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MOZAMBIQUE

FY 1988 PRIVATE SECTOR REHABILITATION V

PROGRAM ASSISTANCE APPROVAL DOCUMENT

656-0201D

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Carol Peasley C. Peasley

SUBJECT: Authorization of the FY 1988 Mozambique Private Sector Rehabilitation V Program (656-0201D)

Problem: Your approval is required to authorize a grant to the Government of the People's Republic of Mozambique (GPRM) for a $14.5 million Commodity Import Program (CIP) under the continuing Private Sector Rehabilitation (PSR) program for Mozambique, begun in FY 1984. The program will be funded from the Development Fund for Africa (DFA), included in the FY 1988 Continuing Resolution. This $14.5 million grant is the PSR program's fifth phase, and will bring total life-of-program funding to $54,905,000.

Background. The PSR program began in FY 1984 and marked the first development-related effort of the United States and the GPRM. Overall, the program supports the GPRM's policy initiatives in revitalizing private sector activities, especially in food production, and encourages its expanding cooperation with the West.

Following Mozambique's independence in 1975, the lack of foreign exchange and the low priority accorded private sector agricultural production resulted in few inputs being available to private farmers, and, as a result, stagnating or declining production. The few available agricultural inputs were allocated to state farms. The inability of the state farms to meet the country's food requirements, combined with a host of factors (inappropriate economic policies, drought, floods, and insurgency), created a food crisis situation. The PSR commodity import program was a response to this crisis, providing inputs to the private farming sector to help alleviate the food deficit in the Maputo area. At the same time, the PSR program is stimulating the recovery of private farmers and agricultural production in specific target areas in southern and central Mozambique.

Under the program, A.I.D. finances the foreign exchange costs of agricultural inputs, machinery and equipment unavailable locally in Mozambique for distribution to the private sector. Commodities have included tractors, tractor spare parts, and tractor implements; trucks and truck spare parts; bicycles; irrigation pumps and piping; fertilizer; seeds; diesel fuel and lubricants; raw materials for boots, tires, batteries, and agricultural trailers; and plastic boxes for vegetable transport. To date, $40,405,000 has been authorized and obligated for this program.

The latest evaluation of the PSR program carried out in summer 1987 confirmed dramatic growth in agricultural production in the A.I.D.-assisted areas of Maputo Province (including Maputo Green Zones), and the Chokwe and Xai-Xai areas of Gaza Province. The evaluation also revealed that inputs were provided in a timely way and were used effectively. Two years ago, local Maputo markets were virtually barren. Perhaps the most vivid demonstration of progress under the PSR program is the mass of fresh vegetables for sale in the markets in November 1987 -- tomatoes, onions, cabbage, carrots, lettuce, garlic, potatoes, green peppers and eggplant. The PSR program continues to be the major supplier of inputs to private farmers, and the U.S. is perceived as the principal benefactor of the Mozambique private agricultural sector in the target areas.

What has also become clear is that after four years, the PSR program has come to embody a process that both encompasses and profits from evolving GPRM policy reform initiatives and which is bringing tangible benefits to both program participants (private farmers) and urban consumers. With this in mind, future year obligations under PSR are expected to be programmed in the context of a longer-term, multi-year effort.

Program Description. The FY 1988 PSR CIP will continue provision of foreign exchange to import agricultural equipment and inputs essential to increase farm production in the target areas, and where appropriate, raw materials to produce inputs locally. Private sector producers (commercial, cooperative and family farmers) will continue to receive the commodities imported under the CIP.

The program will again support the areas in the Maputo and Gaza Provinces assisted under the previous four phases. In addition, the districts of Chimoio, Manica and Sussundenga in Manica Province will receive support under PSR V. These are areas of great potential, and the demand for equipment and other agricultural inputs is very high, compared to the supply. As in the previous phases of the program, no assistance will be provided to state farms or irrigation schemes, or to government entities.

Under PSR V, there will be even greater emphasis on use of private sector importers and distributors of CIP-provided commodities. Two major parastatal procurement agencies have been eliminated this year from the program, to be replaced by various private sector entities. OAR/Maputo will employ two principal procurement methods, tendering and allocation.

Program and Policy Issues. A number of issues and concerns were raised at the issues and ECPR review meetings and were resolved as follows:

1) Policy reform. The ECPR meeting recognized the GPRM's overall success to date in implementing its wide-reaching reform program worked out in consultation with the IBRD and the IMF. However, certain ECPR participants felt that the pace of policy reform, especially with regard to decontrol of agricultural prices, could be moving faster and that the GPRM should be encouraged to accelerate the process.

The ECPR decided that the third covenant in the PAAD dealing with agricultural pricing reform should be strengthened to read as follows: "The grantee covenants that it will carefully examine and quantify the budgetary and marketing impacts of urban consumer subsidies on maize and maize meal, rice, wheat, sugar, vegetable oil, and soap. Within three months of the date of this agreement, the grantee will: provide A.I.D. with a report of this work; discuss with A.I.D. the report's implications for future A.I.D. programming of imported commodity assistance for the private farming sector as well for food donations; and provide a written time-phased program showing how domestic producer and economic prices could be brought more into line with international prices at a rate which takes into account social as well as economic considerations."

2) Selection of farmer beneficiaries. Certain ECPR participants questioned the PAAD's focus on commercial farmers, many of whom are relatively large-scale, and speculated that directing a greater proportion of PSR-provided commodities to smaller farmers would not harm and might well increase efficiency of production. It was agreed that for the time being, increasing Mozambique's capacity to feed itself was the main priority, and that provision of heavy equipment to larger commercial farmers was critical to achieving that objective. However, the evaluation of the PSR program scheduled for August 1988 will include a detailed eonomic analysis exploring questions of equity and efficiency and whether the focus on larger farmers continues to be appropriate.

3) Privatization of procurement. The GPRM retains control of importation and distribution of certain commodities funded under PSR, including petroleum products. However, each successive phase of the PSR program has involved increasing

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participation of the private sector, for both importation and distribution of A.I.D.-financed commodities. PSR V continues this trend. A private firm will be selected to import and distribute vegetable seeds, procurement and distribution of which were formerly handled by the parastatal Boror. In addition, it is OAR/Maputo's intention that a private firm will take over procurement and distribution of fertilizer; in past years, the parastatal Interquimica imported the fertilizer, which was then distributed by Boror.

Another positive trend: for a number of key commodities being financed under the PSR program, the GPRM is seeking to involve parastatal importers and distributors in joint ventures with private sector entities, with the goal of eventual divestiture. Examples are the parastatals Pendray & Sousa and Mecanagro, which are importing trucks and tractors respectively. These are companies which were abandoned by the Portuguese at independence and taken over by the government of necessity. The GPRM is actively trying to divest its interests in these companies.

4) Evaluation/design. The evaluation plan in the PAAD has been strengthened and now calls for an in-depth assessment, during the evaluation effort scheduled for August 1988, of impacts of the PSR program from its inception in 1984. In addition, the evaluation will assess progress in achievement of specific program objectives since 1984, and will document the extent to which the GPRM has complied with grant agreement covenants, especially those relating to policy reform. As mentioned above, the evaluation will also examine the equity/efficiency issue, with respect to selection of farmer participants.

The evaluation is expected to set the stage for a design effort in fall 1988, which will lay out a multi-year program, instead of an annual program, which has been the practice to date. As mentioned above, the PSR program has evolved into an ongoing process which is both linked to and supportive of developing GPRM policy reform initiatives. The ECPR agreed that by next year, longer-term planning of PSR activities in the context of this process will be appropriate.

5) Conditionality. In view of the GPRM's generally successful reform efforts under the IBRD and IMF programs, it was agreed that this program could go forward without specific conditions precedent, although it will contain substantive covenants. At the same time, it also was agreed that the longer-term design effort scheduled for fall 1988 will include tighter benchmarks for achievement of certain policy reforms and very likely some specific conditions precedent to be incorporated in the FY1989 grant agreement. Further, future year program levels will depend on policy performance in the multi-year program.

6) Local Currency Programming. New systems to track deposits of and use of CIP-generated local currencies are being put in place by OAR/Maputo to strengthen management of the local currency process. The PAAD describes planned control measures for deposits of local currency by the Ministry of Finance into the special account and Trust Fund account, as well as new reporting requirements for the MOF. In December OAR/Maputo received the first of ongoing TDY visits from the regional economist in Lusaka and the regional controller's office in Swaziland, to finalize and implement new procedures.

Regarding uses of local currency, the PAAD recommends attribution to high priority areas of the GPRM agricultural budget. This approach has the preliminary concurrence of GPRM officials, and will be discussed further in the weeks ahead.

7) 25 percent host country contribution. A 25 percent host country contribution is required this year for the first time under PSR, since the program is no longer ESF-funded. It has been calculated in terms of contributions made by Mozambican farmers to the program, which are reflected in the prices farmers pay for commodities over and above the CIF prices for such items. These additional amounts represent charges paid to importers, wholesalers and retailers in consideration of their roles in making the imported commodities actually available to the farmers. These parties perform various services in connection with this process, including port clearance, storage, handling, dealer preparation, and inland transportation. Thus, the additional amounts paid by farmers to such parties are necessary contributions of resources to the program. These additional amounts represent in excess of 25 percent of the entire cost of the FY 1988 program.

Environmental Considerations. An Initial Environmental Examination (IEE), recommending a negative threshold decision, was approved by the Bureau Environmental Officer on Dec. 23, 1987, and is attached as an annex to the PAAD.

DFA Procurement Plan. In accordance with the FY 1988 Continuing Resolution appropriating Sub-Saharan Africa, Development Assistance ("DFA") funds and the April 1, 1988 Special Procurement Policy Rules Governing the Development Fund for Africa, the PAAD authorizes code 935 procurement and contains a procurement plan designed to maximize United States procurement. Approximately half of the procurement will be from the United States.

Report to Congress. Section 590 of the FY 1988 Continuing Resolution requires that, prior to obligation of any funds [bilateral or SADCC] for the Government of Mozambique, the President must submit a report to Congress on the extent to which: [1] the GPRM has entered into a dialogue with the Catholic Church on the return of church property, [2] the GPRM has taken steps to assure against expropriation of private property, and [3] the numbers of Soviet/Eastern Bloc Military/Security personnel are being reduced. The Secretary of State submitted this report to Congress on May 24, 1988.

Funding Level. The ECPR approved the Phase V PSR activity for $15 million. However, because of other OYB requirements for the Mozambique portfolio, the amount being authorized by this action is only $14.5 million. The remaining $500,000 may be added later in the fiscal year.

Congressional Notification. The FY 1987 CN was submitted at a level of $50,405,000, although the FY 1987 authorization amendment raised the authorized life-of-program total to only $40,405,000. Thus for the FY 1988 obligation, an additional $5 million notification was required to allow a $15 million obligation this year. It was sent to the Congress April 15, 1988, and expired without objection April 30, 1988.

Program Management. OAR/Maputo will have responsibility for day-to-day monitoring and program management of PSR V activities, with REDSO/ESA concurrence required for implementation documents. The A.I.D./W backstop office for the program is AFR/PD/SA.

Recommendation: That you: sign the attached PAAD facesheet (Attachment A), thereby authorizing the FY 1988 $14.5 million Mozambique Private Sector Rehabilitation Program, Phase V.

Approved ______

Disapproved ______

Date 6-8-88

VI

Drafted: AFR/PD/SA,MARiegelman, #3689L

Clearances:
AFR/PD/SA, PThorn (draft)
AFR/SA, JConly/FFischer (draft)
AFR/DP, SSposato (draft)
AFR/TR/ARD, WFlynn (draft)
GC/AFR, DLuten (draft)
SER/OP/COMS, JSaccheri (draft)
SER/OP/TRANS, HCradick (draft)
PPC/PB, RMaushammer (draft)
DAA/AFR, LSaiers LSaiers
DAA/AFR, WBollinger WB

CLASSIFICATION:

AID 1120-1 (8-86) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 656-0201D 656-Q-601D 2. COUNTRY Mozambique 3. CATEGORY Private Sector Rehabilitation Program (Commodity Import Program) 4. DATE May 24, 1988
5. TO: Charles L. Gladson, AA/AFR		6. OYB CHANGE NO. -0- 8. OYB INCREASE
7. FROM: Carol Peasley, AFR/PD C. Peasley		TO BE TAKEN FROM:
9. APPROVAL REQUESTED FOR COMMITMENT OF: $14,500,000		10. APPROPRIATION - ALLOTMENT GSSA-88-31656-KG32 (814-61-656-00-59-81)

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☒ FORMAL ☐ NONE	6/88 - 9/89	Date of obligation

15. COMMODITIES FINANCED

Seeds; fertilizer; tractors, tractor spare parts, and implements; trucks and truck spare parts; bicycles; plastic boxes; irrigation pumps and piping; diesel fuel and lubricants; raw materials for tires, batteries, boots, meshing, roofing sheets, hoses, and tractor trailers.

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: $7,536,000
Limited F.W.:	Selected Free World (941): $2,741,000
Free World: $14,500,000	Free World (899): $4,223,000
Cash:	

18. SUMMARY DESCRIPTION

The Private Sector Rehabilitation V program is the fifth phase of A.I.D.'s commodity import program in Mozambique. PSR V will continue support to the private agricultural sector to increase domestic food production and to improve its distribution and availability in local markets. Foreign exchange will be provided for the importation of agricultural inputs and equipment essential for increasing farm production in the target areas of Maputo Province, Chokwe and Xai-Xai districts in Gaza Province, and Manica Province. Commodities to be imported are listed in block 15 above. Under PSR V, there will be even greater emphasis on use of private sector importers and distributors of CIP-provided commodities.

19. CLEARANCES		DATE
AFR/DP, JWestley	[signature]	2/19/88
GC/AFR, DLuten	[signature]	2/1/88
M/FM, ESOwens	[signature]	3/22/88
AFR/PD/SA, PThorn	[signature]	2/16/88
AFR/SA, FFischer	[signature]	2/19/88
SER/OP/COMS, JSaccheri	[signature]	[illegible]
SER/OP/TRANS, HCradick	HC	5/12/88

20. ACTION

☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE [signature] DATE 6-8-88

TITLE Assistant Administrator

CLASSIFICATION:

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I. ECONOMIC AND PROGRAM OVERVIEW

A. General Background

Mozambique gained independence in June 1975, after almost five centuries of Portuguese colonial rule. The Front for the Liberation of Mozambique (FRELIMO), which had waged a ten-year guerrilla war against the Portuguese, assumed power as the sole legal party.

In the past, the GPRM has followed a socialist, centrally planned economic model, but is in the process of implementing a major effort towards adopting a more liberalized and market-oriented economic approach. The party apparatus closely parallels and oversees the governmental structure. FRELIMO's leader, Samora Machel, who became President in 1975, served in that capacity until his death in October 1986.

At its Fourth Party Congress in 1983, FRELIMO called for greater emphasis on pragmatic policies. These included price liberalization and a shift in policy emphasis from state farms to private agriculture, from heavy to light industry, and from major new investments to rehabilitation and maintenance. Private enterprise was to be given greater encouragement, and a foreign investment code was enacted in 1984. Several major U.S. corporations have signed protocols with the GPRM to pursue various projects in mining, fisheries, and in the production of steel products. Mozambique also expanded its cooperation with the West by joining the World Bank, the International Monetary Fund (IMF) and the Lome Convention in 1984.

In March 1984 Mozambique and South Africa signed the Nkomati Accord that called on both countries to respect their respective territorial sovereignty. However, a major insurgency which continues to be waged by the Mozambican National Resistance (RENAMO) poses a progressively more serious threat to security and development.

The new President, Joaquim Chissano, who had been the country's Foreign Minister since independence, has been responsible for overseeing the more non-aligned stance and for Front Line States and the Southern Africa Development Coordinating Conference, Mozambique is viewed as having a stabilizing influence in the region.

Mozambique is strategically located and endowed with largely untapped economic potential, particularly in agriculture, energy, and minerals. Its transport routes provide vital outlets to the sea for neighboring landlocked states. If it continues to provide a moderating, stabilizing influence, Mozambique will play a pivotal role in regional attempts to resolve Southern Africa's political and economic problems.

B. Macroeconomic Position *

Economic activity in Mozambique contracted sharply from 1980 through 1986. Even though the downward trend of income was reversed in 1986 and positive growth is expected in 1987, the various available measures indicate that aggregate real income in 1986 was less than 68 percent of its 1980 level. In addition, per capita income has declined by over 50 percent from 1980 through 1986 and is expected to remain constant or decline slightly in 1987.

Mozambique's external balance can best be described as a major disaster. Ex-ante overall balance of payments deficits have risen from $32 million in 1980 to $542 million in 1986. The financing of these deficits has led to the reduction of the country's foreign reserves from $268 million (4 months of imports) in 1980 to $72 million (1.6 months of imports) at the end of 1986. In addition, over $1.1 billion in debt arrears were accumulated over this period. These massive deficits have occurred despite a one-third decline in the level of merchandise imports from $800 million in 1980 to $543 million in 1986. The overall deficits arise from the following developments:

-- Contraction in exports of goods and services of over 45 percent;
-- An increase of over 300 percent in scheduled debt service (excluding arrears) and which has resulted in debt service to export ratios of 100 percent or more since 1982; and
-- Increase in non-interest service expenditures of more than 78 percent.

The structure of Mozambique's balance of payments indicates a number of anomalies which must be dealt with to resolve the country's external imbalance. These are:

-- Since 1982 current debt service before debt relief has exceeded total exports by as much as 150 percent, a situation which is expected to continue through 1992;
-- Including previously accumulated debt arrears, total debt service obligations have exceeded total exports by as much as 600 percent.
-- Donor assistance (excluding debt relief) which equalled $35.50 per person in 1986 has consistently financed roughly 60 percent of total imports; since 1982 these flows have been twice the level of Mozambique's total exports; and
-- Despite the high level of donor assistance, total imports have exceeded total exports plus donor assistance by up to 20 percent since 1983.

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* For a more detailed discussion of Mozambique's macroeconomic situation and performance, see Annex F.

These factors indicate an extreme dependence on external financing which must be overcome if the Mozambique is to become a viable economic unit. For the period 1987 through 1992, balance of payments estimates and projections based on highly optimistic assumptions concerning export performance and donor assistance flows indicate a continuation of major ex-ante overall deficits of more than $300 million per year before debt relief. If the maximum allowable debt relief is provided, these financing gaps can be closed for the period 1988-1992. If the assumptions concerning donor assistance and export performance prove overly optimistic, or if actual debt relief is less than the maximum possible, then further accumulation of debt arrears and/or a reduction of projected imports can be expected.

As of the end of 1986, Mozambique's external debt totalled almost $3.1 billion. Of this total amount more than 38 percent or $1.1 billion represented debt service arrears. (Note: The 1987 Paris and London Club meetings agreed in principle to reschedule over $700 million of these arrears.) This debt is equivalent to 78 percent of estimated Gross National Product in 1986 and corresponds to approximately $213 per person. The structure of Mozambique's debt is heavily oriented towards medium- and long-term debt (99.5 percent) and government creditors (73 percent). The largest creditor group is the western (OECD) countries (42 percent of total), closely followed by the centrally planned economies (33 percent of total).

As noted above debt servicing is a major problem in Mozambique's balance of payments. Full payment of debt service obligations in 1986 and 1987 would have required approximately 250 percent of revenues from merchandise and service exports. For the period 1988 to 1992, debt service obligations are projected to decline from 207 percent of foreign exchange earnings in 1988 to 136 percent of foreign exchange earnings in 1992. This decline in Mozambique's debt service ratio is primarily due to the projected growth in foreign exchange earnings. With the provision of maximum debt relief given current Paris and London Club rules, the projected debt service to exports ratios are substantially reduced to 48 percent in 1988 and 34 percent in 1992. While these levels of debt relief are sufficient to close the projected balance of payments financing gaps, the debt service burden after relief will still be high relative to foreign exchange earnings.

Through 1986 Mozambique's currency was highly overvalued relative to foreign currencies. The rate at which the metical was pegged was not adjusted either in response to domestic inflation or the general shortage of foreign exchange in the country.

However, in 1987 the GPRM has twice devalued the metical relative to the dollar, placing the official exchange rate at a level of MT 400 per dollar at the end of November 1987 compared to an average rate of MT 38.50 for 1986. The rate of MT 400/US$ represents a 92 percent nominal and a 52 percent real devaluation relative to the 1980 exchange rate. In response to these devaluations, the parallel market rate has fallen to a level of MT 900/US$ in Maputo and MT 800/US$ in other areas from its previous levels of Mt 1200/US$-MT 1500/US$. A further devaluation of the metical to an official rate of at least MT 450 per dollar is expected by the end of the year if the GPRM is to implement its Economic Recovery Plan. Such a devaluation should be sufficient to prevent a further appreciation of the Metical in real terms due to domestic inflation.

