met at substantially lower cost to the consumer. First, when maize must be sourced from outside the region, yellow maize typically costs 10% to 30% less than white maize. Second, yellow maize has provided 20% higher yields than white maize in the commecial sector since 1985 (CSO 1989, CFU 1993). This would allow a reduction in yellow maize prices without adversely affecting production incentives, and thereby allow a lower price of yellow maize meal (relative to white maize meal) to be passed on to consumers. This price discount might further shift consumption toward yellow maize meal. All of these factors would, <u>ceteris paribus</u>, reduce the price of maize meal for consumers, and allow national maize requirements to be met using less land, labor and capital inputs than otherwise. This would free resources for production of other crops or non-farm activities.

(b) If human maize consumption in Zimbabwe were required to be in the form of white maize, this would put upward pressure on maize production and marketing costs. Production costs would be higher than otherwise because of the lower average yields of white maize relative to yellow maize. The scarcity of white maize on world markets would also motivate toward higher maize producer prices, other things equal, to assure adequate supplies of maize from domestic production. For the same reason, GMB operating costs would rise as it would be required to hold higher levels of white maize stocks. Unless these higher production and marketing costs were covered by the Treasury, the commitment to only white maize for human consumption would result in higher prices for consumers.

(c) Another drawback to the objective of sole reliance on white maize for human maize consumption is that it probably cannot be maintained during a severe drought. The re-appearance of yellow maize only during major production shortfalls is likely to be equated with an agricultural policy failure compared to a situation in which yellow maize is freely available at all times as an option for consumers to choose or not as they wish.

The appropriate decision depends crucially on consumer preferences. The experience of 1992/93 has indicated a willingness of most consumers to eat yellow sadza, but it is not clear to what extent they would continue to do so, even at a price discount, if white maize meal were also readily available on the retail shelf. The 1993/94 marketing year provides an important opportunity for the market to reveal consumer preferences for white and yellow maize, and thereby guide future maize policy. After the 1993 harvest, the GMB could set differential selling prices for white and yellow maize, and work with millers to assure that adequate quantities of yellow and white roller meal were available on the market, again at an appropriate price differential that reflected production costs. It is important to note that the purpose of this section is not to advocate the use of yellow maize as an end in itself, but rather (a) to capture the benefits of yellow maize's higher productivity relative to existing white maize varieties on commercial farms (b) relatedly, to reduce the average costs of maize production; (c) reduce the needed size of domestic stockpiles, thus reducing GMB marketing costs; and (d) to promote a self-sustaining targeting policy to protect vulnerable groups from the inevitable increases in maize meal prices; and (d) to increase Zimbabwe's options for using the world market, including mechanisms to reduce the cost of imported maize, since yellow maize is normally less expensive and more readily available than white maize.

In addition, it is proposed that MLAWD initiate the following studies:

1. <u>MLAWD would initiate a detailed and specific study on the relative costs and benefits of maize self-sufficiency vs. maize self-reliance.</u> Such an analysis would address the following issues: (i) the costs of maize self-sufficiency pricing in terms of resources shifted out of high-valued export crops such as cotton, tobacco and groundnuts; (ii) the effect of a high-priced maize policy on the perpetuation of maize meal subsidies to commercial millers and the resultant effects on the market liberalization process; (iii) the transaction costs associated with forward contracting for maize with foreign exporters; (iv) the relative reliability and legally enforceability of forward contracting in Argentina, Kenya, South Africa and other suppliers of white maize; (v) identification of infrastructural investments that would reduce the risks of a policy that relies on imports to fill a minor share of national maize requirements; and (vi) the effect of political change in South Africa on the risks of relying to some extent on white maize importation from that country.

2. <u>Initiate a specific study of the costs/benefits and possible modalities of graduated pricing.</u> While graduated pricing appears

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to offer some important gains in pricing efficiency, farm income stability and lower GMB trading deficits, the magnitude of these gains and the costs involved have yet to be quantified. Such an analysis cannot be undertaken without a detailed plan as to how graduated pricing would be implemented, the criteria or formula by which prices would be determined, and whether this process would supplement or supplant the existing maize price determination process. It is therefore recommended that MLAWD initiate a detailed and specific study on graduated pricing for maize, which would include the following issues: (i) to what extent would graduated pricing stabilize the incomes of maize sellers; (ii) to what extent would graduated pricing destabilize consumer expenditures on maize meal; (iii) how would graduated pricing affect the trading account of GMB over time; (iv) how should GMB selling prices and maize meal prices be set when final producer prices are not known under graduated pricing until later in the marketing year; (v) what is the criteria for determining producer prices under graduated pricing (if by formula, which variables should be included and why); and (vi) would Cabinet agree to relinquish control over maize price determination and allow the prices generated by graduated pricing to take effect.