Another problem which has plagued Mozambique's economy has been that of its internal financial situation. Due to large budget deficits and parastatal losses, the broadly defined money supply has risen at an annual rate of roughly 20 percent from 43 percent of income in 1980 to over 70 percent of income in 1986. This monetary expansion, largely driven by the fiscal deficit, has placed extreme pressures on domestic prices which officially have increased at an annual rate of 20 percent to 25 percent. Given the extreme rigidity and lack of adjustment in "official" prices, the full scope of these lax policies have been reflected through shortages in official markets and significantly higher prices in parallel markets.

C. The GPRM Economic Recovery Program (ERP)

Beginning in 1984 and 1985 the GPRM slowly began introducing selected policy measures as means of testing the idea of economic reform. The principal measures introduced at this time were:

- -- A foreign exchange retention scheme which allowed selected exporters to retain a variable portion of their export revenues in order to import inputs for further export production;
- -- A revised investment code to provide the legal basis for increased foreign investment;
- -- Free market pricing for fruits, vegetables and selected animal products;
- -- A revised labor law providing greater autonomy for enterprises to dismiss workers for economic reasons and to introduce wage differentials for more productive workers; and
- -- Authority for selected agricultural export enterprises to engage in external trade without using a parastatal trading company.

While the above measures were a tentative move in the direction of economic reform, they failed to address the key policies which were contributing to the inefficiencies and decline of the country's economy. In 1987, the GPRM announced its Economic Recovery Plan (ERP) which covers the period 1987-1989. The ERP is designed to address the macroeconomic and sectoral policies which have constrained the performance of the economy. The ERP has received the support of both the IBRD and IMF.

The principal objectives of the ERP are to reverse the decline in the economy, establish an economic policy environment which will be conducive to future economic growth, and stabilize the country's internal and external financial situation. The general approach of the ERP is to reduce the influence of centralized administrative controls in the economy by allowing market forces to play a greater role in determining the allocation of resources, income and performance of economic units and individuals. The specific policy measures of the ERP are detailed in the following paragraphs.

External Policies. The exchange rate is to be adjusted to a marketing clearing level by the end of 1989. The devaluations in the first half of 1987 are the first steps in achieving this goal. Further devaluation of the metical is expected in 1987 in order to raise the official exchange rate to a level equal to 50 percent of the parallel market exchange rate.

As the exchange rate adjustments are implemented, the role of administrative allocations in both the foreign exchange and trade areas are to be reduced. By mid-1988 a program to progressively reduce the number of imported products free from administrative allocations will be concluded with implementation to begin in the latter half of 1988. Foreign exchange for non-allocated imports will be purchased through the banking system without administrative restrictions.

Another element of the ERP's external policies is to progressively reduce the number of externally traded product groups which can only be traded through state trading companies. By the end of 1987, the number of import product groups is to be reduced from eleven to five (petroleum, pharmaceuticals, agrochemicals, cereals and electricity), while the number of export product groups is to be reduced from three to one (sugar). Further reductions in these groups are to be made in 1988 and 1989.

To support export incentives while the exchange rate is being adjusted, the foreign exchange retention scheme is to be expanded and rationalized. In early 1987 the retention scheme was broadened to include all exporters of non-traditional products. The dispersion of retention rates was narrowed and the level of government retention reduced from an average of 70 percent to an average of 50 percent. In addition, participants in the scheme are now allowed to buy and sell rights to use the retained foreign exchange through the banking system. In 1988, the scheme is to be expanded to cover all exporters and the range of retention rates is to be reduced further.

Pricing Policies. The general purpose of the new pricing policies is to allow prices to more accurately reflect market forces in order to promote efficiency throughout the economy. As with other measures, pricing changes are to be phased over the course of the ERP. The number of products subject to direct price controls is to be reduced by transferring products to either the regulated price list or to market-determined prices. In 1987 the list of fixed price commodities are to be reduced from 46 to 37 with a further reduction to 32 commodities planned for the beginning of 1988.

Over the course of the ERP, the category of regulated prices are to be phased out. In the interim, the process for determining the allowable levels for regulated prices is to be made more flexible by allowing firms to determine and implement price changes with an ex-post review by the relevant sectoral ministry instead of a prior review by the Ministry of Finance as has been the case.

In determining all fixed or regulated prices, the principle of import parity prices are to play an increasing role. Thus, prices of key commodities in neighboring countries are to act as basis for price reviews and prices are to be adjusted as the exchange rate is devalued. Following the January 1987 devaluation, prices were quickly revised; however, prices have yet to be revised following the June 1987 devaluation.

<u>Distribution Policies</u>. Domestic trade is to be made more competitive by allowing greater private sector competition with parastatal enterprises and trading companies at all stages.

<u>Fiscal and Monetary Policy</u>. Under the supervision of the IMF, the GPRM is to follow strict fiscal and monetary policies in order to stabilize the domestic financial situation and promote efficiency in the government and parastatal sectors. To date the GPRM has fully complied with the strict limits fiscal and monetary limits established in conjunction with the IMF and IBRD programs.

GPRM implementation of the ERP during its first year has been impressive and in full compliance with all agreements. The specific changes made include:

-- Devaluation of the exchange rate from MT 38.50/US$ in 1986 to MT 400/US$ as of the end of November 1987;
-- Reduction from 11 to 5 of the number of import product groups which can only be imported by parastatal trading companies;
-- Reduction from 3 to 1 of the number of export product groups which can only be exported by parastatal trading companies;
-- Broadening of the coverage of the foreign exchange export retention scheme to cover all non-traditional exports;
-- Allowing exporters to buy and sell rights to retained foreign exchange earnings;
-- Reduction from 46 to 37 of the number of products subject to direct price controls;
-- Increasing use of the principle of border prices for products still subject to price controls;

-- Increases in controlled prices of up to 1400 percent following the January 1987 devaluation; and
-- Complete adherence to strict monetary and fiscal targets established in conjunction with the IMF and IBRD programs.

Further implementation of the ERP is expected in 1988. Among the changes expected are:

-- Devaluation of the metical to further reduce the differential between the official and unofficial rates;
-- Further reductions in the number of import and export product groups restricted to trade by parastatal trading companies;
-- Implementation of a program to reduce the scope of administrative controls and allocation of foreign exchange for imports;
-- Expansion of the foreign exchange export retention scheme to cover all exporters;
-- Reducing from 37 to 32 the number of commodities subject to direct price controls; and
-- Continued adherence to strict monetary and fiscal limits

C. U.S. Assistance: Private Sector Rehabilitation Program

1. Rationale and Purpose

The Private Sector Rehabilitation Program was initiated in September 1984 and marked the first development-related effort of the United States and the Government of the People's Republic of Mozambique (GPRM). Overall, the program is intended to support the GPRM's policy initiatives in revitalizing private sector activities, especially in food production, and encouraging its expanding cooperation with the West. Our goal is to have Mozambique achieve long-term growth and development based on sound market-oriented principles in order to promote stability in Southern Africa.

The PSR V program is the fifth phase of AID's bilateral involvement in Mozambique. The purpose of the program is to provide support for the private agricultural sector to increase its production through the importation of vitally needed inputs and equipment. PSR V also supports the goals of the ERP, as outlined above.

The PSR CIP provides foreign exchange for the provision of otherwise unavailable agricultural commodities for private sector farmers and raw materials for the local manufacture of commodities needed in the agricultural sector. The Phase V program continues to support the GPRM's policy trend toward private sector development by providing resources which will help these new policies succeed and by encouraging movement toward a market economy. AID will provide foreign exchange costs, and the GPRM will provide associated local costs.

In addition, PSR V expands the geographic target area to include the three main productive areas of Manica Province which are astride the corridor between the port of Beira and Zimbabwe. Private farmers in this productive area are struggling to keep their enterprises going, using pre-independence vintage tractors and implements. Many of them report that they are unable to farm all their lands because this old equipment is unreliable.

The only spare parts available to these farmers since independence are those cannibalized from deadlined equipment sold off by state farms. As this source is even now beginning to run dry, it is none too soon for the PSR program to begin to help keep these farmers from going over the brink. Failure to do so now risks negative demonstration of the efficacy of private farming -- declining acreage and per acre output, inability to take up land being released by state farms, and probable exit from farming and even Mozambique of many of these people who have stayed on, lending their expertise and entrepreneurial skills in this important sector.

2. The Commodity Import Program

The program to date. The lack of foreign exchange and the low priority accorded private sector agricultural production in Mozambique after independence resulted in few inputs being available to private farmers and, as a result, stagnating or declining production. The few available agricultural inputs were allocated to state farms. The inability of the state farms to provide the country's food requirements, as well as other factors--such as inappropriate economic policies, drought, floods and insurgency--created a food crisis situation. The PSR CIP provides inputs to the private agricultural sector to help alleviate the food crisis in the Maputo area, and at the same time, stimulate the recovery of private farmers and agricultural production in specific target areas in southern and central Mozambique.

Under the PSR, AID finances the foreign exchange costs of agricultural inputs, machinery and equipment unavailable in the local market for distribution to the private sector. There have been four phases of the program in Mozambique: PSR I, authorized in FY1984 for $8 million, has been concluded and evaluated; PSR II, authorized for $13 million in FY 1985, has also been concluded and evaluated. Phases I and II included $3 million for technical assistance, which is implemented separately. PSR III, funded at $9,570,000 in FY 1986, is essentially complete and was evaluated in August 1987.

PSR IV, the latest phase in the four-year program, was funded for a total of $9,835,000 in FY1987 and has been underway since last April. Cumulative funding for the PSR program through FY1987 thus totals $40,405,000. Planned FY1988 funding for PSR V, at $15 million, would bring the LOP total to $55,405,000 (including T.A.).

PSR V. The priority geographic areas initially identified for assistance under the CIP included the Green Zones (fertile farm areas) surrounding Maputo city, and the Chokwe region (about 200 kilometers north of Maputo) along the Limpopo River in Gaza province. Later, under PSR II, the Xai-Xai district in Gaza Province was added. These three areas continued to be supported under PSR III and IV, and are again proposed for assistance under PSR V.

In addition, Manica Province, about 1400 kilometers north of Maputo in the Beira Corridor, is proposed for assistance under PSR V. In including Manica Province, OAR/Maputo is responding to a long-standing GPRM request which could not be accomodated earlier because of funding constraints and other considerations. See Section III C below for a fuller description of the PSR V target areas.

CIP Composition. Commodities planned for procurement under PSR V are essentially the same as those funded under previous phases of the program, and include the following:

-- Tractors, tractor spare parts, and tractor implements.
-- Trucks (3-ton and 8-ton), and truck spare parts.
-- Bicycles.
-- Irrigation pumps and piping.
-- Fertilizer.
-- Seeds.
-- Diesel fuel and lubricants.
-- Raw materials for boots, tires, batteries, and agricultural trailers.
-- Plastic boxes for vegetable transport.

Phase I and Phase II of the PSR program included funds for technical assistance to help Mozambique meet critical needs in training and in the advisory services required for private sector development and increased food production. Since PSR II, no further technical assistance has been financed, and none is planned for PSR V.

3. Impact of the Commodity Import Program

The evaluation of the PSR program carried out in August 1987 confirmed dramatic growth in agricultural production in USAID-assisted areas. AID-financed agricultural inputs (tractors, trucks, seeds, and fertilizer) represent 80 percent of foreign donor assistance in the Green Zones, a principal growing area for the city of Maputo, and have contributed to major increases in private vegetable production. As recently as two years ago, the Maputo markets were virtually barren; in November 1987, stalls overflowed with fresh vegetables -- tomatoes, onions, cabbage, carrots, lettuce, garlic, potatoes, green peppers, and eggplant.

Of course the price liberalization measures taken by the GPRM since 1984 were crucial to this success as well. But it would not have been enough to just remove price controls on vegetables. In order to get the supply response to these measures, the CIP inputs were necessary. Conversely, backsliding (which has not occurred) on price liberalization would very quickly jeopardize all the positive results of the program to date.

In Chokwe and Xai-Xai areas, where production has increased similarly, the CIP's role is perhaps even more significant, since AID is the principal donor assisting private farmers, who are largely responsible for increases in vegetable and cereal production. For example, in Xai-Xai, an additional 1,000 hectares are in production since the first infusion of CIP inputs in that area in 1985. Transport capacity of private farmers in both areas to Maputo markets has grown by 1,000 tons per week, a very significant increase.

The PSR CIP has made it possible for many private farmers in the target areas to pick up land being spun off by state farms which are in the process of shrinking their operations in an attempt to get their operations in the black. The ability of these farmers to make the newly acquired lands productive quickly has provided another convincing real life demonstration of the magic of the private sector in agriculture.

OAR/Maputo's monitoring system for the PSR program is tracking delivery of specific inputs to individual farmers chosen on a random basis. In addition, for each major piece of equipment provided by the CIP, OAR/Maputo maintains a record by end-user name and identification number. Now that the PSR program is beginning its fourth year of supplying equipment, a comparative data base is being built up to document important changes directly attributable to the PSR program. Within the next year, the OAR expects to be able to provide reasonably precise data on an ongoing basis on increase in yields of participating farmers.

E. <u>Other Donor Activity</u>

According to the annual UNDP donor cooperation report, released in Maputo in November 1987, a total of $685 million in donor assistance flowed to Mozambique in calendar year 1986, the latest year for which reasonably accurate data is available.

Most foreign aid provided in 1986 was directed to supporting preparation and implementation of the GPRM's Economic Rehabilitation Program, launched in January 1987. Thus the bulk of donor assistance in the agriculture sector was geared to provision of tools, seeds, extension services, and investment in marketing infrastructure. It should be noted that for most donors, inputs were <u>not</u> targetted exclusively to private sector farmers, as is the case with AID'S PSR program.

Of the western bilateral donors, Italy's assistance program in Mozambique is the largest, totalling approximately $110 million in 1986. Italian aid is financing a variety of projects across sectors, with activities in agriculture, forestry, and fisheries development.

Swedish aid to Mozambique totalled $78 million, focusing on industrial development, transport and communication, and international trade and finance. AID is the third largest bilateral donor, and provided $52 million in 1986, including food aid and the PSR program.

French aid in 1986, totalling $31 million, was directed to strengthening the agricultural production sector. Norwegian assistance, at $25 million, supported a variety of sectors, including natural resource development, agriculture, industry, health, and education. Canada provided $22 million in 1986, targetted mainly at transport/communications and humanitarian assistance. Of the East Bloc states, Soviet aid accounted for the largest portion, totalling $112 million in 1986. Soviet aid financed mainly industrial development, with a small amount of funding going to humanitarian and relief activities.

On the multilateral side, the United Nations family of donors (UNICEF, FAO, WHO, UNESCO, and UNFPA) provided $21 million in technical assistance activities in 1986. Of these, UNICEF was the largest donor, with a total of $9.5 million for activities in health, humanitarian assistance, and education.

A plethora of non-governmental organizations (NGOs) are working in Mozambique, including CARE, Lutheran World Relief, World Vision, ICRC, IVS, Save the Children/UK, and Medecins Sans Frontieres. They are operating projects throughout Mozambique in a wide variety of sectors, including agriculture, health, employment generation, and resettlement. NGO assistance in 1986 totalled approximately $11 million.

The World Bank has approved a $70 million IDA credit for Mozambique, with additional joint financing from the IBRD's Special Facility for Africa (SFA) for $18.6 million and a Swiss grant totalling $11.4 million. The entire Bank program is geared to buttressing the ERP, and focuses on the following policy reform areas: trade and foreign exchange allocation; pricing and distribution policy; fiscal policy; agricultural marketing and producer prices; industrial pricing and efficiency; and transport sector efficiency. The program is being managed jointly with the IMF. Of the approximately $100 million in Bank/SFA financing, half was disbursed earlier this year. The remainder is scheduled for disbursement following the Bank's November/December 1987 review of progress under the first tranche.

While there is no lack of donor interest in Mozambique, the sector with the most promise and possibly most in need of additional assistance is private commercial farming. Thus AID is helping to fill a critical gap, through the PSR program.

II. MOZAMBIQUE -- AGRICULTURE SECTOR PERFORMANCE

A. Country-Wide Situation

Agriculture is the main economic activity in Mozambique accounting for nearly half of the GSP and employing over 80 percent of the working population. The Mozambican environment is relatively favorable for agricultural production under normal weather conditions. Out of a total area of 78 million hectares, 15 million are estimated to be arable and approximately three million hectares are currently in crop production.

Since independence, agricultural production has not only failed to keep pace with population growth, but has declined in absolute terms since 1982. From 1975 to 1981 agricultural export earnings increased but have declined since. Major agricultural exports dropped in volume by 71 percent from 1980 to 1986. As shown in Table II-1, marketed production of major export crops such as sugar tea and citrus continue to decrease. Marketed production of both maize and rice, the second and third most important food crops (cassava being the most important food crop although negligible quantities are actually marketed), were in 1983 at 67 percent and in 1986 at 37 percent of their 1980 marketed levels.

Table II-1

Mozambique Marketed Production of Major Crops 1980-86
(in thousands of metric tons)

	1980	1981	1982	1983	1984	1985	1986
Cashews	87.6	90.1	57.0	18.1	25.3	30.4	40.1
Sugar	170.2	177.7	125.8	73.7	39.3	25.0	16.8
Cotton	64.9	73.7	60.7	24.7	19.7	5.7	10.8
Tea	90.2	99.2	109.7	51.1	59.8	25.0	6.4
Copra	37.1	54.4	36.6	30.7	24.8	24.0	28.6
Citrus Fruits	37.3	36.7	38.1	33.5	24.6	31.5	20.2
Maize	65.0	78.3	89.2	55.8	82.6	58.6	21.5
Rice	43.6	28.9	41.3	17.1	19.1	17.9	19.0

Source: Statistical Information 1986, National Directorate of Statistics, GPRM

In 1979 a heavy cyclone affected the northern provinces, and in January 1984 another cyclone caused extensive damage in the south. Starting in January 1981, four years of prolonged drought severly affected food production in the south and central portion of the country. Rainfall in the 1982/83 season was at levels between one-fourth and two-thirds of the previous 30 year average. Climatic conditions have generally returned to normal although in some areas drought conditions prevailed during the 1986/87 season.

Since 1981 large parts of the eight northern provinces have been severely disrupted by the insurgency which has resulted in a decline in production in these areas. This insurgency has moved into the southern areas where sporadic disruptions to agricultural production have been reported. Poor economic policies and mismanagement of state farms have also contributed to the decline in production in all areas. The continuing decrease in marketed production, since the weather pattern has returned to normal, is now attributable to a combination of shortages in input supplies, lack of transport or a further deterioration of the security situation in the producing areas. The latter reason is probably a major cause.

One significant improvement in agricultural performance, since the 1984 production season, continues to be the availability of fresh produce in local Maputo markets. The selection of fresh produce includes most items found in many southern African vegetable markets. Removal of price controls on these products in 1984 led to a resurgence of supply, initially at very high prices. Free market forces are evidently at work since the initial high vegetable prices declined in response to increased market supply and changes in demand.

B. Agricultural Production in CIP Target Areas

A distinction must be made between the country-wide performance of agriculture in Mozambique and that in the southern provinces of Maputo and Gaza which have been the recipient areas for the CIP and have received equipment and other agricultural inputs. The insurgency, until recently, has been kept relatively under control in these areas. Agriculture has been revived in Gaza and Maputo provinces since 1984 not only through AID efforts to provide inputs, but also by an end to the drought and by the liberalization of price controls which restored economic incentives.

Nationally, there are an estimated 7,000 private commercial farmers, 30 percent of them in the program target areas, who produce 5 percent of the agricultural production and 15 percent of the agricultural exports. The family farmers account for 70 percent of production and 20 percent of agricultural exports, mainly cashews, with state farms producing 25 percent of production and 65 percent of agricultural exports. Cooperatives are unimportant from a national production perspective, but comprise a significant portion of the farm area in the Maputo Green Zones.

During the last several years, there has been a reduction in the amount of land farmed by the state in Gaza Province. The GPRM continues to make more land available to private farmers, both from the redistribution of land from state farms and from the development of new land. The Government recently announced a program of 50-year inheritable lease-holds for private farmers which will greatly improve the security of tenure in the short run and will probably lead to a re-emergence of private land ownership in the not too distant future.