It would be important that this study be seen as input to guide future MLAWD recommendations regarding maize price determination. The findings of this study would serve as a basis for how and when to initiate graduated pricing into the process of maize market liberalization.

3. MLAWD would initiate an analysis to study the modalities of a new maize meal price determination system based on actual milling costs (electricity, labor, transport, administration, etc.) rather than mark-ups on the GMB selling price.

   The study might also consider whether allowances for investments by commercial millers in new milling facilities should be conferred through the milling margins or through other means. That is, should millers' incentives to invest in new facilities be conferred through milling margins that exceed direct costs, or should investment incentives and opportunities be conferred through more direct means that do not require an increase in milling margins?

4. Undertake a study examining the feasibility, costs and benefits associated with importing maize meal instead of maize grain, when imports are necessary. Even if the c.i.f. import price of white maize grain is higher than the costs of production in Zimbabwe, this may not be true when examined in terms of the final consumer product, white maize meal, because of the relatively high milling margins in Zimbabwe.

3.5.2 Phase 2 (announcement in March 1994 for the 1994/95 marketing year):

1. Graduated pricing would be implemented as a mechanism for determining producer payments. This would introduce greater flexibility and efficiency in the pricing system. Moreover, graduated pricing or a similar system of market-based pricing would be required if GMB faced competition from informal traders, in order to avoid large trading deficits.

2. Contingent on the outcome of earlier proposals, MLAWD, after consultation with MIC and commercial millers, would revise the format for determining maize meal prices and margins for the 1994/95 marketing year. The details of the new format would have been identified through the relevant study proposed in Phase 1.

3. MLAWD would announce proposed criteria for evaluation of GMB performance. The evaluation of GMB performance would be based on (a) the extent to which it adequately carried out these mandated tasks, and (b) the extent to which it performs these tasks at the least possible cost.

3.5.3 Phase 3 (announcement in March 1995 for 1995/96 marketing year):

1. It is recommended that regional pricing be phased into existence at such time when other liberalisation efforts (e.g., redefinition of Zones A and B; allowing small-scale traders and millers to purchase grain freely from GMB) have successfully developed competitive short- and medium-distance private trading channels. It can be evaluated in 1994 whether such conditions exist, in anticipation of starting a phased transition to regional pricing.

2. The timing of regional pricing must coincide with the relaxation of maize procurement restrictions on major Zone A buyers. To accomplish this, regional pricing could be phased in by designating certain "base" depots (say, major urban areas and several depots in distant surplus-producing smallholder areas) which offer the same pan-territorial prices, and a set of "satellite" depots (which are designated in relation to particular base depots) which offer the pan-territorial base price minus transport costs to the nearest base depot. In this way, some semblance of pan-territorial pricing is maintained for social equity reasons (e.g., maize meal prices are the same in Harare and Bulawayo), but regional pricing principles are gradually phased in for certain depots. Over time, as private trade assumes a progressively larger role in the grain markting

system, regional pricing can be phased in across a larger number of depots, expanding the geographical scope for long-distance private trade.

There is already an implicit precedent for partial regional pricing under the current operation of collection points. Even though pan-territorial pricing is the stated policy, collection points have historically offered farmers the pan-territorial producer price minus transport costs to the nearest depot. This policy could be expanded drawing a distinction between the base depots that will continue to offer uniform prices, and the satellite depots that feed grain into them.

3. It is proposed that seasonal GMB producer and selling prices be considered for initiation at the time that regional pricing is initiated, probably in the 1995/96 marketing year. GMB prices would be revised weekly, commensurate with storage costs. This would require weekly increases in the ceiling prices of maize meal. With adequate competition at the milling stage, however, these ceiling prices would come into effect only during times of maize shortages, a situation that the GMB would be able to avoid through importation or stock releases.

The GMB would set benchmark minimum and maximum price levels each week, that follow a smooth and gradual upward trend throughout the year to account for cumulative storage costs. The GMB would then study alternative arrangements for the desired width of this price band, and how to influence prices such that they stay within the band. It would be important that the GMB's stock accumulation and release policy does not exacerbate the uncertainty and risks of intra-year and inter-year private storage. This would be the case if GMB sporadically released stocks onto the market, such that market prices fluctuated in unpredictable ways that were inconsistent with seasonal price increases to account for cumulative storage costs.