A transformation in agricultural productivity by the private farmers is continuing in the Chokwe and Xai-Xai areas. A number of factors have contributed to this transformation: good weather, the hard work of the private farmers and the availability of agricultural equipment and inputs. Although official marketed production in these areas increased only slightly during the past year, production from private sector farmers continues to expand, while state farm output declines.

Of the private farmers interviewed in the target areas during the PAAD development and the CIP III evaluation, there was a marked increase in the area planted for those who had received equipment. Nearly all farmers interviewed indicated an increase in vegetable and maize production. However, as the evaluation team concluded, the receipt of equipment was not the sole determinent of production increases. The production increases attributable to equipment alone would have been minimal without the supporting inputs, i.e. seeds and fertilizer. Most farmers indicated that the increased availability of inputs attributed significantly to production increases even under the current low market prices and the variable weather conditions.

Table II-2

Demographic and Land Characteristics of the Target Areas

Zone and Sector	Number	Percent of Total	Average Farm Hectares	Total Hectares	Percent of Total
Maputo Province					
Private Commercial Farmers	850	1	25	21,250	27
Family Farmers	92,400	88	0.5	46,200	58
Cooperative Members	12,100	11	N/A	3,300	4
State Farms	13		700	9,000	11
Gaza Province					
Private Commercial Farmers	1,173	1	11	12,738	16
Family Farmers	113,092	96	0.5	56,500	69
Cooperative Members	4,000	3	N/A	4,338	5
State Farms	10		800	8,000	10
Manica Province					
Private Commercial Farmers	110	0.2	130	14,300	29
Family Farmers	60,000	95	0.5	30,000	60
Cooperative Members	3,000	4.8	N/A	2,500	5
State Farms	6		500	3,000	6

Source: estimates by AID PAAD team, based on GPRM data and interviews

Agricultural production continues to increase in the Maputo Green Zones, an agricultural area surrounding Maputo city, for several reasons. The infrastructure on most farms is improving as more industrial type commodities (cement, rubber hose, steel pipe, fencing materials, etc.) become available in the market place. Structures for confining livestock (pigs,goats) and poultry (chickens, ducks, geese and turkeys) are being rehabilitated and/or constructed. Sophisticated (cost effective and efficient) irrigation/water systems are being installed. The emphasis on intensified vegetable production has continued even though the area under production continues to increase (partly due to expansion of older holdings and partly due to the continuing influx of approximately 300 people per day coming into the Maputo area). This intensified production methodology is more labor and land intensive and added efficiency is gained in the utilization of inputs, such as seed, water and fertilizer.

C. Impact of U.S. Assistance on Agricultural Growth

The CIP has provided inputs for agricultural production to private farmers in two provinces (Maputo and Gaza). By supplying agricultural inputs and equipment (which are largely not produced in Mozambique and for which the shortage of foreign exchange reserves had resulted in insufficient supplies), the CIP has allowed production in these areas to increase dramatically.

In the CIP target areas, problems for farmers will arise if the flow of agricultural inputs stops. Without increased foreign exchange earnings, the Mozambican economy will be unable to import sufficient agricultural inputs to maintain production. With the agricultural sector figuring so large in the total Mozambican economy, and the food deficit still so great, extraordinary measures must continue to help the agriculture sector recover, even while macroeconomic reforms are putting order into the balance of payments situation.

Table 5 shows the quantity and type of Mozambican agricultural exports for the last nine years. Since 1979, Mozambican agricultural exports declined precipitously to levels as low as less than one percent of the 1979 levels.

Table II-3

AGRICULTURAL EXPORTS BY TYPE
(thousands of metric tons)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Cashew	18.4	17.1	15.6	12.2	16.7	5.8	4.1	3.1	3.0
Citrus	11.8	16.3	14.0	16.5	11.6	8.0	11.0	10.4	8.2
Copra	34.4	29.1	19.4	12.2	12.2	6.0	4.2	12.7	8.4
Cotton	12.8	16.1	5.7	15.0	13.7	13.2	5.9	4.7	0.9
Sisal	11.3	14.0	16.0	5.8	5.7	2.5	2.0	0.2	.01
Sugar	24.6	118.7	63.8	63.1	28.5	25.0	16.4	16.8	n.a.
Tea	13.5	23.3	30.0	16.0	25.1	13.3	7.7	1.8	1.4
Timber	30.9	25.4	20.7	23.6	11.4	1.6	2.3	1.8	1.4

n.a. - not available

Source: Bank of Mozambique

With the restructuring of the economy and the expected concurrent increased flow of capital from international donors and investors, it is essential that Mozambique continues its efforts to revive the agricultural export sector to at least the 1979 level. Although most of Mozambique's agricultural exports are produced in the traditionally strong agricultural provinces of Nampula, Zambezia and Tete, all which currently are affected by extensive insurgent activity, considerable gains in exports can be expected from the increased agricultural production in other provinces. However, the 4nsurgency continues to inhibit production and transportation of agricultural products to ports for export.

III. COMMODITY IMPORT PROGRAM PHASE V

A. Program Purpose and Scope

The FY 1988 program is the fifth phase of a successful CIP in Mozambique. The proposed funding for the program is $15 million from DFA funding.

The purpose of PSR V is to continue support to the private agricultural sector to increase domestic food production and to improve its distribution and availability in local markets. This will be achieved through providing foreign exchange for productive inputs needed by private sector commercial, family and cooperative farmers in target geographic areas and selected private industrial enterprises manufacturing agricultural inputs. The CIP supports the economic policy reform program begun by the GPRM, enables the private sector to demonstrate contributions towards economic recovery and food production, and encourages further movement toward a market economy.

B. Program Description.

The FY 1988 PSR CIP will continue the provision of foreign exchange to import agricultural equipment and inputs essential to increase farm production in the target areas, and, where appropriate, raw material to produce inputs locally. Private sector producers (commercial, cooperative and family farmers) will continue to receive the commodities imported under the CIP.

In describing the beneficiaries of the FY 1988 CIP, the term "private farmers" refers to private sector commercial farmers, family farmers, and cooperatives. Family farmers are subsistence farmers producing primarily for self-consumption or for barter with other family farmers. Private sector commercial farmers gear their production to commercial sale and are cognizant of market conditions, such as fluctuations in prices and quantities, in the Maputo and surrounding markets. Cooperatives produce for both the commercial market and the cooperative member's consumption requirements. Most cooperative members are also family farmers who have their own family plots where they produce for self-consumption.

Most of the dollar value of PSR V assistance will go to private sector commercial farmers, in view of the imperative to maintain and increase food production, and their ability to respond quickly to the imperative in an unsecure security climate, without requiring technical assistance or extension services.

The program will again support the areas in the Maputo and Gaza Provinces assisted by the previous four phases, namely the market areas around Chokwe and Xai-Xai, the peri-urban Maputo Green Zones and the districts of Marracuene, Manhisca, Moamba, Boane, Magude and Nomaaachia in Maputo Province. In addition, the districts of Chimoio, Manica and Sussundenga in Manica Province will receive support in this program. These are areas of great potential, and the demand for equipment and other agricultural production inputs are still very high compared to the supply. Assistance will not be provided to state farms or irrigation schemes, or government entities.

At the request of the GPRM, the FY 1988 program is being expanded to include support to the light industrial sector. In previous CIPs, raw material inputs have been provided to selected manufacturers for the production of goods used in the agriculture sector such as tires, rubber boots, hose and irrigation pipes. The FY 1988 program will continue to provide raw materials to support the production of these goods and will also provide foreign exchange for the purchase of capital equipment to upgrade and/or rehabilitate the capital equipment used in the manufacturing process. Most of the capital equipment in this light industrial sector is at least 20 years old and generally the technology presently in use is no longer an efficient user of raw materials. Additionally, the quality of some of the products being produced is low, and can be upgraded by the addition of key pieces of machinery.

The FY 1988 program will also include a new agricultural area. Sofala, Inhabane and Manica Provinces were considered as possible areas of expansion. In Sofala Province, emphasis would have been place on the Green Zones adjacent to Beira. However, a plethora of donors are already involved and it was decided that a duplication of effort would not be beneficial. Inhabane Province was determined to be unsuitable at this time due to the security situation and a lack of available markets.

The PAAD team visited Manica Province and was favorably impressed with the farmers and the area. Agricultural production in this area has not been severly interrupted by the insurgency since this area along the Beira corridor is protected by a security force from Zimbabwe. There are also a large number of private commercial farmers in the area with average farm size of approximately 130 hectares. Approximately 50 percent of the tractors owned by the private farmers in the area are operable. The rest are out of use because of age and lack of spare parts. Since all of the tractors, trucks, motorpumps and implements are of pre-1975 vintage, this area provides a unique opportunity to rehabilitate an existing agricultural base before it falls into complete disarray.

C. PSR Target Areas

1. Gaza Province/Chokwe Area

PSR V will continue to aid the farmers in Chokwe area which consists of the Limpopo, Guija, Massingir and Macarretane districts. There are approximately 125,000 residents (25,000 families) in the area. This is an impressive irrigated area with over 30,000 hectares in furrow and flood irrigation. Vegetables, rice, maize, cotton and livestock are produced extensively in this area.

After independence and the fleeing of many Portuguese land owners, the government took over most of the abandoned irrigated land in Chokwe area and developed large state farms with socialist bloc help. Production on the state farms continues to be below expectations, frequently returning less than the cost of inputs. Consequently, the government has been redistributing land and some equipment from the less profitable state farms to the private farmers in the area.

AID commodity assistance has helped and will continue to assist the rehabilitation of the private sector in this area, to increase both the area under cultivation and the overall production. Production of vegetables and rice have increased since the start of the CIP and tomato production in 1987 significantly exceeded market demand as evidenced by the significant decline in market prices. The Chokwe Coordination Unit will continue to have responsibility for coordinating the distribution, allocation and sale of CIP-financed commodities in this area.

2. Gaza Province/Xai-Xai Area

This target area consists of four districts - Xai-Xai, Macia, Chibuto and Manjacaze - centered on the city of Xai-Xai, the provincial capital of Gaza, which is located at the mouth of the Limpopo River. In this area, the private farmers are spread out over a much larger area than in Chokwe. The soil is of a heavy clay type which, while very fertile, is much more difficult to farm. Agricultural production in the Xai-Xai area is more basic than in Chokwe and less land is being irrigated due to the disrepair of the irrigation infrastructure.

The private farming sector in this area is relatively small even though the GPRM has redistributed over 2,500 hectares of unproductive state farm land to private farmers for their use. The AID-financed commodities are in great demand by the private farmers to rehabilitate the newly obtained land and to increase their level of production. To supply these requirements, CIP-financed seeds, fertilizer, tractors and transport equipment will be distributed in this area.

3. Maputo Province

The CIP is providing inputs in Maputo Province, in the districts of Marracuene, Manhiса, Moamba, Magude, Matutuine, Namaacha, Boane and

Maputo (Maputo city and the peri-urban Green Zones). A relatively small but well-organized group of private farmers will be the principal beneficiaries in this area. AID-financed commodities distributed in previous CIPs has enabled these private farmers to increase their supply of vegetables and other agricultural products to the Maputo market.

The Green Zones around Maputo will continue to receive assistance since they are very productive areas and the need is great for seeds, fertilizer and other agricultural production inputs. The Green Zones is comprised of 12,400 family farms with 6,200 hectares, followed by 300 private sector commercial farms with 4,500 hectares, and 10,000 members of cooperatives farming 1,200 hectares. The CIP has been the major source of seeds, fertilizer, small-scale equipment and tools in the Green Zones.

4. Manica Province

The FY 1988 program will be providing support to Manica Province for the first time. Three districts are being targeted: Chimoio, Manica and Sussundenga. The districts are located along the Beira corridor adjacent to the Zimbabwe border. Security in this area is extremely good. The main agricultural crops produced in this province are vegetables, maize, sorghum, sunflower, cotton and citrus. Livestock and poultry production is also high in this area. Output is marketed locally, as well as in Beira and Maputo. Transportation infrastructure is good, and the farmers of Manica are experienced with and confident of their markets. There are many connections with nearby Zimbabwe, and new techniques pass across the border quickly.

The private sector commercial farmers in this area have larger land areas than in the other target areas. These farmers also use a combination of dryland and irrigation production techniques. Most of the equipment owned by these farmers was purchased before, or shortly after, Mozambique's independence and that which is working is either in critical need of repair or at the end of its effective life span. Additionally, most of the farm implements have exceeded their life span and are no longer providing the required service for which they were designed. Transport equipment is in great demand as are seeds, fertilizers, motor pumps, tractors, implements and spare parts for the existing equipment. A lot of day labor is used for weeding, irrigation, and harvesting. Payment is generally made in kind (corn), a good indicator of the effect of the overvalued currency on even the most fundamental economic processes.

D. Selection of Beneficiaries

In Mozambique because the currency has in the past been vastly overvalued, market mechanisms are distorted, scarcities of all types exist, and the possession of purchasing power may be more an indication of acquired rights and privileges than of economic efficiency. In such an environment, the efficient allocation of capital resources based upon a free market pricing system has not been practical. Thus, the system of administrative allocation of capital equipment and other CIP commodities, as administered by the GPRM, was necessitated by the distortions in the market allocation mechanism and the resultant scarcity of inputs available to private sector agriculture. This system of allocation was based on criteria which identified the private sector producers in the target areas who could make the best use of capital equipment and other inputs to increase agricultural production. Additional factors considered were willingness to help out nearby small farmers by providing custom plowing and other tractor services and by lending them expertise. Producer beneficiaries were identified through their annual production plans as submitted to the regional agricultural offices. Both the PSR II and PSR III evaluations verified that CIP inputs and machinery did reach the appropriate beneficiaries in the target areas.

The issues of pricing and the allocation of CIP-financed commodities have been closely linked in the selection of beneficiaries. Economic reality dictates that the higher the price the more likely the item will be used efficiently. Alternatively, lower prices encourage wasteful uses. In an economy where prices are determined in the market in response to supply and demand factors, prices should reflect the true economic value of the resources. Therefore, those who can afford a resource are the ones who will make the most efficient use of that resource.

The prices of capital equipment under CIP II and III were augmented by a variable surcharge to offset some of the effects of a vastly overvalued currency. The application of the surcharge raised the prices of the scarce CIP resources, although modestly, and placed the allocation of equipment closer to its true economic value. Those who could not afford the equipment at the higher prices were not considered to be qualified purchasers. This quasi market situation reduced the pool of potential purchasers (beneficiaries) in the GPRM allocation system.

During 1987, the GPRM devalued the metical from 38 to 400 per dollar (953 percent). Since the last devaluation in early July, the parallel market value of the metical fell from 1000 per dollar to between 800 and 900 per dollar. This devaluation of the metical represents significant progress toward bringing prices closer to true economic value. In fact for most FY 1988 CIP-financed commodities, when all tariffs, taxes and fees are added to the CIF cost of commodities, the price to the beneficiary approaches the international price converted at the parallel rate.

E. Women's Participation

The PAAD team investigated past involvement of women farmers in the PSR program, the potential to increase their participation in Phase V, and the extent to which women are benefitting from the program overall.

Because of the program's focus on larger commercial producers, who are male, women do not have direct access to the more expensive equipment provided by the program, such as tractors and trucks. However, in Xai-Xai district, much of the land being assisted by the PSR program is farmed by smallholders, some of whom are women (whether women in fact hold title to the land could not be determined by the PAAD team). These women have received seeds, tools, and fertilizer through the project, and it is expected that they will again participate in this year's phase.

The indirect benefits of the project to women are clear:

-- As day laborers for commercial farmers, employment of women has increased as a result of the PSR program, because more land is under production and yields are up.

-- Women's income, mainly in the form of in-kind payment (corn) has increased since the opening of the program.

-- Women have acquired new farming skills, as modern inputs have been introduced to PSR-assisted areas.

-- Nutritional benefits to the family have risen, thanks to increased vegetable production and a more assured supply of corn.

The PAAD team was unable to gather data on possible negative effects of the program on women -- e.g, increased time away from home and family, increased physical burden, because of augmented requirements in the fields. Assuming the PSR program is extended in FY1989, the issue of women's participation in and benefit from the PSR program will be highlighted as a subject for exploration by next year's design effort.

F. Proposed Commodities

The most serious problem for private farmers since independence has been that few, if any, production resources, such as equipment, spare parts, seeds and fertilizer, have been available. Much of the agricultural equipment and many of the trucks (to transport produce) in the private sector were purchased prior to independence and are out of service or, because of lack of maintenance, at the end of their effective life span. Additionally, there were shortages of basic tools and seeds for all private farmers.

Similarly, private agriculture-related industries (food processing and agricultural input production) are operating at fractions of their installed capacity because of lack of imported raw materials, shortages of spare parts and loss of both skilled workers and professional management.

The overall demand for agricultural equipment and inputs, especially by private farmers eager to capitalize on the higher prices of vegetables and to use the land ceded to them, still far exceeds supply. The AID program is one of the few sources of agricultural inputs and equipment for private sector farmers in the targeted regions. The commodities imported under the FY 1984, FY 1985, FY 1986 and FY 1987 programs are making a difference, but will fall far short of meeting the needs even within the specific target areas.

Based on the previous CIPs' experience, the overall commodity list for the PSR V program, Table III-1, concentrates on providing agricultural inputs, including seeds, fertilizers, tractors and implements, irrigation pumps, and farm-to-market transport, and other supplies needed by the private farmers The program again will finance fuel for CIP-purchased equipment and for private transporters of agricultural produce. Spare parts for agricultural equipment and trucks will be imported to maintain the equipment financed by CIP I, II, III, and IV. The CIP continues to provide funds for raw materials for local manufacture to increase the value-added element of the imports. Also, systemic constraints to increasing agricultural production, such as transport, are being addressed through the mix of commodities and by targeting the ultimate end-users.

Officials from the Ministry of Agriculture (MOA) developed a commodity list for the FY 1988 PSR based on reported requirements from the three target provinces and on the mix of commodities from the previous CIPs. MOA officials and the PAAD design team jointly modified the original list and included a distribution plan, on both technical and programmatic grounds.

Private sector importers and distributors and, where possible, transporters will be utilized in the FY 1988 program. The OAR/Maputo will require the use of private sector firms for the importation of commodities as a first course of action, when firms which have established capacity to import, as well as to distribute and maintain, can be identified. In the target areas where private traders exist, they will handle local distribution and sale of items such as seeds and roof sheeting. In areas where traders do not operate and are unwilling to initiate operations, and for larger items, government institutions -- such as the MOA itself -- will continue to be used for the distribution and sale of commodities.

Table III-1

MOZAMBIQUE (1988)
Agricultural Sector Commodity Imports under PSR V

COMMODITY	ALLOTMENT	UNIT VALUE	DISTRIBUTION Total	ZV	Maputo	Xai-Xai	Chokwe	Manica
Tractors	1,392,500							
65 HP (4 x 2)		$9,500	133		30	23	20	60
90 HP (4 x 4)		$10,750	12			12		
Implements	$274,500							
Disc Ploughs		$700	145		30	35	20	60
Disc Harrows		$500	145		30	35	20	60
Other Implements		$100,000	1			0.25	0.125	0.625
Transport Equipment	$1,850,000							
8 Ton Trucks		$22,750	25	2	10		6	7
3 Ton Trucks		$13,125	90	15	10	20	10	35
Bicycles		$50	2000	500	500		500	500
Irrigation Equipment	$1,115,000							
Motorpumps - 195/55		$11,000	65		15			50
Motorpumps - 440/20		$12,000	10				10	
Motorpumps - 600/20		$14,000	20					20
Tractor Spare Parts								
Massey Ferguson	$300,000							
Ford	$300,000							
Caterpillar	$500,000							
Yanmar	$10,000							
Truck Spare Parts								
Mercedes	$20,000							
Isuzu	$40,000							
Toyota	$30,000							
Mitsubishi	$50,000							

Table III-1 -- Continued

MOZAMBIQUE (1988)
Agricultural Sector Commodity Imports under PSR V

COMMODITY	ALLOTMENT	UNIT VALUE	DISTRIBUTION					
			Total	ZV	Maputo	Xai-Xai	Chokwe	Manica
Implement Spare Parts								
Baldan	$13,000							
Yanmar	$2,000							
Fertilizers (ton)	$1,979,500							
NPK		$350	2150	100	500	440	610	500
Urea		$280	3670	170	600	1000	1400	500
Ammonium Sulfate		$240	780	80	400			300
Potassium Sulfate		$230	70	70				
Seeds (ton)	$1,693,000							
Potatoes		$320	1150	150	300	200	200	300
Garlic		$3,000	130	20	30	20	20	40
Peanuts		$,000	270	50	60	60	50	50
Butter Beans		$1,000	130	20	30	20	30	30
Maize R-200		$500	250	50	50	50	50	50
Vegetable Seeds		$350,000	1	1				
Petroleum	$1,300,000							
Diesel		$1,189,500	1					
Lubricants		$110,500	1					
Raw Materials	$2,630,000							
Nylon for Tires		$1,000,000	1					
Zinc Sheets		$500,000	1					
Natural Rubber		$200,000	1					
Irrigation Pipes		$200,000	1					
Hose - PVC		$80,000	1					
Mesh and Wire		$200,000	1					
Batteries		$150,000	1					
Tract-Trailer 3 ton		$300,000	1					
Cap Equip & Spares	$1,400,000							
Plastic Boxes	$80,000							
Scales	$21,000	$120	175	175				
TOTAL	$15,000,000							

The GPRM has requested that AID supply the commodities in time for the start of the September/October planting season. Since the planned obligation of the FY 1988 CIP is January/February 1988, most of the items should arrive in time since many items to be procured are the same as for the FY 1987 CIP.

The following is an illustrative breakdown by type of commodity and the proposed budget. All commodities will be distributed to private farmers in the target regions. Also, a proposed allocation for the manufacture of agriculture-related supplies is provided.

1. Basic agricultural inputs and small equipment, including seeds, fertilizers, and scales ($3,633,550);

2. Heavy farm equipment, including tractors and implements ($1,666,500);

3. Transport equipment, including trucks ($1,750,000) and bicycles ($100,000);

4. Diesel and lubricants ($1,300,000) primarily for owners of AID-financed equipment, then for farmers with equipment in the CIP target areas, and lastly for private sector transporters of agricultural produce working in the target areas;

5. Spare parts for tractors, trucks, and pumps ($1,265,000) to maintain the equipment which has been imported under the previous CIPs, and to provide private sector dealers enough spare parts to repair existing tractors and small trucks owned by private farmers.

   (An estimated 90 percent of the privately owned tractors are made by either Ford or Massey Ferguson. Based on interviews with farmers and the local Ford, Massey Ferguson and Caterpillar dealers, private farmers are increasingly aware of the availability of the AID-financed spare parts and are repairing some of the old tractors. However, the farmers themselves continue to use the market (cost of repairing the tractor) to determine if they should repair or discard their old tractors. Since few Caterpillar tractors are currently being imported, it is imperative that adequate spare parts are available to the private farmers for the repair of the older tractors.)

6. Irrigation equipment ($1,115,000). PSR V will finance low pressure pumps of 8 inches for the Chokwe area and 12 inches for Manica Province only. In addition high pressure pumps will be financed for Maputo and Manica Provinces.

7. Raw materials for the local manufacture of agriculture-related supplies such as irrigation pipes, 3 ton tractor-trailers, truck and tractor batteries, tires, rubber boots, meshing, and corrugated roofing sheets ($2,630,000).

   Some $480,000 will be expended for raw materials for the production of irrigation pipes, hoses and rubber boots by the private firm of F brica Continental de Borracha, SARL (FACOBOL). $240,000 worth of raw materials was imported by FACOBOL under the FY 1987 program. The plant is fully operational and the raw materials under the FY 1988 program will assist the plant to continue to manufacture the vitally needed supplies.

   A private battery manufacturer, TUDOR, will import $150,000 of raw materials, rubber, lead ingots and separators (a PVC material), to manufacture truck and tractor batteries. This is the same level of support provided under PSR IV. The firm will sell the batteries through its normal distribution channel, but only to private sector farmers in the three target regions.

   The FY 1988 CIP will include $500,000 for the importation of galvanized zinc sheets for a private company, IMA, to manufacture corrugated roofing which is not available in the rural areas. IMA received $500,000 of commodity inputs under the FY 1987 program.

   MABOR, the local General Tire affiliate in Mozambique, will receive $1,000,000 to import raw material for tire manufacture. General Tire continues to provide an advisory team to assist in plant operation. MABOR has good management and equipment but lacks raw materials. MABOR received $500,000 under FY 1987 program.

   Mesh and wire in the amount of $200,000 will be provided under the CIP to Empresa Metalurgica do Moçambique (EMM), a private enterprise, to manufacture fence meshing. EMM received $150,000 under CIP IV.

8. Containers for storage and transport of vegetables. ($80,000). There is a critical shortage of these low-cost containers, and estimates are that transport losses of up to 50 percent occur with vegetables when transported without containers. Local private firms are not able to manufacture appropriate containers because they do not have the necessary molds. We will encorage an application from a private plastics manufacturing firm to buy the necessary molds from the allocation in paragraph below.

9. The FY 1988 CIP will include $1,400,000 for the importation of capital equipment and spare parts for existing equipment in the light industrial sector. During the PSR III evaluation, the team visited several of the manufacturers receiving CIP-financed raw materials and noted that the age of most of the equipment was at least 15 to 20 years old. Although much of the equipment is operable, some is in poor condition due to lack of spare parts and other pieces of equipment are of out-dated technology that isn't adaptable for the use of modern raw materials for the production of high quality products.

As in the FY 1984, FY 1985, FY 1986 and FY 1987 CIPs, the specifications for the commodities are suitable for the changing conditions and technology in Mozambique.

G. Program and Policy Issues

1. Policy Dialogue

The policy dialogue associated with the previous phases of the PSR CIP has neither taken the explicit form of requiring policy changes prior to disbursement of funds, nor has it incorporated covenants requiring studies in key policy areas. The PSR CIP program, however, can be viewed as a demonstration that the private sector is both a capable and an efficient producer and distributor of goods. The provision of agricultural inputs to private sector farmers, as well as selected price liberalization, has provided the means to demonstrate that private producers respond when provided with required inputs and at least a moderately favorable level of economic incentives.

In terms of importation and distribution, the PSR CIP has progressively increased the percentage of resources being both imported and distributed through the private sector as shown in the table below. Given the predominance of parastatal operations and the general mistrust of the private sector in Mozambique when the PSR CIP was initiated in 1984, the increasing trend on the utilization of the private sector for importation and distribution is a major and significant accomplishment of the program. This trend is continued in the proposed program.

Table III-2
PSR CIP Use of Private Sector Importers and Distributors
For Phases I, II and III

	Importers			Distributors		
Phase	Parastatal	Semi-Private	Private	Parastatal	Semi-Private	Private
		(US Dollars, Millions)				
I	4.83	0.00	1.12	3.68	0.41	1.86
II	9.35	0.00	2.65	5.43	0.69	5.88
III	4.16	0.77	4.32	3.36	0.77	5.12
IV	2.80	2.42	4.51	0.50	4.22	5.01
Va	2.10	0.30	12.60	1.40	0.30	13.30
Vb	4.00	2.20	8.80	3.30	2.20	9.50
		(Percentage Distribution)				
I	81.1%	0.0%	18.9%	61.9%	6.9%	31.2%
II	77.9%	0.0%	22.1%	45.3%	5.7%	49.0%
III	45.0%	8.3%	46.7%	36.3%	8.3%	55.4%
IV	28.8%	24.9%	46.3%	5.1%	43.4%	51.5%
Va	14.0%	2.0%	84.0%	9.3%	2.0%	88.7%
Vb	26.7%	14.7%	58.6%	22.0%	14.7%	63.3%

Three categories of importers and distributors are distinguished in the above table: Parastatal (firms owned and operated by the GPRM), Semi-Private (Intervened firms, i.e., firms owned by private individuals or companies prior to independence, but which were abandoned at independence and are currently run by GPRM appointed managers), and Private. While the Semi-Private category is considered private sector under Mozambican law, it is better thought of as parastatal. In addition, the figures for Phase II, III and V under the strictly private sector include an allocation of $1 million and $0.5 million for Phase IV to MABOR which is jointly owned by the Bank of Mozambique (62 percent), MABOR of Lisbon (32 percent), General Tires (4 percent), and miscellaneous other firms (4 percent). The two cases shown for the Phase V distribution show the maximum private sector involvement (Va) and the minimum private sector involvement (Vb) in the proposed program. The distribution that will actually result depends on the results of tendering for trucks and tractors, and on the results of GPRM/IBRD negotiations concerning the importation and marketing of fertilizer.

In addition to continuing the increasing participation of private sector importers and distributors for PSR-financed commodities, the proposed program will include covenants encouraging the GPRM to liberalize the granting of import licenses to potential private sector imports, and to privatize, to the extent possible, the importation of agricultural inputs. These are essentially "best efforts" convenants, but they will be useful for solemnizing GPRM stated intentions in these matters and will provide a place for starting subsequent discussions, should there be backsliding (there has been none to date).

No specific measures concerning macroeconomic policies are included due to the substantial and wide-ranging GPRM macroeconomic reform program being implemented with the support of the IMF and IBRD. This program is and will continue to address the major macroeconomic policies which are critical to the effective and efficient operation of the PSR CIP. GPRM performance on the macroeconomic reform program has been exemplary to date, and our fiddling at the margin would be counterproductive.

OAR/Maputo will begin examining agricultural and other policies in greater detail in order to identify what policies may significantly affect the impact of future programs as macroeconomic policy adjustments are implemented and previous distortions due to inappropriate policies are removed. We are programmed to do a wide-ranging analysi of the food and agriculture situation of Mozambique that would form the basis for a PL-480 Title II Section 206 agreement for FY1988 food donations.

Further, a covenant will be included that the GPRM and OAR/Mozambique will conduct a study of the budgetary and agricultural marketing implications of the system of urban consumer subsidies for maize, maize meal, rice, vegetable oil, sugar and soap. This study will provide the factual basis for OAR/Maputo to begin substantive discussions with the GPRM on budgetary and agricultural marketing policies in future programs

2. Utilization of Local Currency Generations

Local currency has been generated through earlier phases of the PSR CIP, as well as through various PL 480 programs. Other than the utilization of some funds for emergency relief activities and the OAR/Maputo Trust Funds, these funds have not been utilized. As a result, significant stocks of meticais have accumulated in the GPRM special accounts. OAR/Maputo is currently determining the status of current and past local currency generations, especially for the PL 480 programs.

Procedures for local currency utilization will be developed over the next few months and utilized for future programming of these funds in order to assure that appropriate monitoring and control of these funds are in place. OAR/Maputo's plans for such a system are as follows:

1. Establish general guidelines for the use of local currency to ensure that the various legislative requirements are satisfied. Timing: December 1987.

2. Establish a reporting process for the monitoring of the use of local currency after they have been programmed. Timing: General Principles, December 1987. Specific reporting requirements will be specified in each local currency programming agreement with the GPRM.

3. Develop and implement an internal control system for local currency with the assistance of the controller's office in USAID/Swaziland. Timing: January 1988.

4. Review of GPRM and MOA accounting and control procedures by the controller's office in USAID/Swaziland. This review should result in a determination that these systems are sufficient or recommend changes necessary for such a determination. Assuming changes are necessary, OAR/Maputo will provide technical assistance to strengthen the relevant GPRM systems. Timing: February 1988 - April 1988.

5. Negotiation of procedures for the joint OAR/Maputo-GPRM programming of local currency. Timing: January 1988.

One of the key concerns in the programming and utilization of local currency will be to insure that this programming supports, rather than hinders, the GPRM's efforts to comply with budgetary and monetary targets under the IMF Structural Adjustment Facility and IBRD rehabilitation programs. Another factor which must be considered in the utilization of local currency is the mission management requirements of alternative programming modes relative to mission staffing and time constraints.

Further analysis of possible uses of the local currency generations will be conducted to clarify the implications of various use options given the IMF and IBRD programs and OAR/Maputo's staffing and time constraints. Based upon a preliminary review of options for local currency programming and pending the determination that GPRM accounting and management systems are adequate, OAR/Maputo expects that local currency will be attributed to high priority areas in the GPRM's general agriculture budget.

For a detailed treatment of the local currency issue, see section V, Local Currency, below.

IV. IMPLEMENTATION OF THE COMMODITY IMPORT PROGRAM

A. List of Commodities

As in the previous PSR Programs, commodities financed by the program will directly support the production efforts of private sector farmers in the selected areas of Mozambique. The below detailed list, although subject to later adjustment, was arrived at after considerable research into the felt needs of private farmers in the field and has been agreed to by the Government of Mozambique agencies involved and OAR/Maputo.

COMMODITY	NO.	EST COST CIF	PROBABLE SOURCE/ORIGIN
FARM EQUIPMENT:			
65 HP TRACTORS	133	$1,263,500	AID CODE 941
90 HP TRACTORS	12	$129,000	AID CODE 941
TRACTOR SPARE PARTS		$1,110,000	AID CODE 941/899
DISC PLOWS	145	$101,500	AID CODE 941
DISC HARROWS	145	$72,000	AID CODE 941
OTHER IMPLEMENTS		$100,000	AID CODE 941
IMPLEMENT SPARE PARTS		$15,000	AID CODE 941
SCALES	175	$21,000	AID CODE 000
PLASTIC BOXES		$80,000	AID CODE 000
TRANSPORT EQUIPMENT:			
8 TON TRUCKS	25	$568,750	AID CODE 899
3 TON TRUCKS	90	$1,181,250	AID CODE 899
TRUCK SPARE PARTS		$140,000	AID CODE 899
IRRIGATION EQUIPMENT:			
IRRIGATION PUMPS AND SPARE PARTS	95	$1,115,000	AID CODE 000
FERTILIZER:			
NPK	2150 MT	$752,500	AID CODE 000
UREA	3670 MT	$1,027,600	AID CODE 000
AMMONIUM SULFATE	780 MT	$183,300	AID CODE 000
POTASIUM SULPHATE	70 MT	$16,100	AID CODE 000
SEED:			
POTATO	1150 MT	$368,000	AID CODE 899
GARLIC	130 MT	$390,000	AID CODE 899
PEANUTS	270 MT	$270,000	AID CODE 899
BUTTER BEANS	130 MT	$130,000	AID CODE 899
MAIZE R-200	250 MT	$125,000	AID CODE 899
VEGETABLE SEEDS		$350,000	AID CODE 000/899
FUEL/LUBRICANTS:			
DIESEL FUEL	6500 MT	$1,189,500	AID CODE 899
LUBRICANTS		$110,500	AID CODE 899
RAW MATERIALS:			
NYLON FOR TIRES		$1,000,000	AID CODE 000
ZINC SHEETS		$500,000	AID CODE 000
NATURAL RUBBER		$200,000	AID CODE 941
FOR 3-TON TRAILERS		$300,000	AID CODE 000
FOR BICYCLES		$100,000	AID CODE 000
MESH AND WIRE		$200,000	AID CODE 000
BATTERIES		$150,000	AID CODE 000
FOR IRRIGATION PIPE		$200,000	AID CODE 000
HOSE		$80,000	AID CODE 000
CAPITAL EQUIP AND SPARE PARTS		$1,400,000	AID CODE 000

B. Designation of Importers and Distributors

From independence to the inception of the PSR Program, only parastatal importers have been authorized to import many specific categories of commodities. Thus, during previous CIPs, OAR/Maputo has had to work with these designated public sector importers, such as Intermecano for tractors, trucks and agricultural equipment, Interquimica for fertilizers, and Boror for seeds.

With the implementation of each successive program, OAR/Maputo has been encouraging more extensive involvement of the private sector in the program for both the importation and distribution of the AID-financed commodity inputs. For example, during PSR III and IV, Intermecano, a public sector entity, acted as the "procurement unit" for the vehicles and agricultural equipment financed by AID by publishing tenders to establish the best prices for desired equipment imports. Once an award was made to a supplier for equipment financed by AID, if a private sector firm in Maputo was the dealer for the product, it then became the importer and distributor of the equipment. If there was no private sector firm representing the brand, then the traditional parastatal importer was designated as the importer and distributor for the AID-financed commodity.

An even more extensive use of private sector firms has been designed into this year's program. Vegetable seeds will no longer be imported and distributed by the designated public sector firm, Boror. OAR/Maputo, on the basis of proposals to be submitted by two private sector firms, Manuel Nunes and J. Ferreira Dos Santos, who will be licensed by the Ministry of Commerce to import and distribute vegetable seed in the target areas, will choose an importer and distributor of the vegetable seeds. Additionally, Intermecano, the parastatal procurement entity, has been eliminated entirely from the procurement process.

In the few cases where open competition is required or advisable, instead of tenders issued by Intermecano, OAR/Maputo CMO will publish/distribute Requests for Quotations. In the PSR V program it is hoped that fertilizer will be imported and distributed by a private sector entity rather than as in the past imported by a public sector firm, Interquimica, and distributed by another public sector entity, Boror. Privatization of the importation of fertilizer, however, is dependent on the results of ongoing negotiations between the World Bank and the GPRM. Even if the Bank and GPRM decicde that fertilizer imports are to remain exclusively in the public sector, OAR/Maputo will make every effort to negotiate with the Government privatization of the distribution of AID-financed fertilizer in the target zones.

The increasing use of private sector firms for the importation and distribution of commodities in the program should, over the long term, have the positive effect of reestablishing the commercial relationship between farmers and the dealers of agricultural equipment and inputs. Since state agencies have traditionally been at best slow to respond to the felt needs of farmers, the reestablishment of the ties between the private sector agribusiness community and the farmers should have a positive developmental impact on agriculture in Mozambique.

C. Methods of Procurement

Several different methods of procurement will be used to purchase commodities in the PSR V Program. Because significant cost savings have been realized by utilizing open competition and a tendering process for trucks and tractors, Request for Quotations (RFQs) will be issued which allow all the potential importers, both public and private sector to compete on an equal basis.

For trucks there are three potential private sector importers: Entreposto representing Mercedes, Tecnica Industrial representing Mitsibushi, and Toyota de Mocambique representing Toyota. In order to maximize competition, one public sector firm, Pendray Sousa representing Isuzu, will also be eligible to offer a quotation. Because service facilities for Valmet tractors exist in Maputo Province, in order to maximize competition, a public sector firm, Mecanagro, will be allowed to offer a quotation in competition with private sector entities for the supply of the tractors destined for use in Maputo Province. However, because repair facilities for Valmet tractors are presently nonexistent in Gaza and Manica provinces, only the two private sector tractor dealers, Entreposto representing Massey Ferguson, and Tecnica Industrial representing Ford, will be asked to submit quotations for the tractors to be used in Gaza and Manica.

Because the importers of the diesel fuel and lubricants and the potato and garlic seed are public sector firms, an RFQ issued on behalf of the GPRM will also be utilized to purchase these commodities. For these procurements OAR/Maputo, acting for the GPRM, will send the RFQs to various potential suppliers by telex. (OAR/Maputo has compiled a roster of potential suppliers from lists, developed by the designated Mozambican importers, of firms having conducted business in Mozambique in the past. This list is amended continually, as more firms send representatives to Mozambique to explore business opportunities.) Responses to the RFQs will be evaluated by a technical committee made up of representatives of the Ministry of Agriculture and the Ministry of Commerce, and concurred in by OAR/Maputo.

Formal competitive bid procedures in the United States will again be used for the fertilizer procurement. The final specifications, delivery schedule and marking requirements will be transmitted to AID/W, Office of Procurement, for advertisement to the fertilizer trade. AID/W, on behalf of and in conjunction with the Embassy of the People's Republic of Mozambique in Washington, will coordinate the distribution of the IFB, the receipt of bids, the bid opening, the evaluation and will obtain, through OAR/Maputo, concurrence of the award from the importer in Mozambique. This procedure has been followed for the past four CIPs.

In instances where requests for quotations are not required by AID Regulation 1, or where such highly structured procurement methods would not yield significant cost savings, more commercial procurement practices will be introduced into the program. For commodities such as vegetable seeds, scales, plastic boxes, raw materials and capital equipment and spare parts for agriculture support industries, a general advertisement will be placed in the AID-financed Export Opportunities Bulletin and the importers will follow informal negotiated procurement procedures.

Where importers are not the sole authorized representatives of eligible suppliers, the importer will obtain a reasonable number of offers from potential eligible suppliers and after choosing the best offer, will apply for an import license and an allocation of foreign exchange to the Ministry of Commerce. The Ministry of Commerce and the Ministry of Agriculture, with the concurrence of OAR/Maputo, will decide on the appropriateness and eligibility of the requested transaction for financing under the CIP in comparison/competition with other importer's requests.