3.6. SUMMARY

This report analyses a range of alternative maize marketing and pricing changes available to Government of Zimbabwe, and then, based on articulated government objectives under ESAP, presents in specific terms the content, timetable, and expected outcomes of a set of proposed policy changes. Specifically this chapter (a) evaluates the performance of Zimbabwe's existing maize pricing and marketing policies; (b) assesses the likely costs and benefits of alternative strategies to promote the country's major food policy objectives; and (c) proposes a phased maize pricing and market liberalization strategy, consisting of a set of specific policy and regulatory changes over the next three years. The strategy is designed to provide an implementable plan to achieve greater congruence between the performance of the maize sector and the Government of Zimbabwe's stated food policy objectives under the Economic Structural Adjustment Programme.

Problems with the Existing System

The performance of Zimbabwe's existing maize marketing and pricing system may be evaluated in relation to specified Government objectives for the sector. The Government of Zimbabwe's major maize policy objectives include: (1) rural income growth, especially for smallholder households that have been historically neglected; (2) food security, i.e., greater access to food through increased farm productivity and/or more affordable food prices for the urban and rural consumer; (3) the minimization of government budget losses to the maize sector; (4) stability in food supplies and prices; and (5) the protection of vulnerable groups through mechanisms that cost-effectively provide low-cost food to the poor.

When evaluated against these criteria, the following inconsistencies between maize policy objectives and actual performance are apparent:

1. Declining maize production: The growth rate in maize production has been outstripped by population growth since 1985. Demand for GMB maize has exceeded domestic intake for the past three years. Area planted to maize has slid dramatically in both the commercial and smallholder sectors since 1985. There have been little improvement in maize yields since the early 1980s.

This gradual long-run decline in national maize surpluses has been due to a decade-long slide in real producer prices, the exhaustion of technological gains reaped in the early and mid-1980s, a marked decline in fertilizer use and AFC loans to smallholders, input delivery systems that continue to be unresponsive to smallholder needs, little progress toward the development of informal food marketing networks, and a steady 5% annual increase in demand for GMB grain.

2. Poorly developed input delivery channels: Fertilizer and credit use by smallholders has progressively fallen for the past 5 years. Disbursement of AFC credit to smallholders has declined from Z$60 million in 1986 to Z$27 million in 1991. The amount of fertilizer that can be used from AFC credit disbursed to smallholders has fallen from 148,000 tonnes in 1986/87 to 44,000 tonnes in 1991. Input delivery systems remain weak. Smallholder crop productivity is thus far below potential.

3. Higher production and marketing costs: Maize production and marketing costs are escalating rapidly, due to exchange rate depreciation, higher costs of imported inputs, little progress in

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A..I.D. Project Number: 613-0233.00

PROGRAM GRANT AGREEMENT
AMENDMENT NUMBER 2

Between

THE REPUBLIC OF ZIMBABWE ("Grantee")

and

THE UNITED STATES OF AMERICA

acting through

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

FOR GRAIN MARKETING REFORM SUPPORT

DATED: 30 September 1993

Appropriation No.	:	72-113/41014
Budget Plan Code	:	GSS3-93-31613-KG39
Obligation Document No.	:	PA-613-T-608A
Amount	:	
RCN	:	G323300
PAAD No	:	613-T-608A

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GRAIN MARKETING REFORM SUPPORT
A.I.D. Project No. 613-0233

PROGRAM GRANT AGREEMENT AMENDMENT NUMBER 2

AMENDMENT Number 2 dated September 30, 1993, between the United States of America acting through the Agency for International Development ("A.I.D."), and the Republic of Zimbabwe ("Grantee"):

WHEREAS, the Grantee and A.I.D. entered into a Program Grant Agreement dated August 30, 1991 ("Agreement");

WHEREAS, the Grantee and A.I.D. amended the Agreement in Amendment No. 1 dated July 27, 1993;

WHEREAS, the Grantee and A.I.D. desire to further amend the Agreement to provide additional resources under the Agreement;

NOW THEREFORE, the Parties hereto hereby agree that the Agreement shall be further amended as follows:

1. Article 1 is modified by deleting the Article 1 in its entirety and substituting in lieu thereof the following:

Article 1: The Grant

For the purpose of assisting Zimbabwe in the implementation of its program for policy reform in the agriculture marketing sector, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, hereby grants to the Grantee not to exceed fifteen million United States Dollars (U.S. $15,000,000) the "Grant"). It is planned that the Grant will be made available to the Grantee in three Program Tranches with a single disbursement for each upon satisfaction of the Conditions Precedent to Disbursement as set forth in this Agreement. The activities under this Grant are further described in Annex A, the Amplified Program Description.

2. Article 5, Section 5.1, is modified by deleting the section title, "Conditions Precedent to Disbursement" and substituting in lieu thereof the section title, "Conditions Precedent to Disbursement of the First Progam Tranche."