Discussions have been held with most of the prospective importers and with the Ministry of Commerce on the mechanics for allocating the FX made available to these importers. Other importers, such as Entreposto representing Massey Ferguson, Tecnica Industrial representing Ford, and Intraco representing Caterpillar, are the exclusive dealers in Mozambique for their respective suppliers and therefore can import equipment without competition under the special supplier-importer relationship provisions of AID Regulation 1 section 201.23 paragraph e.

The list on the following two pages displays the commodities which will be financed under this year's program, the prospective importers of the commodities, and whether tenders run on behalf of the GPRM by OAR/Maputo or by AID/W or an allocation of FX to the importer will be used to purchase the commodity.

COMMODITY	PROSPECTIVE IMPORTERS	PUB.	PRI	METHOD
TRACTORS, TRACTOR				
SPARE PARTS, DISC	ENTREPOSTO		X	TENDER
PLOWS, DISC HARROWS,	TECNICA INDUSTRIAL		X	OAR/Maputo
OTHER IMPLEMENTS,	MECANAGRO	X		
IMPLEMENT SPARE PARTS				
SCALES	TECNICA INDUSTRIAL		X	ALLOC.
	DIONISIO DE ALMEIDA		X	
	MANUEL NUNES		X	

PLASTIC BOXES	FACOBOL		X	ALLOC.
TRUCKS	PENDRAY SOUSA	X		TENDER
	ENTREPOSTO		X	OAR/Maputo
	TECNICA INDUSTRIAL		X	
	TOYOTA DE MOCAMBIQUE		X	
IRRIGATION PUMPS	INTRACO		X	ALLOC.
FERTILIZER**	INTERQUIMICA	X		TENDER
	J. FERREIRA DOS SANTOS		X	AID/W
	MANUEL NUNES		X	
POTATO, GARLIC, MAIZE, PEANUTS, BEANS -- SEEDS	COMPANHIA DO BOROR (a private company)		X	TENDER OAR/Maputo
VEGETABLE SEED	J. FERREIRA DOS SANTOS		X	ALLOC.
	MANUEL NUNES		X	
DIESEL FUEL AND LUBRICANTS	PETROMOC	X		TENDER OAR/Maputo
NYLON FOR TIRES	MABOR	X		ALLOC.
ZINC SHEETS	IMA		X	ALLOC.
NATURAL RUBBER	FACOBOL		X	ALLOC.
MATERIALS FOR TRAILERS	MAQUINAG	X		ALLOC.
MESH AND WIRE	EMM		X	ALLOC.
BATTERIES	TUDOR		X	ALLOC.
FOR IRRIGATION PIPE AND HOSE	FACOBOL		X	ALLOC.
CAPITAL EQUIPMENT AND SPARE PARTS	VARIOUS		X	ALLOC.

**Whether private sector firms are to be permitted to import and distribute fertilizer is presently the subject of negotiation between the GPRM and the World Bank.

D. Applicable AID Regulations and Procurement Procedures

AID Regulation One is applicable to all transactions financed by the program. The OAR/Maputo has a stock of this publication in three languages: English for U.S., South African, Swazi and Zimbabwean suppliers; Spanish for Portuguese speakers; and the French edition which has been useful for certain European representatives. In addition, the USAID/Swaziland Controller's office supplies a copy of AID Regulation One (in English) with each issuance of a direct letter of commitment.

Special provisions and eligibility criteria for certain commodities, as contained in the AID Commodity Eligibility Listing, Appendix B of AID Handbook 15, will apply to fertilizer, seeds, and some designated raw materials. Specifically, fertilizer and bag specifications will have to conform to those contained in the appendix. In addition, a special certification will be required for all seed imports.

E. Port Clearance and Inland Transportation

With the exception of commodities destined for the Manica area, all ocean shipments will be off-loaded in Maputo, and then transported by truck or rail to the agricultural zones. Commodities destined for use in Manica, particularly fertilizer and seeds, will be offloaded at Beira and transported by rail or road to Manica. In addition, contracting for some commodities, such as bulk seeds, from neighboring countries, may include land transport from country of origin to the designated agricultural areas, either by truck or rail.

F. Commodity Arrival and Distribution

Port and customs clearances are the responsibility of the importer. Recent experience has shown that, because of the introduction of more documentation requirements by customs officials of the GPRM, this procedure now requires from one to four weeks. The CIP Monitor, upon receipt of shipping documents from the supplier will confirm the estimated delivery date, and alert the importer so that the documents required for customs clearance can be submitted in a timely manner.

In most cases, the importer is the distributor or end user of the commodity. In cases where the importer has no distribution network, the Ministry of Agriculture has negotiated with private sector distributors to transport the inputs to the agricultural zones. Inputs produced by the factories involved in the CIP are distributed to the agricultural zones utilizing their normal distribution channels.

Spare parts for agricultural equipment are imported and stocked by the dealer representative of each brand of equipment. The dealer is required to stock AID-financed spare parts separately from normal stock, and to maintain separate records on sales, by farmer's name and vehicle identification number. The district agricultural offices also maintain complete records of all farmers receiving high value items, such as trucks and tractors.

Diesel fuel is imported by the only entity authorized to do so, Petromoc, a parastatal. In the distribution plan, however, Petromoc, as well as British Petroleum, are distributing the fuel. Priority allocation, as jointly agreed upon by the MOA and the OAR/Maputo, has been given to farmers who have received AID-financed equipment, such as tractors, trucks, motorcultivators and irrigation pumps. Second priority is to farmers with equipment who are included in AID's target zones and target population. The third priority is made up of private sector transporters carrying produce to market from the target zones. Each farmer and/or transporter is issued a "credencial", with a stipulated monthly allocation, depending on the type of equipment being utilized.

G. Management and Monitoring of the Commodity Import Program.

The Commodity Management Office is headed by a U.S. direct hire Commodity Management Officer, who has been in Maputo since the inception of the bilateral AID program in October 1984. The CMO works closely with her counterparts in the Bank of Mozambique, and the Ministries of Commerce, Agriculture, Plan, International Cooperation and Finance.

The CMO is assisted by a CIP Monitor, a CIP End-Use Field Monitor and a secretary. The CIP Monitor oversees the importation, clearance, and distribution of the imports and is in constant communication with importers regarding the expected arrival of shipments and the arrangements for clearance and distribution of the commodities. In addition, the CIP Monitor makes periodic field visits to verify if adequate distribution has taken place, and that the commodities are being utilized by the intended target population.

Due to the GPRM's staffing constraints, the CIP Monitor covers the requirement normally assigned to the host country, tracking and reporting compliance with cargo preference requirements. This information is reported by the OAR/Maputo on a monthly basis in a computer report entitled "Shipping Schedule." Also to comply with cargo preference requirements, under the terms of the direct letters of commitment issued to suppliers, each supplier is to submit a copy of the bill of lading to AID/W, Office of Procurement, Transportation Division, which, in turn, submits periodic reports to Congress on worldwide Agency compliance.

The CIP monitor also makes a computer printout of all commodity actions and generates monthly reports for distribution to OAR/Maputo, USAID/Swaziland, REDSO/ESA and various offices in AID/W. Often, the monthly reports include newspaper articles, if there has been press coverage, with English translations.

The CIP End-Use Field Monitor, hired in 1986, has developed, in conjunction with the regional economist of USAID/Swaziland, an evaluation system to determine the impact of the CIP-financed agricultural inputs on crop production levels in the target zones. The field monitor travels extensively to determine first hand the extent to which AID-financed commodities are visible and properly utilized. The field monitor has developed computer based data banks to evaluate this information, and recommends to the OAR/Maputo staff possible changes in the commodity mix to improve production. Furthermore, he has developed a model to track trends in availability and the price of produce in the market.

The MOA and OAR/Maputo maintain complete records of capital equipment, such as tractors, trucks, irrigation pump sets and motorcultivators. The GPRM is responsible for ensuring that all procurement records are kept by the importers and distributors for a minimum period of three years, as required by the language of the Grant Agreement.

The documentation prepared and maintained by the CIP Monitors has been reviewed by Agricultural Development Officers and CMOs from AID/Washington and REDSO/ESA during the evaluations of the earlier phases of the program. All have found the documents to be well organized, complete and informative.

H. Financing

All importations under the program will be financed by AID direct letters of commitment issued by the controller USAID/Swaziland. Once a contract to be financed by the program or a foreign exchange allocation is approved by AID and the appropriate GPRM Ministries, OAR/Maputo prepares a "Concurrence of Award" letter for the Bank of Mozambique. The importer submits to the Bank of Mozambique an import license, approval of freight rate from MOCARGO, the GPRM's freight agent, and a letter advising the Bank of the local currency account to block for the local currency equivalent of the transaction. The Bank then indicates the Bank transaction number on AID's letter of concurrence, and returns a copy to OAR/Maputo. OAR/Maputo then cables to AID/W, to obtain the DRA (Disbursing Request Authorization), and to the Controller, USAID/Swaziland to request issuance of the direct letter of commitment.

I. DFA Procurement Plan

This section contains a procurement plan for this program, as required by the Special Procurement Policy Rules Governing the Development Fund for Africa, dated April 1, 1988 (the "Rules"). In accordance with Administrative Recommendation No.3 of the Rules, the authorized geographic code for the program is code 935. However, Administrative Recommendation No. 2 requires that the procurement plan assure procurement in the United States to the maximum extent practicable. Thus, the source/origin and nationality for procurement under the program will be the United States, except as indicated below, unless the A.I.D. Representative, with REDSO/ESA concurrence, approves changes to the plan.

Commodity	Code	Description	Value
1.	899	Tractors & Implements	$2,000,000
2.	899	Spare Parts for Equipment	$250,000
3.	899	Natural Rubber	$200,000
4.	899	Diesel Fuel & Lubricants	$1,300,000
5.	899	Seeds	$1,283,000
6.	899	8-Ton Trucks and Truck spare parts	$700,000
7.	899	3-Ton Trucks and spare parts	$1,290,000
Total Value of Non-U.S. Procurement:			$7,023,000

Past experience under the program has indicated the U.S. availability of the U.S.-designated commodities. This experience, as supported by the facts set forth in Annex B (Amplification of DFA Procurement Plan) demonstrates the need to procure the designated items from code 899.

As stated in Operational Recommendation No. 1 of the Rules, A.I.D.'s normal cargo preference requirements and procedures apply to this program as a matter of law. However, provided that cargo preference requirements are complied with, that Recommendation authorizes A.I.D. financing of delivery services on code 935 - flag ocean vessels. Additionally, on December 11, 1987, M/SER/OP approved a limited one-year source/origin waiver and determination of non-availability ("DNA") for commodities under the program shipped from non-U.S. points (attached). The subsequent approval of the DFA procurement rules supercedes this waiver as concerns authorization for A.I.D. financing of code 935 shipping. However, this waiver remains effective as a DNA for cargo preference requirements, within its scope (maximum 1000 M/T per shipment), for DFA-financed commodities.

In accordance with Operational Recommendation No. 2, air travel and transportation to and from the United States will be on U.S. certified carriers unless exceptions are made by the A.I.D. mission director. Marine insurance may be placed with code 935 firms provided that Mozambique does not discriminate against marine insurance companies authorized to do business in the United States.

V. LOCAL CURRENCY PROGRAMMING

The regional controller's office, USAID/Swaziland, has reviewed and evaluated the accounting and administrative systems currently in use by the Ministry of Finance and OAR/Maputo to manage the existing PSR program. The purpose of the review was to highlight weaknesses in the systems, as regards use of local currency generations, in order to establish stronger mechanisms of control to be incorporated in the FY88 PSR Grant Agreement.

The review naturally divided into two areas of concern: (1) control procedures for deposit of local currency, and (2) issues related to the proposed programming of local currency generations.

A. Control Procedures for Deposit of Local Currency

In the past problems have arisen regarding timely deposits of CIP-generated metacais into the special account and Trust Fund account, as required in the FY87 PSR Grant Agreement and Trust Fund Agreement. The difficulty stemmed from confusion about the timing of payments and the inadequacy of OAR/Maputo's tracking procedures. These problems have now been addressed and formal procedures established to identify delinquencies in payment.

Under new procedures, OAR/Maputo will issue an invoice to the MOF on a monthly basis requesting deposits into the special account and the Trust Fund account. The amounts billed represent the metical equivalent of the CIF value indicated on shipping documents received by the Bank of Mozambique during the current month and will be due within 30 days of receipt of these documents by the Bank, as stipulated in the Grant Agreement.

Amendments three and four of the bilateral Trust Fund Agreement govern the use of local currency for covering metical costs of operating the AID office in Mozambique. The Agreement states that 3 1/2 percent of local currency generations, as defined above, are to be deposited at the Banco Standard Totta de Mocambique in the name of the U.S. Disbursing Officer. Upon receipt of OAR/Maputo's bill the MOF prepares a check made payable to the Trust Fund account. OAR/Maputo's accountant deposits the check in the bank and USAID/Swaziland reconciles with USDO records monthly.

Deposits to the special account as outlined in prior years' PSR Grant Agreements, are made directly by the MOF to the account at the Banco Popular de Desenvolvimento. The MOF notifies OAR/Maputo of each deposit by mail. Separate accounts are maintained for deposits arising from each year's CIP. Bank statements are reconciled monthly to OAR/Maputo records.

The procedures outlined above ensure that adequate control is now maintained by OAR/Maputo over transfers of local currency into the special account and Trust Fund account. The status of local currency generated, received, and receivable is presented in the table below. Efforts are being made to collect past due amounts. If these payments are not made soon a condition precedent requiring resolution of all past due deposits may be included in the FY1988 PSR Grant Agreement.

Up to the present, the MOF has not been required to submit to OAR/Maputo an accounting of funds generated by the CIP. The forthcoming FY88 PSR Grant Agreement, however, will stipulate the following quarterly reporting requirements of the MOF:

1) Funds generated and received for each CIP
2) Funds transferred to the Trust Fund
3) Funds transferred to the Special Account
4) Funds programmed to general budgetary support once programming of funds begins

The accountant at OAR/Maputo currently tracks by shipment local currency generations, deposits to the special account and deposits to the Trust Fund. These records will be reconciled with the MOF reports on a quarterly basis in order to ensure consistency and accuracy in OAR/Maputo and MOF accounting of CIP-generated funds.

B. Programming of Local Currency

During FY88 OAR/Maputo, in collaboration with the GPRM, will begin programming local currency generations of the CIP (exclusive of the 7 percent deposit to the Trust Fund). Programmable funds are those funds deposited in the special account at the Banco Popular de Desenvolvimento.

1. Rationale for Budget Attribution

OAR/Maputo has determined that utilization of local currency generations to support the general development budget of a particular sector is appropriate in view of AID/W and Africa Bureau guidance on local currency programming and the present circumstances in Mozambique. OAR/Maputo considered the possibilities of projectizing local currency generations or allocating such funds to specific GPRM budgetary line items.

However, concerning project activities (and, depending upon ultimate end uses, specific line item allocations), any required field monitoring would pose security risks to the GPRM and AID personnel involved because of the present insurgency within Mozambique. Further, in general, OAR/Maputo believes that it lacks the substantial additional design, monitoring and evaluation capabilities which would be required, in accordance with AID policy, if local currency funds were divided among a variety of discrete activities and/or allocations.

Accordingly, OAR/Maputo intends to make local generations available for general development budget support, a use which will require OAR/Maputo to exercise management and oversight responsibilities which are within its expected capabilities. It is noteworthy that programming local currency funds in this manner is likely to support rather than hinder the GPRM's efforts to reach the monetary and budgetary targets which have been established under the current IBRD and IMF programs.

Since the FY1988 PSR program focuses on increased food production, the general development of the Ministry of Agriculture (MOA) is a prime candidate for attribution. Programming for this purpose would satisfy the requirement contained in the FY1988 Continuing Resolution (H.J. Res. 395) that local currency generated from FY1988 funds appropriated under the Sub-Saharan Africa account be used for development activities which are consistent with the policy directions of section 102 of the FAA. Further, it would be consistent with the legislative requirements that 50 percent of FY1984 and FY1985 generations be available to support activities consistent with the objectives of sections 103 through 106 of the FAA, and that 75 percent of FY1986 and FY1987 generations be used for the types of activities for which funds appropriated under sections 103 through 106 would be used.

OAR/Maputo is aware of new agency guidance on local currency programming stating that missions should refrain from jointly programming local currency for specified actions prohibited by legislation governing appropriated funds. Following from statutes applicable to FY1986 and 1987 appropriated funds, application of this policy would suggest that FY1986 generations would be used "in support of the private sector" and FY1987 generations would be used for the private sector "to the maximum extent feasible."

OAR/Maputo believes that in view of the unique circumstances surrounding the Mozambique local currency program, it is not appropriate to require that all FY1986 and FY1987 local currency generations be used for the private sector. If the use of the local currency funds attributed to the MOA's development budget were limited to the private sector, OAR/Maputo would be required, in accordance with State 327494, to take an active role in tracking the MOA's ultimate use of such funds, which would include monitoring the MOA's design and implementation of the private sector activities in question. OAR/Maputo does not have the staff resources necessary to perform these tasks on a continuing basis. Nonetheless, while it is inappropriate to require that all FY1986 and FY1987 local currency generations be used for the private sector, OAR/Maputo expects that a portion of the funds attributed to the MOA development budget will be utilized in ways which will produce benefits (whether direct or indirect) to the private sector.

OAR/Maputo has held preliminary discussions with the Bank of Mozambique, MOF, and MOA officials, and all indications are that they are in agreement with the principle of attribution to the MOA general development budget.

2. Management of Local Currency Programming

Prior to programming of funds, OAR/Maputo will ensure that certain conditions and requirements relating to management and monitoring of programmed funds are met. First, OAR/Maputo must be satisfied that the MOF's programming and budgeting system gives AID reasonable assurance that mutually agreed-upon objectives will be achieved. This will be accomplished by performing an assessment of the MOF's financial management/accounting and administrative procedures.

OAR/Maputo will contract for one or two accounting specialists to perform this assessment, make recommendations, and offer short-term technical assistance to the MOF to implement improved procedures. A Price Waterhouse Mozambique Local Currency Study dated June 1987 identified several problems related to CIP and PL480 management. Their recommendations will be reviewed and incorporated where appropriate.

Equally important is the capability of the implementing Ministry to achieve its overall sectoral goals. Assuming the GPRM agrees that agriculture is an appropriate sector for local currency support, the accounting TA described above will also perform a technical and administrative assessment of the Ministry of Agriculture.

OAR/Maputo will be responsible for monitoring compliance with mutually agreed-upon objectives. In the first phase of monitoring compliance, OAR/Maputo will require documentation from the MOF showing all allocations of funds to the agriculture sector. In the second phase OAR/Maputo will require quarterly reports from the MOF detailing funds generated from the CIP and funds programmed. Additionally the MOF will be required to submit quarterly reports detailing budgetary allocations to enable OAR/Maputo to assess compliance with agreed priorities. In the final phase of monitoring compliance OAR/Maputo will require semi-annual progress reports and quarterly sectoral budget allocation and expenditure reports from the MOA.

OAR/Maputo will supplement its existing records with information regarding the flow of funds from the special account to the MOF and allocations of funds from the MOF to the MOA. OAR/Maputo will reconcile this information with MOF records and records of the MOA on a quarterly basis.

Table V-1
PSR Local Currency History, Mozambique

	Special Account (000's meticais)	Trust Fund Account (000's meticais)
PSR 84		
LC Generated	254,200	5,084
LC Deposited	250,689	5,014
LC Receivable	3,511	70
PSR 85		
LC Generated	736,618	22,507
LC Deposited	661,281	22,863
LC Receivable	75,537	2,644
PSR 86		
LC Generated	914,603	32,011
LC Deposited	582,858	20,400
LC Receivable	331,745	11,611
PSR 87		
LC Generated	353,190	12,810
LC Deposited	-0-	-0-
LC Receivable	353,190	12,810

VI. SPECIAL CONSIDERATIONS

A. Twenty-five Percent Host Country Contribution

As PSR V will be DFA-funded, a host country contribution of 25 percent of total program costs is required, per FAA section 110. For the FY1988 program, budgetted at $15 million for AID's contribution, the required host country contribution comes to $5,401,404, or 2,430,631,800 MT, at MT450/$1.00.

The host country contribution has been calculated in terms of contributions of Mozambican farmers to the program, which are reflected in the prices farmers pay for commodities over and above the CIF prices for such items. These additional amounts represent charges paid to importers, wholesalers and retailers in consideration of their roles in making the imported commodities actually available to the farmers. These parties perform various services in connection with this process, including port clearance, storage, handling, dealer preparation, and inland transportation. Thus the additional amounts paid by farmers to such parties are necessary contributions of resources to the program.