3. Article 5 is modified to add Section 5.3, to read as follows:

"<u>Section 5.3</u> <u>Conditions Precedent to Disbursement of the Third Program Tranche</u>"

Prior to disbursement of the Third Program Tranche of the U.S. dollar Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

5.3.1 A statement reconfirming that the information provided under the terms of Sections 5.1.1, 5.1.2, and 5.1.3 remains valid for the funds provided as the Third Program Tranche of assistance.

5.3.2 A statement and evidence, in form and substance satisfactory to A.I.D., that the Government at the cabinet level formally approves a medium - term strategy for liberalizing the maize pricing and marketing system in Zimbabwe.

4. Article 6, Section 6.2., is modified by deleting the section in its entirety and substituting in lieu thereof:

"Unless A.I.D. otherwise agrees in writing, the Grantee will undertake to fully implement the Cabinet level approval referenced in Sections 5.1.6., 5.2.2. and 5.3.2 of this Agreement through the enactment of all necessary enabling legislation, including regulations, procedures and notices within a period of one year from the date of A.I.D.'s confirmation of the Grantee having satisfied Sections 5.1.6, 5.2.2. and 5.2.3 of this Agreement or, in any event, prior to disbursement by A.I.D. of any future non-project assistance in support of the Grantee's Grain Marketing Program, whichever event shall first occur."

5. Annex A, Amplified Program Description, is modified by deleting it in its entirety and substituting in lieu thereof the attached, amended "Annex A".

Except as amended herein, the Agreement between the Republic of Zimbabwe and A.I.D. dated August 30, 1991, and amended on July 27, 1993, remains in full force and effect.

IN WITNESS WHEREOF, the Republic of Zimbabwe and the United States of America, each acting through its duly authorized representative, have caused this amendment to be signed in their names and delivered as of the day and date first above written.

UNITED STATES OF AMERICA	REPUBLIC OF ZIMBABWE
By: ______________________	By: ______________________
Ted D. Morse United States Agency for International Development	Acting Secretary for Finance Ministry of Finance
Date: ______________________	Date: ______________________

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SUBJECT: Amendment No. 2 to Program Grant Agreement, Zimbabwe Grain Marketing Reform Support Program No. 613-0233

Clearances:

CPDIS:	P.K. Buckles	(draft)	Date: 9/21/93
GDO :	R.E. Armstrong	(draft)	Date: 9/16/93
PDO:	J. Harmon	JH	Date: 9/23/93
RLA :	M. Alexander	(Alexander/Harmon fax)	Date: 9/27/93
CONT :	M. Lewellen	(draft)	Date: 9/27/93
PRM :	M. Ellis	(draft)	Date: 9/21/93

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Amplified Program Description

As used in this Annex, the "Agreement" refers to the Program Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning of reference as in the Agreement. This Annex may be modified through issuance of Program Implementation Letters.

1. PROGRAM STRATEGY

1.1. GOVERNMENT OF ZIMBABWE (GOZ) PLANS AND POLICIES

The Government goals in the agricultural sector during the current structural adjustment exercise are described in general terms in the Economic Framework Paper presented in Paris in April 1991. These are to be accomplished by 1994/95 and in essence, their achievement goals will require attention to the following strategic objectives in the grain marketing sub-sector over the long term:

-- The Grain Marketing Board (GMB) to operate as a commercial organization alongside other marketing channels;

-- Elimination of GMB trading account deficits;

-- Reduction in marketing margins thereby improving the returns to farmers and/or lowering the costs of grain to consumers;

-- Provision of ready access to grain to all potential consumers;

-- Provision of ready access to grain markets to all major producers; and

-- Establishment of a competitive grain marketing system with private participation.

1.2. USAID STRATEGY

This Grant supports the GOZ grain marketing reform policies with non-project assistance. The Mission's proposed first-year program was based on a two-pronged strategy that is still of relevance and is expected to yield both short term and long term results. The conditions which were met for

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disbursement of US$5 million under the FY 1991 program, and the condition which will be met under Amendment No 1 for disbursement of FY 1993 funding, are specific actions necessary for grain market liberalization over the long term, but which will also achieve specific and real returns in the short term. The proposed program will support GOZ efforts in achieving the following short term objectives:

-- Reduction in the GMB trading account deficits and promotion of a more commercial orientation in GMB trading operations; and

-- Movement toward a competitive grain marketing system with broadened private sector participation -- particularly in smallholder farming areas and in outlying farming regions more distant from major industrial processing agents.

To achieve the above objectives, specific reform measures were included in the Fiscal Year 1991 (first year) program to accomplish the following:

o <u>To reduce the amount of grain moving from GMB depots into the cities and back out to rural areas in the form of commercial maize meal</u>.

The aim is to create incentives for small scale traders and millers to buy the grain from GMB depots and process it closer to the rural areas where it is needed. The savings in transport and processing costs should make cheaper locally milled meal available to rural consumers who currently must buy more expensive refined commercial maize meal. This should also reduce the costs of transporting grain onward to main depots, handling and storing the grain, and transporting expensively packaged commercial meal or food aid back into deficit areas. Economic studies have estimated that this meal could be produced at a 12 to 15% lower cost than the previous (before June 1, 1991) price of subsidized commercial roller meal.

o <u>To make more grain and straight-run meal available to consumers and traders in urban areas</u>.

By increasing access of individuals to grain from GMB depots, it is anticipated that more private sector participants, particularly traders and small scale millers, will process and sell straight-run meal to low-income urban and peri-urban consumers. The large scale mills are currently not making straight-run meal available to consumers. The re-introduction of straight-run meal, which in surveys has shown to be the meal of choice of a large portion of low income consumers, should result in lower staple meal prices for the poor.

o <u>In the short-run, to expand the scope for intra-rural trade, and, in the long-run, to encourage rural informal trade such that it replaces the GMB's function of wholesaling where the GMB is not competitive in providing such services</u>.

Allowing collection points to resell grain to any buyer should open up GMB-owned stocks to rural consumers, traders, and small-scale millers instead of funneling supplies directly to urban centers. In the long run, it should provide viable alternative market outlets for producers and reliable supplies for rural consumers at lower cost than commercial maize meal.

2. PROGRAM FRAMEWORK

2.1. PROGRAM GOAL

The program goal is to contribute toward the improvement of the welfare of rural consumers by supporting a Government of Zimbabwe 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 following assumptions apply to achievement of the goal:

a. The Government will redistribute land in a way that maintains agricultural productivity.

b. Adverse public opinion of private traders does not significantly restrict or retard expansion of private participation in grain trade.

c. The distribution of grain from surplus areas into grain deficit communal areas must continue to be accomplished by either the public or the private sectors.

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. The GOZ follows through with its plan to cut the GMB subsidy from Z$59 million in 1990/91 and to zero in 1994/95 as related to commercial functions.

g. Weather conditions permit normal crop yields.

2.2. PROGRAM PURPOSE

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. At the end of the proposed program (five years from signing of the Program Agreement), it is expected that the following will be evident:

-- The Grain Marketing Board will be operating with greater autonomy.

-- New or enhanced private sector marketing channels will begin to meet producer and commercial consumer requirements.

-- There will be increased access to grain in semi-arid and rural areas.

-- Government deficits derived from GMB operating costs will be reduced.

-- There will be a demonstration of the value of increased reliance on the market system to allocate resources in grain marketing in particular and agricultural marketing in general.

In addition to the assumptions stated earlier, accomplishment of the project purpose assumes the following:

a. City, or other governmental administrative unit or sub-unit, by-laws are amended to legalize informal milling or they are not enforced.

b. The development of reliable informal trade will improve grain availability in rural areas.

c. Improved grain availability and access will reduce the number of hunger-prone households.

d. The reduction in the number of hunger-prone households will reduce the size and costs of drought relief and supplemental feeding programs.

e. Most rural hunger-prone consumers are within 100 km. of a grain sale point.

f. The GMB incurs no new domestic grain trading losses.

2.3. PROGRAM OUTPUTS

The expected outputs of the program will be policy changes on the part of the Government. Outputs are detailed below, for both the First Program Tranche (Fiscal Year 1991) and the Second Program Tranche (Fiscal Year 1993).

First Program Tranche (Fiscal Year 1991)

Specifically, Government removal of several policy and regulatory-related barriers to entry into informal grain distribution and processing, as encompassed under the First Program Tranche (provided in Fiscal Year 1991) Conditionality led to existence of the following current environment.

a. An autonomous Board of Directors is functioning for the Grain Marketing Board.

b. There is open sale of grain from GMB depots to any buyer at whatever quantity is demanded greater than one bag, and depot managers and relevant participants in the grain marketing system are aware of that change in policy.

c. Buyers are reselling grain through any channel in Natural Regions IV and V, and depot managers and participants in the grain marketing system are aware of the change in policy.

d. Grain is being sold at selected GMB collection points and/or other non-depot distribution points to any buyer, and the public has been appropriately informed.

e. A plan has been drafted and approved for development of a medium range strategy for liberalizing national grain markets and promoting the development of a strong, competitive marketing system with expanded private participation and improved access to food by vulnerable groups.