Table VI-1 displays calculation of the 25 percent host country contribution. Column D, the unit sales price, is figured by taking the unit CIF price in meticais, Column C, and adding all charges paid for various services as described above. Column E is the farmer contribution by unit, or the unit sales price minus the unit CIF price. Column G represents the total farmer contribution for each type of commodity.

Table VI-1

Twenty-Five Percent Host Country Contribution

A ITEM	B CIF UNIT (US$)	C CIF UNIT (MT)	D (*) SALES UNIT (MT)	E DIFF. (D-C)	F No. UNITS	G SUB-TOTAL (MT) (F x E)
Tractors						
65 HP	9,500	4,275,000	5,814,000	1,539,000	133	204,687,000
90 Hp	10,730	4,837,500	6,579,000	1,741,500	12	20,898,000
		0	0	0		0
Implements		0	0	0		0
Disc Ploughs	700	315,000	428,400	113,400	145	16,443,000
Disc Harrows	500	225,000	306,000	81,000	145	11,745,000
Other Implements	100,000	45,000,000	61,200,000	16,200,000	1	16,200,000
		0	0	0		0
Transport Equipment		0	0	0		0
8 Ton Trucks	22,750	10,237,500	13,923,000	3,685,500	25	92,137,500
3 Ton Trucks	13,125	5,906,250	8,032,500	2,126,250	90	191,362,500
Bicycles	50	22,500	30,600	8,100	2000	16,200,000
		0	0	0		0
Irrigation Equipment		0	0	0		0
Motorpumps-195/55	11,000	4,950,000	6,732,000	1,782,000	65	115,830,000
Motorpumps-440/20	12,000	5,400,000	7,344,000	1,944,000	10	19,440,000
Motorpumps-600/20	14,000	6,300,000	8,568,000	2,268,000	20	45,360,000
		0	0	0		0
Tractor Spare Parts		0	0	0		0
Massey Ferguson	300,000	135,000,000	183,600,000	48,600,000	1	48,600,000
Ford	300,000	135,000,000	183,600,000	48,600,000	1	48,600,000
Caterpillar	500,000	225,000,000	306,000,000	81,000,000	1	81,000,000
Yanmar	10,000	4,500,000	6,120,000	1,620,000	1	1,620,000
		0	0	0		0
Truck Spare Parts		0	0	0		0
Mercedes	20,000	9,000,000	12,240,000	3,240,000	1	3,240,000
Isuzu	40,000	18,000,000	24,480,000	6,480,000	1	6,480,000
Toyota	30,000	13,500,000	18,360,000	4,860,000	1	4,860,000
Mitsubishi	50,000	22,500,000	30,600,000	8,100,000	1	8,100,000
		0	0	0		0
Implement Spare Parts		0	0	0		0
Baldan	13,000	5,850,000	7,956,000	2,106,000	1	2,106,000
Yanmar	2,000	900,000	1,224,000	324,000	1	324,000
		0	0	0		0
Fertilizers (Ton)		0	0	0		0
NPK	350	157,500	214,200	56,700	2150	121,905,000
Urea	280	126,000	171,360	45,360	3670	166,471,200
Ammonium Sulfate	240	108,000	146,880	38,880	780	30,326,400
Potassium Sulfate	230	103,500	140,760	37,260	70	2,608,200
		0	0	0		0
Seeds (Ton)		0	0	0		0
Potatoes	320	144,000	195,840	51,840	1150	59,616,000
Garlic	3,000	1,350,000	1,836,000	486,000	130	63,180,000
Peanuts	1,000	450,000	612,000	162,000	270	43,740,000
Butter Beans	1,000	450,000	612,000	162,000	130	21,060,000
Maize R-200	500	225,000	306,000	81,000	250	20,250,000
Vegetable Seeds	410,000	184,500,000	250,920,000	66,420,000	1	66,420,000
		0	0	0		0
Petroleum		0	0	0		0
Diesel	1,189,500	535,275,000	727,974,000	192,699,000	1	192,699,000
Lubricants	110,500	49,725,000	67,626,000	17,901,000	1	17,901,000
		0	0	0		0
Raw Materials		0	0	0		0
Nylon Tires	1,000,000	450,000,000	612,000,000	162,000,000	1	162,000,000
Zinc Sheets	500,000	225,000,000	306,000,000	81,000,000	1	81,000,000
Natural Rubber	200,000	90,000,000	122,400,000	32,400,000	1	32,400,000
Irrigation Pipes	200,000	90,000,000	122,400,000	32,400,000	1	32,400,000
Hose-PVC	80,000	36,000,000	48,960,000	12,960,000	1	12,960,000
Mesh and Wire	200,000	90,000,000	122,400,000	32,400,000	1	32,400,000
Batteries	150,000	67,500,000	91,800,000	24,300,000	1	24,300,000
Trac-Trailer	300,000	135,000,000	183,600,000	48,600,000	1	48,600,000
		0	0	0		0
Cap Equip & Spares	1,400,000	630,000,000	856,800,000	226,800,000	1	226,800,000
Plastic Boxes	80,000	36,000,000	48,960,000	12,960,000	1	12,960,000
Scales	120	54,000	73,440	19,440	175	3,402,000
		0				
				GRAND-TOTAL (MT)		2,430,631,800

D SALES(*)= 7.5%+3.5%+25%
(handling, storage, transport and 25% markup)

BEST AVAILABLE DOCUMENT

B. Comprehensive Anti-Apartheid Act of 1986

The Comprehensive Anti-Apartheid Act of 1986 (CAAA) was enacted in August 1986. Section 314 of the Act prohibits the U.S. Government or any of its agencies from entering "into a contract for the procurement of goods or services from parastatal organizations of [South Africa] except for items necessary for diplomatic and consular purposes." Although as a strictly legal matter AID operating expense and program procurements probably fall within the exception for "diplomatic and consular purposes", AID has determined, with certain exceptions, to apply the prohibition of Section 314 to AID-financed procurements. See 1986 State 48464.

Accordingly, AID-financed goods and services may not be procured from South Africa parastatals without the prior approval of AA/AFR. Rail and air transportation and port services from South African parastatals are exempt from the above policy requirement because there is no practical alternative at this time, or, in the case of air transportation, because of the potential volume involved.

It is not anticipated that any AID funds granted to the GPRM under PSR V will be used to procure goods or services from South African parastatals, with the possible exception of railway and air transportation and port services. Therefore, PSR V will be in full compliance with the CAAA and with AID policy with respect to procurement from South African parastatals.

VII. EVALUATIONS

Evaluations have been completed for the FY1984, 1985, and 1986 PSR CIPs. PSR IV, obligated in March 1987, is scheduled for evaluation in August 1988, or approximately 17 months after obligation.

The August 1988 evaluation will be an expanded, more thorough effort than in past years, assessing impacts from the inception of the PSR program in 1984, presenting a solid economic analysis for the program, and offering recommendations for longer-term program implementation over the next few years. In view of the relatively short history of the program, the difficulty of collecting accurate production data in the Mozambican environment, and the limited staff resources of the Maputo AID office, it would not have been appropriate to require this kind of in-depth examination any earlier. By next summer, however, the augmented OAR/Maputo staff should be able to document substantial implementation progress since the program's beginnings.

The evaluation is expected to track the unfolding and thus far successful process embodied by the PSR program -- a process that encompasses and profits from evolving GPRM policy reform initiatives and which is bringing tangible benefits to both program participants (private farmers) and urban consumers. Further, the evaluation will lay the groundwork for an expanded design initiative in fall 1988, which will lay out a multi-year program, instead of a yearly increment to the program, as has been the practice to date.

The economic analysis to be included in next year's evaluation will explore questions of equity amd efficiency, as regards selection of farmer beneficiaries. In particular, the evaluation team will examine the program's present emphasis on assistance to larger private farmers, with a view to determining whether this emphasis remains valid. A key factor to be looked at will be the potential for including more family farmers without sacrificing the impressive production outputs to date. The economic analysis will draw on OAR/Maputo-sponsored crop surveys which should be completed by summer 1988.

Overall performance under the PSR program since its inception will be a major focus of the 1988 evaluation, and in future will be the key determinant of authorization/obligation levels under the program. The evaluation scope should include a more precise examination of efficiency of commodity procurement/delivery, appropriateness of the commodity mix vis-a-vis end users, and the efficient use of commodities by farmers. Although the PSR program is not strictly an agricultural production activity, it may also be appropriate in future to include target production output figures as benchmarks of performance efficiency under the program. This will be an issue to be considered by the 1988 evaluation and design teams. In addition, the evaluation team will assess the extent to which the GPRM has complied with various covenants under the program, in particular those with policy reform components.

The evaluation for PSR V will be scheduled for August 1989, or about 18 months after initial obligation of FY1988 funds.

VIII. NEGOTIATING STATUS AND CONDITIONS

A. Negotiations

The Government, in a letter over the signature of Jacinto Veloso, Minister of Cooperation, fomally requested continuation of the CIP in 1988, and in this letter requested an increase to $20 million, addition of Manica province to the geographic target areas, as well as widening of the scope of the assistance to include private artesanal fishing, light industry, and rural commerce.

The AID Representative, in subsequent meetings with Veloso and with Minister of Agriculture, Joao Ferreira, indicated our willingness to study the request, including Manica. He also agreed to consider an increase in funding, if the U.S. budget overall and the Africa Bureau budget in particular would allow it, and if the proposed activities represented effective uses of scarce funds and were manageable. This message was repeated at a meeting of the GPRM interministerial committee for the CIP held with the PAAD design team on November 16, 1987, and is well understood by all. The meeting with the interministerial committee also indicated full agreement on the thrust of Phase V and on the commodities to be imported. The GPRM members indicated support for further privatization of importing and distributing of commodities with the caveat, especially with respect to fertilizers, that the AID CIP follow the agreement to be worked out between the GPRM and the World Bank regarding agricultural chemical importation arrangements. We think this is a logical point and we intend to agree once we are apprised of the results of their talks.

There are no known areas of disagreement or issues to be resolved with the GPRM in the program proposed herein.

B. Conditions Precedents and Covenants

The standard conditions precedents and covenants will be included in the Grant Agreement. The new Trust Fund Agreement will be executed simultaneously with the Grant Agreement and thus need not be formalized as a condition.

Given the importance of developing procedures for effective local currency programming, OAR/Maputo plans to include the following condition precedent to initial disbursement, requiring evidence that: the Grantee and AID have entered into a written agreement on procedures for allocation, disbursement and use of local currencies generated under USAID-financed assistance programs in Mozambique.

The following possible covenants have been suggested in the design process and will be refined in final negotiations with the Grantee following authorization:

1. End Use Covenant. The Grantee covenants that the commodities imported under this Agreement will be sold or otherwise distributed to the Mozambique private farming sector, including both commercial and small farmers as well as cooperatives, or will be sold to private sector agriculture related concerns including transporters. The Grantee further covenants that it will leave the private farming sector free to decide which crops to plant, when to plant, and when and how to market its production.

2. Importers and Distributors. The Grantee covenants that it will allow and encourage private sector firms to import and distribute the commodities financed under this Agreement except as AID may otherwise agree in writing. The Grantee further covenants that it will actively seek to privatize (in total or in part) intervened firms and parastatals so as to increase private sector competetion in the importation, distribution, service, and maintenance of the types of commodities financed under this agreement. The Grantee will provide an initial report to AID describing its strategy for carrying out this undertaking within three months from the date of this Agreement, and will provide AID with a strategy update and report on progress to date at quarterly intervals thereafter.

3. <u>Agricultural Commodity Pricing</u>. The Grantee covenants that it will carefully examine and quantify the budgetary and marketing impacts of the urban consumer subsidies on maize and maize meal, rice, wheat, sugar, vegetable oil, and soap. Within three months of the date of this Agreement, the Grantee will: provide AID with a report of this work; discuss with AID the report's implications for future AID programming of imported commodity assistance for the private farming sector as well as for food donations; and provide a written time-phased program showing how domestic producer and economic prices could be brought more into line with international prices at a rate which takes into account social as well as economic considerations.

#3686L

MOZAMBIQUE

FY 1988 PRIVATE SECTOR REHABILITATION V

656-0201D

ANNEXES

ACTION: AID-2 INFO: AMB DCM ....RETRANSMISSION PER AID REQUEST...

VZCZCT00926
PP RUEHTO
DE RUEHC #5365/01 3090554
ZNR UUUUU ZZH
P 050549Z NOV 87
FM SECSTATE WASHDC
TO RUEHTO/AMEMBASSY MAPUTO PRIORITY 5875
INFO RUEHMB/AMEMBASSY MBABANE PRIORITY 2103
RUEHLS/AMEMBASSY LUSAKA 5808
RUEHNR/AMEMBASSY NAIROBI 2403
BT
UNCLAS SECTION 01 OF 03 STATE 345365

ANNEX A

LOC: 062
09 NOV 87
CN: 09240
CHRG: AID
DIST: AID

NOV -9 1987

AIDAC

E.O. 12356: N/A
SUBJECT: DESIGN OF FY88 MOZAMBIQUE PRIVATE SECTOR REHABILTATION IV PROGRAM (FY1986 CIP 656-K-601D)

MBABANE FOR MARTELLA AND KEENE, LUSAKA FOR BARBER, NAIROBI FOR REDSO/ESA, STADER

A) MAPUTO 04215 B) MAPUTO 04133

1. PROJECT COMMITTEE (PC) MET 10/23/87 TO REVIEW THE EVALUATION OF THE PRIVATE SECTOR REHABILITATION III PROGRAM AND TO DEVELOP GUIDANCE FOR DESIGN OF THE PHASE IV PROGRAM. THE EVALUATION WAS REVIEWED IN LIEU OF A PAIP FOR DESIGN OF FY1988 CIP. MEETING WAS ATTENDED BY REPRESENTATIVES FROM THE DESK, PD, DP, SER/OP/COMS, TR/ARD, AND GC/AFR. THIS MESSAGE HIGHLIGHTS KEY ISSUES DISCUSSED AND PROVIDES GUIDANCE FOR DESIGN TEAM SCHEDULED TO BEGIN WORK ON PAAD IN NOVEMBER. REGRETTABLY, REF A DID NOT ARRIVE IN TIME FOR MEETING, BUT AID REP VIEWS RELAYED BY PHONE TO AFR/SA WERE MADE KNOWN TO MEETING PARTICIPANTS AND ARE REFLECTED IN THIS MESSAGE.

2. USE OF PRIVATE SECTOR FIRMS. EVALUATION POINTED OUT THAT THERE IS STILL SUBSTANTIAL PUBLIC SECTOR INVOLVEMENT IN IMPLEMENTATION OF CIP PROGRAM AND URGED MORE INVOLVEMENT OF PRIVATE FIRMS. PC AGREED THAT MORE PRIVATE SECTOR PARTICIPATION IS DESIRABLE, BUT QUERIED WHETHER THERE ARE ADDITIONAL PRIVATE FIRMS, BEYOND THOSE ALREADY INVOLVED, WHICH COULD BE BROUGHT INTO THE PROGRAM. IN THIS CONNECTION, PC REQUESTED THAT PAAD INCLUDE HISTORICAL DISCUSSION OF WHY PARTICULAR PARASTATALS WERE CHOSEN IN THE PAST TO PARTICIPATE, INSTEAD OF PRIVATE ENTERPRISES. WHAT HAS BEEN THE COMPARATIVE TRACK RECORD?

THIS RAISED QUESTION OF HOW FIRMS/PARASTATALS ARE SELECTED FOR PARTICIPATION AND HOW ALLOCATIONS OF COMMODITIES ARE MADE. PC RECOMMENDED THAT CRITERIA FOR SELECTION BE FORMULATED.

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BEST AVAILABLE DOCUMENT

IN RELATED ISSUE, PC DISCUSSED EVALUATION ~~RECOMMENDATION~~ THAT MISSION UNDERTAKE TO COMPLETE PROCUREMENT PREVIOUSLY CARRIED OUT BY PARASTATALS. GC/AFR POINTED OUT THAT MISSION CANNOT BE SEEN AS A CONTRACTING PARTY OR TAKE ACTIONS THAT WOULD SUBJECT AID TO LIABILITIES OF A CONTRACTING PARTY, IN VIEW OF HOST COUNTRY CONTRACTING NATURE OF CIP PROGRAMMING MODE. ALSO, WE FEAR THAT INCREASED MISSION STAFF INVOLVEMENT IN PROCUREMENT COULD JEOPARDIZE PRESENT EXCELLENT MANAGEMENT BY MISSION OF CIP ACTIVITIES.

3. COMMODITY MIX. EVALUATION NOTED CERTAIN PROBLEMS REGARDING THE SELECTION OF THE BEST COMMODITY MIX -- E.G., INAPPROPRIATE SEEDS, TRUCKS THAT WERE TOO SMALL, ETC. THE DP REPRESENTATIVE, WHO HAD PARTICIPATED IN THE PREVIOUS PAAD DESIGN, CONFIRMED THAT THE MISSION EXERCISES CAREFUL AND EXTENSIVE OVERSIGHT OF PROCUREMENT AND DISTRIBUTION PROCESS, AND THAT THESE PROBLEMS MAY BE BEYOND MISSION'S CAPACITY TO CONTROL. PC RECOMMENDED THAT PAAD TEAM EXAMINE PRACTICABILITY OF PUTTING IN PLACE A FORMAL INVENTORY CONTROL SYSTEM FOR PARTICIPATING DISTRIBUTORS, AS ONE POSSIBLE WAY OF DEALING WITH THE PROBLEM.

4. LOCAL CURRENCY PROGRAMMING. THIS ISSUE MUST BE REVIEWED IN CONTEXT OF AN OVERALL LOCAL CURRENCY PROGRAMMING STRATEGY COVERING PL480-GENERATED FUNDS AS WELL AS CIP-GENERATED FUNDS, WHICH IS NOW BEING DEVELOPED. THERE WAS A CONSENSUS THAT THE PAAD TEAM SHOULD PROCEED WITH EXAMINING IMPLEMENTABLE OPTIONS FOR PROGRAMMING LOCAL CURRENCY UNDER THE CIP, DESPITE THE FACT THAT THE FOOD SECTOR AND PRIVATE SECTOR STUDIES, BOTH OF WHICH WILL INCLUDE DISCUSSION OF LOCAL CURRENCY ISSUE, WILL NOT BEGIN UNTIL JANUARY 1988.

PC AGREES WITH MISSION THAT STERILIZATION OF LOCAL CURRENCY IS NOT NECESSARILY THE BEST OPTION AT THIS TIME, ESPECIALLY IN VIEW OF LIKELY CONTINUED DEVALUATION OF THE METICAL. SUGGEST PAAD TEAM SERIOUSLY CONSIDER ATTRIBUTION OF COUNTERPART FUNDS TO GPRM BUDGET, EITHER DIRECTLY OR TO NON-GOVERNMENTAL ACTIVITIES. SMALL FARMER CREDIT SCHEME PROPOSED BY AID REP IS ONE POSSIBILITY, ALTHOUGH DP REPRESENTATIVE HAD RESERVATIONS ABOUT THIS OPTION, GIVEN PAUCITY OF COMMODITIES WHICH COULD BE PROCURED WITH LOCAL CURRENCY, WERE CREDIT AVAILABLE. OTHER OPTIONS INCLUDE PROGRAMMING LOCAL CURRENCY THROUGH U.S. PVOS ALREADY IN COUNTRY.

FINALLY, PAAD TEAM SHOULD LOOK AT INCIDENCE OF LOCAL

CURRENCY ARREARAGES FOR FIRMS AND PARASTATALS CURRENTLY PARTICIPATING IN CIP PROGRAM. IN FUTURE, SHOULD FIRMS IN ARREARS BE PROHIBITED FROM NEW CIP INVOLVEMENT? SHOULD THEY BE PENALIZED IN SOME WAY? ALSO, PAAD TEAM SHOULD EXAMINE ACCOUNTING SYSTEMS PRESENTLY IN PLACE FOR MONITORING DELINQUENT IMPORTERS, WITH A VIEW TO STRENGTHENING THESE SYSTEMS.

5. LOCAL CURRENCY: LEGAL GUIDANCE. IN RESPONSE TO QUESTION RAISED BY THE EVALUATION, GC/AFR STATED THAT AS A LEGAL MATTER STATUTORY REQUIREMENTS CONCERNING PROGRAMMING CERTAIN YEAR'S FUNDS FOR THE PRIVATE SECTOR APPLY ONLY TO APPROPRIATED FUNDS AND NOT TO LOCAL CURRENCY GENERATIONS AND THUS DO NOT AFFECT USE OF THE LC FOR DIRECT GOVERNMENT BUDGET SUPPORT.