Second Program Tranche (Fiscal Year 1993)

The expected output of the Second Program Tranche, funded in Fiscal Year 1993, will be a further policy change on the part of the Government, summarized as:

> Maize prices and trade throughout the country are effectively deregulated in Zone B, 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 firms in Zone A.

Third Program Tranche (Fiscal Year 1993)

The expected output of the Third Program Tranche, funded in Fiscal Year 1993, will be

> Government approval at the Cabinet level, of a medium-term strategy for liberalizing the maize pricing and marketing system in Zimbabwe.

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It is anticipated that this strategy will be implemented in three phases and will support: (a) deregulatiom of maize prices and trade throughout the country, (b) studies to be initiated in order to inform and guide subsequent policy decisions, and (c) specific points to proactively dissiminate to Cabinet to facilitate the Government of Zimbabwe's maize sectoral objectives and avoid future conflict over the ends and means of market liberalization.

In addition to conditions precedent to program disbursements for the First, Second and Third Program Tranches, it is anticipated that future conditionality will be included under this program in support of the Government of Zimbabwe's maize marketing liberalization strategy. This future conditionality will be developed in consultations between the Government of Zimbabwe and USAID.

There are two key assumptions for accomplishment of the program outputs: (1) The GMB, once empowered to act "autonomously", will accept that power and make independent, cost-efficient operational decisions on grain marketing; and (2) policy changes will be uniformly and effectively implemented.

2.4. PROGRAM ELEMENTS

2.4.1. Conditionality

The results of research, analysis, and dialogue to date suggest several policy areas where A.I.D. can support the GOZ efforts to develop a multi-channel grain marketing system that allows for greater private sector participation. A number of policy areas have been identified for support for gradual grain market reform. More extensive changes, noted in the draft "Maize Pricing and Market Liberalization" program, prepared by the Ministry of Lands, Agriculture and Water Development will provide greater benefits over the long run.

The following are program conditions that have been agreed upon with the Government, by Fiscal Year of the program:

First Program Tranche (Fiscal Year 1991)

(a) Government formally establishes an autonomous Board of Directors at the Grain Marketing Board.

The Government of Zimbabwe was asked to take the actions necessary for the establishment of an autonomous Board of Directors of the GMB. As part of this process, the GMB examined and completed an analysis of its current operations with the objective of identifying actions necessary to reduce its operational deficits and guide the Board toward a more commercial orientation.

This condition partially has been met with a 1991 Amendment to the Grain Marketing Act, which provides for an independent Board of Directors for the GMB. This Amendment does not, however, state what specific actions the Board of Directors would be able to take without Government's approval. These areas of autonomy have subsequently been detailed in documentation presented to USAID. The GMB Board of Directors has autonomy in the following areas:

-- Salaries and hiring and firing of non-excutive personnel (below Assistant General Manager level), subject to existing labor and other applicable laws;

-- Distribution and procurement, subject to existing laws concerning GOZ Tender Board and foreign exchange allocation; and

-- Export activities not in conflict with the National interest.

(b) <u>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</u>.

Government was asked to take the actions necessary to authorize the GMB to sell grain in any quantity over one bag (the current minimum) to any buyers, including informal traders. The GMB was asked to widely disseminate this and other information pertaining to the rules governing grain purchase and resale. The dissemination of this information was targeted to local GMB staff as well as the general public. The aim is to create incentives for small scale traders and millers to buy the grain from GMB depots and process it closer to the rural areas where it was needed.

To open sales from depots is, in fact, legal at present. The Grain Marketing Act (CAP 113, 1966) states that anyone will be permitted to acquire and sell or resell controlled products (including maize) without reference to the Board provided that the controlled product does not leave Area "B" (the communal areas). If they do leave Area "B", its destination must be the GMB. Thus, current legislation neither constrains free marketing in the Communal Lands (defined as Zone B in the GMB Act) nor restricts the purchase of maize from the GMB by buyers in these areas.

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In fact, the past action to reduce the minimum sale quantity from one ton to one bag (90 kg net) was intended to encourage maize sales in the Communal Lands.

Despite the fact that the rules are clearly stated in GMB publications, they have been subject to a wide variety of interpretations, both within GMB and in rural areas. The action now required to be taken is wide dissemination of information on this policy by both the GMB and the MLARR; the GMB and MLARR must publish and widely distribute the information that the GMB sells grain at depots (e.g., posters at depots, announcements in the newspaper and over the radio). A public promotion plan was developed but had to be postponed due to grain shortages resulting from the 1991/1992 drought. However, implementation of this promotional plan is currently being undertaken.

(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.

The present legislation permits free trade and marketing in Zone B (defined as largely Communal Lands in Natural Regions IV and V). The contract between the GMB and Approved Buyers no longer specifically prohibits resale of maize purchased by the Approved Buyers. Consequently, the Approved Buyer provides an outlet for marketable surpluses and is no longer precluded from performing the function of satisfying non-GMB demand for maize in these areas.

Cabinet removed movement controls in Natural Region's IV and V. This is as a policy action since the goal is a change in stated policy, with routine implementation accomplished following the announcement.

The relaxation of the contractural restriction prohibiting the Approved Buyers and/or Traders to resell in Natural Regions IV and V removed the regulatory constraint, allowing them to perform both functions; namely, to provide an outlet for surplus maize and to satisfy the non-GMB demand for maize in Natural Regions IV and V.

(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.

Expanding the function of selected rural collection points and/or other non-depot distribution points was required of the GMB in 1991 to provide

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grading and selling facilities at such points. However, due to the subsequent expansion of private trading in rural areas, selling at collection points is no longer necessary as the GMB is only one source of sales in these areas.

(e) Government submits, in form and substance satisfactory to A.I.D., 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.

A specific condition for disbursement of the US$5 million was a commitment by the Government through the MLAWD to sumit a plan for the development of a medium-term (three-year) strategy for rationalization of national grain marketing and the progressive development of private grain marketing channels. Disbursement of funds was based on submission, in form and substance satisfactory to A.I.D., of a plan for development of the medium term strategy.

Second Program Tranche (Fiscal Year 1993)

(f) 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.

Third Program Tranche (Fiscal Year 1993)

(g) Evidence that Government, at the Cabinet level, formally approves a medium - term strategy, in form and substance satisfactory to A.I.D., for the liberalizing the maize pricing and marketing system in Zimbabwe.

A.I.D., the GOZ, and other interested participants have already entered into an active policy dialogue, and these efforts have resulted in the formulation of a draft "Maize Pricing and Market Liberalization" strategy, which is under review by the Government of Zimbabwe. This medium-term liberalization strategy is envisaged to unfold in three phases, with the end point set for the 1995/1996 marketing season. This plan is currently being finalized by the GOZ.

2.4.2. Foreign Exchange

In addition to US$5 million provided under the First Program Tranche in Fiscal Year 1991 and the US$5 million provided under Amendment No. 1 for the Second Program Tranche in Fiscal Year 1993, a total of US$5 million is further provided under Amendment No. 2 to the program in Fiscal Year 1993 for the Third Program Tranche, to be provided by A.I.D. as a single sector cash grant disbursement in support of the proposed policy reform. The US$5 million will be disbursed on satisfaction of the Second Program Tranche condition, as described above. The funds will be disbursed into a non-commingled Special Dollar Account to be released therefrom in support of the market determined foreign exchange allocation system -- the centerpiece of Zimbabwe's economic reform program. When fully operational in 1995, the new market based foreign exchange allocation system will apply to all imports except for a small negative list. The system will thus allow a market determined allocation of the economy's foreign exchange resources among the most efficient users and simultaneously ensure a market determined exchange rate that will provide an adequate incentive to exporters.

The US$5 million will not be tied to U.S. imports. It will be subject to review against a list of importers who received foreign exchange allocations to purchase goods, through the OGIL, ERS and other market-based mechanism as agreed upon by USAID and the Grantee, which were sourced in the United States. Upon receipt and satisfactory review of the list and verification against a "negative list" of ineligible commodities, USAID will approve the draw-down of dollar funds from the Special Dollar Account established in the Reserve Bank of Zimbabwe (or other bank in Zimbabwe or the United States, as may be agreed upon in writing), in accordance with the procedure outlined below:

(1) A.I.D. and the GOZ sign, and amend as appropriate, a Program Grant Agreement which contains conditions precedent to dollar disbursement that are based on GOZ implementation of agreed upon policy reforms. The conditionality is set forth in substantive terms with the understanding that elaborations and clarifications, within the substantive context, may be undertaken by the Mission through Program Implementation Letters.

(2) Upon GOZ satisfaction of the conditions (in form and substance satisfactory to A.I.D.), USAID prepares, in consultation with the GOZ, a Financing Request. The Financing Request is signed by an authorized representative of the GOZ and is approved by the Mission Director.

(3) The Financing Request is sent to A.I.D./Washington and requests that a Direct Reimbursement Authority be established for the US$5 million in Non-Project Assistance funds.

(4) Upon receipt of the Direct Reimbursement Authority, the USAID/Zimbabwe Controller certifies for payment the voucher prepared by the USAID/Zimbabwe General Development Office and approved by the Project Officer. The voucher authorizes the Regional Accounting Management Center (RAMC) in Paris to issue a U.S. dollar check to a Special Dollar Account (a separate interest bearing Special Dollar Account specifically established for deposit of the USAID dollar funds under the proposed program) in the Reserve Bank of Zimbabwe or other bank in Zimbabwe or the United States, as may be agreed upon by USAID in writing.

(5) Upon receipt of the check, the USAID Controller hand-carries the check to the Treasury of Zimbabwe, which issues a receipt. USAID/Zimbabwe delivers a copy of the receipt to the Ministry of Finance. Immediately upon deposit of the U.S. dollar check into the Special Dollar Account established at the Reserve Bank of Zimbabwe (or other bank, as may be agreed upon by USAID in writing), the bank sends a receipt containing the check number, amount, and date of deposit to the USAID Controller.

(6) The Government of Zimbabwe will not draw-down funds from the Special Dollar Account without prior USAID/Zimbabwe concurrence. The Reserve Bank (or other approved bank) will provide monthly bank statements to USAID/Zimbabwe on the funds on deposit in this Special Dollar Account, including interest earned.

(7) The Government may request draw-downs from the Special Dollar Account upon confirmation by USAID/Zimbabwe, as described herein, that GOZ resources equivalent to or greater than the amount of the Special Dollar Account dollar disbursement requested have been allocated for U.S. imports. To ensure that funds provided under the proposed program can be tracked, the Government of Zimbabwe will be required to provide to USAID/Zimbabwe a list of importers who purchased and received in Zimbabwe goods sourced in the United States (with imports arriving within a time period specified by transaction eligibility dates to be advised in a project Implementation Letter, in accordance with Article 8 of this Agreement).

The GOZ will need to confirm that imports reported to USAID/Zimbabwe came from the United States by providing a detailed list. The list will provide information on the importers and goods imported, along with evidence that the goods arrived in country within transaction eligibility dates advised in an Implementation Letter. After review of the list of goods imported against a negative list of prohibited or restricted commodities for A.I.D. funding, USAID will approve the draw-down of the U.S. dollar funds in the Special Dollar Account up to the amount allocated for eligible U.S. sourced goods, not to exceed the total amount of funds available under the Grant. Interest earned on funds in the Special Dollar Account will be approved for draw-down in the same manner described above.

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(8) Upon notification of A.I.D. approval of each draw-down of the U.S. dollar funds, the Government of Zimbabwe will disburse an amount of local currency equivalent to the U.S. dollar draw-down amount (exchanged at the maximum rate not unlawful in Zimbabwe on the date of the approval of the draw-down of funds) into a Separate Local Currency Account in accordance with the procedures outlined in this Agreement.

(9) The GOZ agrees to permit a USAID audit of the Special Dollar Account if so requested by USAID/Zimbabwe.

The tracking system described above will maintain the operational focus of the non-project assistance grant on the implementation of reforms within the grain marketing sector -- and not on the use of U.S. dollar resources, which are considered an incentive, as distinct from an input, for purposes of this program. USAID estimates that draw-downs will be completed within four months of the U.S. dollar deposit in the Special Dollar Account.

C. Local Currency

The U.S. dollars provided under this program, given that they will be used for private sector imports, will result in generations of local currency in an equivalent amount. Accordingly, the Government of Zimbabwe agrees to deposit an amount of local currency equivalent to the U.S. dollar draw-down amount into a non-comingled Separate Local Currency Account within 20 days after USAID approves each draw-down of dollar funds from the Special Dollar Account established as described above.

USAID/Zimbabwe and the GOZ will jointly program the local currency deposited in the required Separate Local Currency Account. It is planned that two broad purposes will be considered for the local currency: (a) a Trust Fund for USAID in-country administrative costs (not to exceed 10 percent of the generated funds); and (b) GOZ budget line item support for the program objectives, which, illustratively, may include: counterpart requirements for other donor-funded projects; support for credit guarantees and/or for credit provided to encourage private sector production storage, milling, and grain trade development; and support for the Social Fund to assist vulnerable groups under the Economic Reform Program. Local currency in the Separate Local Currency Account will not be used for police training or for military or paramilitary purposes.

With regard to management of the local currency, the Ministry of Finance (MOF) will provide the USAID Controller's Office with quarterly financial reports and reconciled bank statements. The reports will track the deposits of the local currency into the Separate Local Currency Account and withdrawals from that account by category used, for: (a) the Trust Fund; and (b) GOZ budgetary support line items. Reporting of interest earned on the funds remaining in the Separate Local Currency Account will also be included in the reports.

The Mission and the GOZ have entered into a separate agreement on the approved uses of funds allocated to the Trust Fund. USAID will report periodically to the GOZ on the uses of the Trust Funds.

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