HOWEVER, NEW AGENCY GUIDANCE ON LOCAL CURRENCY PROGRAMMING (STATE 327494, PARA. 2.40) STATES THAT MISSIONS SHOULD BE ALERT TO CONGRESSIONAL CONCERNS EXPRESSED IN THOSE PROVISIONS AND REFRAIN FROM JOINTLY PROGRAMMING LOCAL CURRENCY FOR SPECIFIED ACTIONS PROHIBITED BY LEGISLATION GOVERNING APPROPRIATED FUNDS. APPLICATION OF THIS POLICY WOULD SUGGEST THAT, FOLLOWING FROM STATUTES APPLICABLE TO PARTICULAR YEARS' APPROPRIATED FUNDS, FY86 GENERATIONS WOULD BE USED QUOTE IN SUPPORT OF THE PRIVATE SECTOR UNQUOTE, AND FY87 GENERATIONS WOULD BE USED FOR THE PRIVATE SECTOR QUOTE TO THE MAXIMUM EXTENT FEASIBLE UNQUOTE.

THERE ARE NO SIMILAR STATUTORY REQUIREMENTS APPLICABLE TO PRIOR YEAR FUNDS. IF THE PAAD RECOMMENDS USE OF LC

GENERATION FOR DIRECT GOVERNMENT BUDGET SUPPORT, IT SHOULD TAKE THE FORGOING INTO ACCOUNT. PAAD TEAM SHOULD ALSO BE ALERT TO THE VARIOUS STATUTORY REQUIREMENTS DIRECTLY APPLICABLE TO VARIOUS YEARS' GENERATIONS (FAA SECTION 531D AND 609; ISDCA OF 1985, SECTION 801). IN SUMMARY, ALL FY84-87 GENERATIONS SHOULD BE USED FOR PURPOSES FOR WHICH ESF FUNDS COULD BE USED, AND 75 PERCENT OF FY85 AND 86 GENERATIONS SHOULD BE USED FOR THE TYPE OF ACTIVITIES (INCLUDING ALLOCATION TO THE APPROPRIATE PORTION OF THE GOVERNMENT BUDGET) FOR WHICH SECTION 103-106 FUNDS COULD BE USED.

6. POLICY REFORM. THE EVALUATION STRONGLY RECOMMENDS AGAINST TYING CIP PROGRAM IMPLEMENTATION TO ACHIEVEMENT OF SPECIFIC POLICY REFORMS, MAINLY ON THE GROUNDS THAT THE AMOUNT OF FUNDING BEING PROVIDED IS TOO SMALL TO HAVE SIGNIFICANT IMPACT ON GPRM. PC WAS NOT IMPRESSED WITH THIS ARGUMENT AND AGREED THAT FURTHER EXAMINATION BY PAAD TEAM OF POSSIBLE AREAS FOR POLICY REFORM -- E.G., PRICE LIBERALIZATION, INCREASED PRIVATE SECTOR PARTICIPATION IN AG MARKETING/DISTRIBUTION -- IS NECESSARY.

INCORPORATION OF SELECTED PHASED POLICY ~~REFORM MEASURES~~ IN THE CIP MAY BE APPROPRIATE, ESPECIALLY IF FY1988 AND FUTURE YEAR FUNDING FOR THE CIP IS INCREASED OVER THE BASE PLANNING LEVEL OF DOLS 10 MILLION. ONE OPTION WOULD BE TO TRANCHE DOLLAR DISBURSEMENTS, TYING RELEASE OF FUNDING OVER DOLS 10 MILLION TO GPRM'S MEETING POLICY REFORM-RELATED CPS OR INCLUDING COVENANTS. IF THIS OPTION OR SOME VARIATION OF IT IS PURSUED, PAAD TEAM SHOULD INCLUDE DRAFT COVENANTS/CPS FOR POSSIBLE INCLUSION IN GRANT AGREEMENT.

THE PC AGREED FURTHER THAT POLICY REFORM MUST BE LOOKED AT OVER A MULTI-YEAR PERIOD. ANY POLICY CONDITION IN THE FY88 GRANT WILL PROBABLY BE EASY STEPS IN A MULTI-YEAR PROCESS AGREED TO BY BOTH PARTIES TO THE AGREEMENT. THE PAAD TEAM SHOULD, THEREFORE, RECOMMEND POLICY REFORM SCENARIOS FOR A THREE-FOUR YEAR PERIOD. AT A MINIMUM, PC CONCURRED WITH AID REP'S SUGGESTION THAT STUDIES ON POLICY REFORM OPTIONS BE FUNDED AND DISCUSSED WITH GPRM, WITH UNDERSTANDING THAT COVENANTS AND/OR CPS FLOWING FROM THESE STUDIES WOULD BE INCLUDED IN NEXT YEAR'S PROGRAM.

7. IMPLEMENTATION CONCERNS. SEVERAL IMPLEMENTATION CONCERNS, INCLUDING VALIDITY OF THE TENDERING SYSTEM;

SURCHARGE ISSUE; AND FEES CHARGED ON COMMODITIES AFTER CLEARING CUSTOMS, ARE HIGHLIGHTED IN THE EVALUATION. PAAD TEAM SHOULD EXPLORE THESE DURING DESIGN EFFORT.

8. GPRM REQUEST TO EXPAND CIP INTO MANICA PROVINCE AND INTO NEW ACTIVITIES (LIGHT INDUSTRY, COMMERCE, FISHERIES, ETC.). PC FOCUSED ON TWO SPECIFIC CONCERNS. FIRST, WHETHER OR NOT MANICA IS A SECURE LOCATION: SOME PC ATTENDEES SPECULATED THAT CIP-PROCURED EQUIPMENT/COMMODITIES WOULD INSTANTLY DISAPPEAR. STATE DEPARTMENT VIEWS WILL NEED TO BE FACTORED IN TO A DECISION ON THIS, IF INCREASED FUNDING BECOMES

AVAILABLE. THE PAAD TEAM SHOULD RECOMMEND WHETHER OR NOT THE CIP SHOULD BE EXPENDED INTO NEW PROVINCES, INCLUDING MANICA.

SECOND, ENLARGING SCOPE OF PROGRAM NEEDS TO BE CONSIDERED IN LIGHT OF: MISSION STAFFING IMPLICATIONS; AND ABILITY OF ZONES WHERE CIP PROGRAM ALREADY OPERATES TO ABSORB MORE COMMODITIES (IF DECISION WERE MADE TO INCREASE FUNDING BUT LIMIT PROGRAM TO CURRENT GEOGRAPHIC AREAS). PAAD TEAM SHOULD LOOK INTO THESE CONSIDERATIONS. NEW ACTIVITIES WOULD ALSO NEED TO BE WITHIN THE SCOPE OF THE PROGRAM PURPOSE AND APPLICABLE FUNDING ACCOUNT.

9. FAMILY FARMS VS. COMMERCIAL FARMS. EARLIER CIPS SET ASIDE CERTAIN PERCENTAGES OF COMMODITIES FOR FAMILY FARMS, FOR DEVELOPMENTAL PURPOSES. WHAT HAS BEEN THE EXPERIENCE OF THIS POLICY? SHOULD IT BE CONTINUED FOR THIS YEAR'S PROGRAM?

10. LEGISLATIVE CONCERNS. PC REVIEW AND PAAD TEAM'S JOB WERE AND ARE COMPLICATED BY FACT THAT TERMS OF LEGISLATION THAT WILL APPLY TO FY88 PROGRAM ARE NOT YET KNOWN, AND THE PAAD WILL NEED TO BE REVIEWED IN LIGHT OF THE LEGISLATION, WHEN ENACTED. PC ASSUMES THAT THE PROGRAM WILL BE FUNDED FROM AFRICA DEVELOPMENT FUND (ADF), IF ENACTED, OR ELSE WITH FUNDS FROM A DA ACCOUNT TO BE DESIGNATED (ARDN?), RATHER THAN WITH ESF FUNDS AS IN PRIOR YEARS. SEVERAL AREAS WHERE THIS MAY HAVE IMPLICATIONS ARE:

A. PROGRAM PURPOSE AS RELATED TO FUNDING ACCOUNT. THE PROGRAM WILL NEED TO BE JUSTIFIED ON GROUNDS ELIGIBLE UNDER THE APPLICABLE FUNDING ACCOUNT. BALANCE OF PAYMENTS IS A PERMISSIBLE JUSTIFICATION FOR ESF BUT NOT FOR DA FUNDS.

B. 25 PERCENT HOST COUNTRY CONTRIBUTION. EARLIER PROGRAMS WERE NOT SUBJECT TO THIS REQUIREMENT BECAUSE THEY WERE ESF-FUNDED. THE SECTION 110 25 PERCENT HC CONTRIBUTION REQUIREMENT APPLIES TO DA FUNDS AND WILL LIKELY APPLY TO ADF FUNDS. IT CANNOT BE WAIVED BY AA/AFR UNDER NORMAL PROCEDURES, BECAUSE MOZAMBIQUE IS NOT ON UN LIST OF RLDCS. GPRM-OWNED LOCAL CURRENCY GENERATIONS FROM EARLIER CIPS AND CERTAIN PL480 PROGRAMS CAN BE USED TO MEET THIS REQUIREMENT; THE PROGRAM PURPOSE AND ACTIVITIES WOULD NEED TO BE DEFINED BROADLY ENOUGH SO THAT LC ACTIVITIES FIT WITHIN THEIR SCOPE. MISSION SHOULD BEGIN THINKING ABOUT BEST WAY TO DEAL WITH THIS CONCERN. WE ARE PREPARED TO REQUEST A SPECIAL EXCEPTION FROM A/AID, IF GOOD CASE CAN BE MADE THAT EXEMPTION FROM THE REQUIREMENT IS APPROPRIATE. WE UNDERSTAND THAT MOZAMBIQUE HAS REQUESTED RLDC STATUS FROM THE UNITED NATIONS AND THAT IT MAY JUST BE A MATTER OF TIME BEFORE IT IS GRANTED.

C. MOZAMBIQUE-SPECIFIC LEGISLATION. ANY MOZAMBIQUE-SPECIFIC LEGISLATION WOULD APPLY. SECTION 813 OF THE ISDCA OF 1985 APPLIED BY ITS TERMS ONLY TO FY86 AND 87 FUNDS.

D. IF NON-ESF FUNDS ARE USED, REQUIREMENTS APPLICABLE ONLY TO ESF FUNDS, SUCH AS ZORINSKY AND TIED AID REQUIREMENTS IN FY87, WOULD NOT APPLY.

11. INTERMECANO. AS A TECHNICAL LEGAL MATTER, WAS INTERMECANO A PROCUREMENT SERVICES AGENT (PSA), AS STATED IN THE EVALUATION, OR RATHER AN IMPORTER? IF A PSA AND IF AID FUNDED ITS FEES, WERE THERE SOLE SOURCE AID PARASTATAL WAIVERS? IF A PURCHASER'S AGENT (INSTEAD OF IMPORTER), DID AID FUND FEES (COMMISSIONS) PAID TO IT BY COMMODITY SUPPLIERS SO AS TO TRIGGER REG 1, SECTION 201.65H? GC/AFR SUGGESTS PAAD TEAM LOOK INTO THESE QUESTIONS.

12. INITIAL ENVIRONMENTAL EXAMINATION. SHOULD BE PREPARED AND SUBMITTED TO BUREAU ENVIRONMENTAL OFFICER PRIOR TO PAAD SUBMISSION.

13. PER REF B, PAAD WILL BE REVIEWED IN AID/W IN MID-DECEMBER. SHULTZ
BT
#5365

NNNN

Annex B

AMPLIFICATION OF DFA PROCUREMENT PLAN

This annex contains additional information as to why various commodities financed under the program will not be procured from the United States.

1. Natural Rubber - $200,000
   Probable Source - Malaysia, Thailand or Ivory Coast
   Probable Origin - Malaysia or Thailand

As in the previous programs, allocations for the importation of raw materials have been made to indigenous factories which produce agricultural inputs that are needed by private family and commercial farmers in the target areas. One of these raw materials is natural rubber for the manufacture of rubber boots for which FACOBOL, a private sector firm, has received allocations during the previous three PSR Programs. The need in the target areas for the boots manufactured with rubber financed by AID under the previous CIPs has not been completely satisfied. In addition, boots usually have to be replaced every year. The United States does not produce natural rubber. All of the natural rubber used in the U.S. is imported from various sources. The major exporters of this commodity are Malaysia and Thailand. An acute shortage exists in the Unites States for this commodity which is generally available elsewhere.

2. Diesel Fuel and Lubricants - $1,300,000
   Probable Source - A.I.D. Geographic Code 899
   Probable Origin - A.I.D. Geographic Code 899

One AID-financed commodity critical to the achievement of program objectives has been the diesel fuel and engine lubricants which support agricultural production and the transportation of produce from farm to market. With Mozambique's critical foreign exchange shortage, fuel and lubricants are frequently not available on the local economy. The provision of these products under the PSR V Program will help to assure the continued operation of the capital equipment provided under previous and present AID commodity import programs and of other equipment owned by private farmers within the program's target areas.

The Ministry of Agriculture has agreed with AID on the priorities for the allocation of the fuel and lubricants financed under the program as: 1) private farmers in the target areas who have received AID-financed equipment such as tractors, trucks, motorcultivators, and irrigation pumps, 2) private farmers in the target areas who already have operable equipment not obtained under the PSR program; and, 3) private transporters carrying produce from the target areas to market. An acute shortage exists in the United States for this commodity, generally available elsewhere, since the United States is a net importer of petroleum products. (Approximately 40-55% of the raw materials to manufacture petroleum fuels/lubricants used in the U.S. are currently imported.) Additionally, because the usual commercial origin of petroleum products used in Southern Africa is the Persian Gulf, in order to obtain a favorable price, it is in the interest of the project to expand the authorized source/origin to include the free world countries (with the exception of Iran) in the Gulf area.

3. Agricultural Seed - $1,283,000
   Probable Source - South Africa, Western Europe
   Probable Origin - South Africa, Western Europe

One of the most crucial elements in this program is the provision of seeds to private family and commercial farmers located in the target areas. Experience gained during the implementation of previous commodity import programs indicates that certain varieties of these required seeds were not available from either the United States or other Code 941 sources due to different climatic and soil conditions and non-adaptability to the Mozambique environment. Accordingly, waivers were contained in the previous PSR Programs which permitted the procurement of certain seed varieties from AID Geographic Code 899 source/origin.

Special attention has been given to seed procurements for Mozambique by the donor community during the past few years in order to establish and obtain the best possible varieties with acceptable germination rates, suitable to local geographic and climatic conditions. Due to proximity with Southern Mozambique, the target zone for the Commodity Import Program, South Africa has been established as the only known source for several appropriate seed varieties, including potato, garlic, corn, groundnut, butter bean and a few varieties of vegetable seeds. Likewise, Western Europe is the only known source of certain Kale and pepper seed varieties. Based on prior experience and waivers approved for the previous Commodity Import Programs, appropriate seed varieties are not available from Code 000 or Code 941 sources.

Operational Recommendation No. 3 provides

> "That no agricultural commodity financed under the DFA may be procured outside the United States when the domestic price thereof is less than parity, unless the commodity in question can not reasonably be procured in the United States in fulfillment of the particular assistance activity."

Since the required seeds are not available from the United States, there is no need to address the parity issue.

4. Tractors, Tractor Implements and Tractor Spare Parts - $2,000,000 - Code 941 Probable Source and Origin

   Tractor Implements and Spare Parts - $250,000 - Code 899 Probable Source and Origin

Farm tractors, tractor implements and the spare parts for the tractors and implements are a critical part of the integrated package of inputs designed to support the private family and commercial farmers in the program's target areas. There are only two private sector manufacturer's representatives for farm tractors and related equipment of an appropriate size (65 HP and 90 HP) in Mozambique. These two dealerships, Entreposto representing Massey Ferguson and Tecnica Industrial representing Ford, have adequate maintenance facilities. A public sector firm, Mecanagro, which represents Valmet, also has adequate maintenance facilities in Maputo.

Last year, the last U.S. assembly plant for farm tractors (which was operated by Ford) of under 120 horse power for which representation existed in Mozambique closed down. Thus farm tractors of 65 HP and 90 HP which can be serviced and maintained in country are not available from the United States. Parts and implements for tractors of these sizes are also not currently available in the U.S. However, the required tractors, and all except $250,000 of the required parts and implements are available from Code 941. The remaining parts and implements are available from Code 899.

5. 3-Ton Trucks and Spare Parts - $700,000
   8-Ton Trucks and Spare Parts - $700,000
   Probable Source - A.I.D. Geographic Code 899 (Japan)
   Probable Origin - A.I.D. Geographic Code 899 (Japan)

One of the crucial elements in this program is the provision of trucks to farmers and private trucking firms to enable them to transport produce to market. Previous PSR Programs have financed the importation of 3-Ton and 8-Ton trucks. PSR V is programmed to finance about 90 each 3-Ton trucks with spare parts and about 25 each 8-Ton trucks with spare parts. In Mozambique traffic moves on the left.

At present, no U.S. manufactured vehicles are marketed in Mozambique. Spare parts and maintenance facilities for U.S. vehicles of any size/type are non-existent in country. Thus, it is not appropriate to finance U.S.-manufactured trucks under this program as they could not be adequately maintained in Mozambique.

4143L

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Transportation Source Waiver
M/SER/OP/TRANS:GBradford:td:
12/2/87:3363E
Waiver Control No. 87-B-2

ACTION MEMORANDUM FOR THE DIRECTOR, Office of Procurement
Agency for International Development
Washington, D.C. 20523

FROM: Chief, Transportation Division
Office of Procurement
Agency for International Development
Washington, D.C. 20523

Problem: Request for a transportation source waiver from A.I.D. geographic code 000 to permit A.I.D. financing of transportation source code 935 registry vessels because of non-availability by eligible vessels from ports of embarkation outside the United States for project commodity procurements.

a.	Cooperating Country:	Mozambique
b.	Authorization:	656 - loans, grants, and contracts
c.	Cargo Description:	various, as required
d.	Cargo Weight/Cube:	various, up to a maximum of 1000 MT
e.	Freight Cost:	various, not to exceed the lowest rate charged by the carrier for similar shipments on the same voyage
f.	Flag:	various, code 935 registry
g.	Port/Date of Loading:	various, non-U.S. ports
h.	Shipper:	not yet established
i.	Port of Discharge:	Maputo, Beira, or Nacala

Discussion: No U.S. flag service is available from non-U.S. ports to ports in Mozambique. Accordingly, transportation services of A.I.D. code 935 vessels are considered eligible for A.I.D. financing under loans, grants and contracts in Mozambique for cargoes originating at ports outside the United States during the period that the waiver remains valid.

The duration of this waiver shall be one year from the date it is signed unless the waiver is rescinded by SER/OP in which case, true validity of the waiver shall terminate 90 days after the SER/OP determination of cancellation is made.

A.I.D. reimbursement of freight costs will be limited to the amount stated in the contract, or the amount actually incurred, whichever is less.

M/SER/OP/OS/AFR confirms that the Regional Bureau has expressed its understanding that the host country is willing for A.I.D. to finance the cost of freight on Code 935 vessels.

A.I.D. Handbook 1, Supplement B, Section 7B provides that under these circumstances, M/SER/OP may waive the limitations as to eligible transportation source contained in the authorization and approve financing the cost of transportation on Code 935 flag vessels.

The interests of the U.S. are best served by permitting financing of transporation service on ocean vessels under flag registry of free world countries other than the cooperating country and countries included in Code 941

Recommendation: That you approve the requested waiver for the period of one year under Redelegation of Authority No. 40.4.

Approved: ______________________ Date Dec. 11, 1987

Disapproved: ______________________ Date __________

Attachment: a/s

cc:
M/FM/PAFD
USAID/Maputo
AID/AFR/SA
M/SER/OP/OS/AFR
M/SER/OP

Clearance:
AID/AFR/SA:JPagano
M/SER/OP/OS/AFR:SDean __________
M/SER/OP:MIKingery __________

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5C(1) - COUNTRY CHECKLIST *

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1987 Continuing Resolution Sec. 526. Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? NO

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without N/A

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* References to provisions of the FY 1987 Continuing Resolution are deemed to refer to applicable provisions of the FY 1988 Continuing Resolution.

Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance? N/A

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country? N/A

4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? NO

NO

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? NO

6. FAA Secs. 620(a), 620(f), 620D; FY 1987 Continuing Resolution Secs. 512, 560. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan without a certification? NO

NO

NO

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? NO

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? NO. An OPIC Agreement was signed on July 28, 1984

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? NO
(b) If so, has any deduction required by the Fishermen's Protective Act been made?

10. FAA Sec. 620(q); FY 1987 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1987 Continuing Resolution appropriates funds?

a) NO

b) NO

11. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percent of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

N/A because contemplated assistance is not development loan or from ESF.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

Bilateral relationships with Mozambique, including diplomatic, were resumed in 1984 and bilateral assistance agreements have been negotiated and executed annually thereafter.

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget? (Reference may be made to the Taking into Consideration memo.)

Any arrearages have been taken into account by the Administrator at the time of approval of the Agency OYB. See FY 1988 "Taking Into Consideration" memo.

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?

NO

15. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? — NO

16. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? — NO

17. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? — NO Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — NO

18. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? — NO

19. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) — YES. This factor has been taken into consideration by the Administrator in approving the OYB for Mozambique. See also page 6 of the GC "Taking into Consideration" Memo dated November 9, 1984.

20. FY 1987 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? NO

21. FY 1987 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? NO

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? NO

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? N/A, because program will be funded from development assistance account.

5C(3) - STANDARD ITEM CHECKLIST *

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

   YES

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?

   Pursuant to FY 1988 Continuing Resolution FAA Section 604(a) and similar provisions of law do not apply to assistance provided under heading entitled "Sub-Saharan Africa Development Assistance."

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

   YES

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

   YES

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those

   N/A

* References to provisions of the FY 1987 Continuing Resolution are deemed to refer to the applicable provisions of the FY 1988 Continuing Resolution.

countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

6.	FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	NO. Through CIP Grant Agreement provisions and AID Monitoring of commodity shipments, section 901(b) will be complied with.
7.	FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	N/A
8.	International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	YES
9.	FY 1987 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	N/A. CIP Transactions are under host country purchasing arrangements.
10.	FY 1987 Continuing Resolution Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	N/A

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? N/A

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? YES

4. Will arrangements preclude use of financing:

   a. FAA Sec. 104(f); FY 1987 Continuing Resolution Secs. 525, 540. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? YES

   b. FAA Sec. 483. To make reimburse- bursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? YES

   c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? YES

   d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? YES

   e. FAA Sec. 662. For CIA activities? YES

   f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? YES

   g. FY 1987 Continuing Resolution Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? YES

h. FY 1987 Continuing Resolution Sec. 505. To pay U.N. assessments, arrearages or dues? YES

i. FY 1987 Continuing Resolution Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? YES

j. FY 1987 Continuing Resolution Sec. 510. To finance the export of nuclear equipment, fuel, or technology? YES

k. FY 1987 Continuing Resolution Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? YES

l. FY 1986 Continuing Resolution Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? YES

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST *

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. **FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.**

   The Congress will be notified for this program prior to authorization by AA/AFR.

2. **FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?**

   No further legislative action is required within the recipient country.

3. **FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.**

   NO

* References to provisions of the FY 1987 Continuing Resolution are deemed to refer to the applicable provisions of the FY 1988 Continuing Resolution.

4. **FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.**

This CIP program, while targeted at the private agricultural sector, is consistent with the government of Mozambique's overall reform program. This program, as well as the general reform efforts, will increase the flow of the international trade and foster private initiative. Likewise, the technical efficiency of agricultural and commerce will be supported. The program will not specifically be concerned with (c), (d), or (f).

5. **FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).**

This program will bolster the economy generally and permit increased importation of U.S. goods and related services, as well as investment in a stronger more privately oriented Mozambican economy. The USAID Program to Mozambique will improve the climate for US business initiatives involving that country.

6. **FAA Secs. 612(b), 636(h); FY 1987 Continuing Resolution Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilize in lieu of dollars to meet the cost of contractual and other services.**

It is not anticipated that any foreign currencies owned by the U.S. will be utilized. However, certain local costs will be borne by the government of Mozambique and the Mozambican private sector. Also, provisions in the grant agreement for the CIP will require Mozambique to attribute the counterpart local currencies generated by the CIP to their development budget for the agricultural sector. In addition, a negotiated % of these local currency funds will be available as AID administered trust funds for the Administrative use of OAR/Maputo.

7. **FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?** NO

8. **FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?** YES

9. **FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?** N/A

10. **FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistanc conditioned solely on the basis of the policies of any multilateral institution?** NO

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

N/A. This is not an ESF funded program.

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? NO

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

N/A. (ESF funds will not be utilized.) Local currency generations from prior years' ESF-funded programs will be utilized consistently with 103-106 objectives.

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

N/A (ESF funds will not be utilized.)

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

N/A (ESF funds will not be utilized).

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost-effective way;

N/A

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development; N/A

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products; N/A

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions; N/A

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses; N/A

(vi)(A) 75 percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA; N/A

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government. N/A

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country (1) is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), (2) cooperates fully with the IAEA, and (3) pursues nonproliferation policies consistent with those of the United States? N/A

g. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? YES

h. FY 1987 Continuing Resolution. If assistance is in the form of a cash transfer to any country which receives in excess of a total of $5 million as cash transfer assistance in the current fiscal year: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currences that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available)? N/A

2. **Nonproject Criteria for Development Assistance**

a. **FAA Secs. 102(a), 111, 113, 281(a).** Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

(a) Small-scale farmers will be involved in the program by virtue of their access to PSR-provided agricultural implements and inputs.

(b) Many farmers participating in the PSR program also belong to farmer cooperatives, which can benefit from use of PSR-provided equipment and inputs.

(c) Insofar as this program is market-oriented and geared toward participants who are able to pay, it can be described as promoting self-help development among the target group of farmers.

(d) Women perform many farming tasks in Mozambique. They are receiving approximately 90% of agricultural inputs (seeds, tools) in the Maputo Green Zones, a key target area of the program.

(e) N/A.

b. **FAA Secs. 103, 103A, 104, 105, 106, 120-21.** Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value;

YES

a) Assistance will be targetted at the private agricultural sector. Small-scale farmers will be included. See response to 2(a) above.

b) No separate assistance is being provided under Section 104. However, in general imports will include seeds and other imports for production of food crops.

improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people: and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

c) In addition to direct assistance to food production efforts by means of imports, ongoing policy dialogue encourages reforms intended to enhance productivity and sustainability of private agricultural sector, thus contributing to goal of national food security.

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

BEST AVAILABLE DOCUMENT

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: N/A

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment; N/A

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; N/A

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness; N/A

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. N/A

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(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multi-donor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

N/A

c. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

d. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

By supporting the private agricultural sector, program recognizes individual needs, desires and capacities of beneficiary farmers. This program's emphasis may be viewed as an initial step toward development of local capacity to engage in institutional development and the economic process.

e. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

INITIAL ENVIRONMENTAL EXAMINATION

A.	Country	Mozambique
B.	Program Title	Private Sector Rehabilitation V Program, FY 1988 (656-0201D)
C.	Funding	FY1988 DA or DFA funding up to authorized amount of $15 million, for a total LOP of $55,405,000.
D.	Life of Program	FY1984 - FY1988
E.	IEE Prepared by:	Mary Ann Riegelman, PDO, AFR/PD/SA, Donald Keene, RLA/SA
F.	Action Recommended	Negative Threshold Decision

Problem: A negative threshold decision is sought pursuant to 22 CFR Part 216.3 (Environmental Regulations) that the proposed FY1988 Mozambique Private Sector Rehabilitation Program (PSR V) will not have a significant effect on the environment.

Discussion: The purpose of this Commodity Import Program is to assist Mozambique to expand the role of the private sector in the development of its agriculture sector. More specifically, the program will provide agricultural inputs and farm and transport equipment to private farmers, and raw materials for selected private industrial enterprises which support the agricultural sector, in the CIP target areas of Maputo Province, Xai-Xai and Chokwe districts, and Manica Province.

The commodities list includes: seeds, fertilizers, tractors, motorcultivators, irrigation equipment, trucks, bicycles, motorcycles, plastic boxes, spare parts for trucks, tractors and tractor implements, diesel and lubricants and raw materials for the manufacture of tires, corrugated roofing sheets, rubber boots, hose, irrigation pipes, truck and tractor batteries, and fencing mesh. No pesticides will be procured under PSR V.

It is not reasonably foreseeable that any signifcant environmental impact will result from the normal and expected use of the commodities which will be financed by the program. In accordance with the Grant Agreement, the commodities are to be used for agriculture-related development purposes and the end users are to be private farmers or private agriculture-related concerns. It is not expected that use of the CIP commodities will fit within the classes of actions set forth in AID handbook 3, Appendix 2D, normally having a significant effect on the environment.

The FY1984-86 CIPS were categorically excluded from the requirement of conducting an initial environmental examination, based on the following exclusion criteria: "Assistance provided under a [CIP] when, prior to approval, AID does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance requires neither knowledge, at the time the assistance is authorized, nor control during implementation, of the commodities or their use in the host country."

Under the FY1987 CIP, AID had knowledge, prior to program approval, of the specific commodities to be financed and, therefore, the program was not eligible for a categorical exclusion. Similarly, AID has knowledge, prior to program approval, of the specific commodities to be financed under the FY1988 CIP. As was the case with the FY1987 CIP, however, AID will not have control or knowledge of the specific uses of the commodities to be imported. Moreover, in providing CIP assistance to Mozambique, AID does not require, either prior to approval of financing or prior to or during implementation of specific activities, knowledge or control of the details of the specific uses and activities involving the imported commodities.

Since under the FY1988 PSR program, AID has knowledge, prior to program approval, of the specific commodities to be financed, the program is not eligible for a categorical exclusion. Due to the nature of the CIP, however, AID will not have control over or knowledge of the specific uses of the commodities to be imported. Moreover, in providing CIP assistance to Mozambique, AID does not require, either prior to approval of financing or prior to or during implementation of specific activities, knowledge or control of the details of the specific uses and specific activities of the imported commodities.

Based on the above discussion, OAR/Maputo anticipates no significant immediate or long-term adverse impact on the environment as a result of the FY1988 PSR program.

Recommendation: That based on the above justification, the Africa Bureau Environmental Officer make a negative threshold decision that the proposed FY1988 PSR program for Mozambique will not have a significant effect on the environment.

Negative Threshold Decision ✓

Bureau Environmental Officer
(BBoyd) [illegible signature]

Positive Threshold Decision ____

Date 23 Dec 87

GC/AFR [illegible signature]

Clearance: RLA/SA, Donald Keene (draft)
CMO, OAR/Maputo, Judi Shane (draft)

ANNEX E

REPÚBLICA POPULAR DE MOÇAMBIQUE

MINISTÉRIO DA COOPERAÇÃO

USAID MAPUTO SEP 14 1987
Date Rec'd
Action Due
Assigned to ~~JULIUS SCHLOTTHAUER~~ Judy Shane
Action Taken
NAN
Cable No.
Letter No. 87/559
Other Oct 8, 87
Date Compl.
File: 88CIP/Letters in

157/GMCOOP/87 Maputo, 5 de Setembro de 1987

ASSUNTO: Utilizaçâo do Fundo da USAID 1987/88.

Excelência,

Apresento a Vossa Excelência os meus melhores cumprimentos.

No quadro do nosso Programa de Cooperaçâo entre a República Popular de Moçambique e os Estados Unidos da América através da USAID estamos apreciando o impacto estrutural e o efeito multiplicativo que este tem dado na promoçâo do sector agrícola privado em Maputo.

Vinha propôr a Vossa Excelência como complemento ao programa se poderia mandar estudar as possibilidades de estendê-lo para outros sectores dentro da mesma filosofia de apoio ao desenvolvimento do sector privado.

Pois com o programa de reabilitaçâo económica surgem áreas importantíssimos ligadas igualmente ao abastecimento do Povo entre elas:

- A área de apoio ao pequeno comerciante a nível de distrito, localidades e círculo;
- Área industrial (indústria ligeira local) e pesca.

A.V.

Senhor
Representante da USAID

MAPUTO

A nosso ver seria importantíssimo se nos garantisse para o próximo ano fiscal a começar em Outubro 20.0 MIO de US$ no mínimo devendo distribuir-se da seguinte forma:

- Agricultura privada ~~em Maputo~~, Gaza, Inhambane e Manica .... 12.0 MIO US$
- Comerciantes privados nas mesmas Províncias .... 5.0 " "
- Indústria Ligeira e Local Privada .... 2.0 " "
- Pesca semi-industrial e artesanal privada ...... 1.0 " "

Pensamos que desta forma podemos interligar estes 3 sectores importantíssimos que poderão rápidamente melhorar a nossa economia.

Certo da vossa reacção positiva com o encaminhamento com paracer favorável para Washigton aguardo atentamente a vossa resposta com os meus votos de alta consideração.

J.VELOSO
MINISTRO DA COOPERACÃO

MACROECONOMIC SITUATION AND POLICIES

A. Summary

Economic activity in Mozambique contracted sharply from 1980 through 1986. Even though the downward trend of incomes was reversed in 1986 and positive growth is expected in 1987, the various available measures indicate that aggregate real income in 1986 was less than 68% of its 1980 levels. In addition, per capita incomes have declined by over 50% from 1980 through 1986 and are expected to remain constant or decline slightly in 1987.

Mozambique's external balance can best be described as a major disaster since 1980. Ex-ante overall balance of payments deficits have risen from $32 million in 1980 to $542 million in 1986. The financing of these deficits have led to the reduction of the country's foreign reserves from $268 million (4 months of imports) in 1980 to $72 million (1.6 months of imports) at the end of 1986. In addition, over $1.1 billion in debt arrears were accumulated over this period. These massive deficits have occurred despite a one-third decline in the level of merchandise imports from $800 million in 1980 to $543 million in 1986. The overall deficits arise from the following developments:

-- A contraction in exports of goods and services of over 45%;
-- An increase of over 300% in scheduled debt service (excluding arrears) and which has resulted in debt service to export ratios of 100% or more since 1982; and
-- An increase in non-interest service expenditures of more than 78%.

The structure of Mozambique's balance of payments presents a number of structural anomalies which represent major problems for resolving the country's external imbalance:

-- Since 1982 current debt service before debt relief has exceeded total exports by as much as 150%, a fact which is expected to continue through 1992;
-- Including previously accumulated debt arrears, total debt service obligations have exceeded total exports by as much as 600%.
-- Donor assistance (excluding debt relief) which equalled $35.50 per person in 1986 has consistently financed roughly 60% of total imports; since 1982 these flows have been twice the level of Mozambique's total exports; and
-- Despite the high level of donor assistance, total imports have exceeded total exports plus donor assistance by up to 20% since 1983.

These factors indicate an extreme dependence on external financing which must be overcome if the Mozambican economy is to become a viable economic unit. For the period 1987 through 1992, balance of payments estimates and projections based on highly optimistic assumptions concerning export performance and donor assistance flows indicate a continuation of major ex-ante overall deficits of more than $300 million per year before debt relief. If the maximum allowable debt relief is provided, these financing gaps can be closed for the period 1988-1992. If the assumptions concerning donor assistance and export performance prove overly optimistic, or if actual debt relief is less than the maximum possible, then further accumulation of debt arrears and/or a reduction of projected imports can be expected.

As of the end of 1986, Mozambique's external debt totalled almost $3.1 billion. Of this total amount more than 38% or $1.1 billion represented debt service arrears. (Note: The 1987 Paris and London Club meetings agreed in principle to reschedule over $700 million of these arrears.) This debt is equivalent to 78% of estimated Gross National Product in 1986 and corresponds to approximately $213 per person. The structure of Mozambique's debt is heavily oriented towards medium- and long-term debt (99.5%) and government creditors (73%). The largest creditor group is the western (OECD) countries (42% of total), closely followed by the centrally planned economies (33% of total).

As noted above debt servicing is a major problem in Mozambique's balance of payments. Fullj payment of debt service obligations in 1986 and 1987 would have required approximately 250% of revenues from merchandise and service exports. For the period 1988 to 1992, debt service obligations are projected to decline from 207% of foreign exchange earnings in 1988 to 136% of foreign exchange earnings in 1992. This decline in Mozambique's debt service ratio is primarily due to the projected growth in foreign exchange earnings. With the provision of maximum debt relief given current Paris and London Club rules, the projected debt service to exports ratios are substantially reduced to 48% in 1988 and 34% in 1992. While these levels of debt relief are sufficient to close the projected balance of payments financing gaps, the debt service burden after relief will still be high relative to foreign exchange earnings.

Through 1986 Mozambique's currency has been highly overvalued relative to foreign currencies. While pegged to a basket of six currencies, in order to adjust the metical to relative fluctuations in the exchange value of Mozambique's major trading partners, the rate at which the metical was pegged to the basket was not adjusted either in response to domestic inflation or the general shortage of foreign exchange in the country. During 1987 the GPRM has twice devalued the metical relative to the dollar, placing the official exchange rate at a level of Mt 400 per dollar at the end of November 1987 compared to an average rate of Mt38.50 for 1986. The rate of Mt 400/US$ represents a 92% nominal and a 52% real devaluation relative to the 1980 exchange rate. In response to these devaluations, the parallel market rate has fallen to a level of Mt 900/US$ in Maputo and Mt 800/US$ in other areas from its previous levels of Mt 1200/US$-Mt 1500/US$. A further devaluation of the metical to an official rate of at least Mt 450 per dollar is expected by the end of the year if the GPRM is to implement its Economic Recovery Plan and comply with the conditions of the IBRD's Second Rehabilitation Credit. Such a devaluation is expected to prevent a further appreciation of the Metical in real terms due to domestic inflation.

Another problem which has plagued Mozambique's economy has been that of its internal financial situation. Due to large budget deficits and parastatal losses, the broad money supply has risen at an annual rate of roughly 20% from 43% of income in 1980 to over 70% of income in 1986. This monetary expansion, largely driven by the fiscal deficit, has placed extreme pressures on domestic prices which officially have increased at an annual rate of 20% to 25%. Given the extreme rigidity and lack of adjustment in "official" prices, the full scope of these lax policies have been reflected through shortages in official markets and significantly higher prices in parallel markets.

Beginning in early 1987 the GPRM announced and began the implementation of a new Economic Recovery Program (ERP) for the period 1987-1989 which is designed to address the macroeconomic and sectoral policies which have constrained the performance of the economy and which has received the support of both the IBRD and IMF. The principal objectives of the ERP are to restrain the decline in the economy, establish an economic policy environment which will be conducive to future economic growth, and stabilize the country's internal and external financial situation. The general approach of the ERP is to reduce the influence of centralized administrative controls in the economy by allowing market forces to play a greater role in determining the allocation of resources, income and performance of economic units and individuals.

B. Macroeconomic Performance

1. Income and Prices (Tables 1-4)

Mozambique's real income fell drastically between 1980 and 1986. Real global social product (GSP, i.e., the value of non-financial production in constant prices) declined at an annual rate of 8.6% between 1980 and 1985. In 1986, however, real growth of 4.4% occurred, reversing the previous trend of contraction. Despite this positive development, real GSP in 1986 was only 68% of its level in 1980. Rough estimates for Gross National Product (GNP) also indicate a serious decline in real incomes over the period 1980 through 1986; however, these data do not indicate an increase in real incomes from 1985 to 1986. In 1986, real GNP stood at 66% of its 1980 values.

Given the poor performance of various aggregate income measures plus an estimated population growth rate of 2.6%, it is not surprising that per capita income has sharply contracted. Compared to 1980 levels, real per capita income has declined by more than 50% between 1980 and 1986 in dollar terms.

Based on preliminary indicators real income is expected to show a continued positive growth in 1987 of approximately 2.5% to 3%. As a result, per capita incomes are expected to at best remain constant and possibly decline.

The sectoral composition of real GSP has remained relatively constant over this period. The major exception has been the reversal of the positions of the two predominant sectors -- agriculture and industry. Together these two sectors have consistently been responsible over 70% of real non-financial production. In addition, their contraction from 1980 through 1986 was responsible for over 90% of the decline in real GSP.

Agriculture accounted on average for 40% of GSP from 1980 through 1986. With the exception of the construction sector, agriculture has experienced the smallest contraction in percentage terms of any sector. In 1983, the value of agricultural production fell by 22% to 78% of its 1980 level, but by 1986 had risen to 81% of its 1980 level. The major constraints in the sector have been the weather (alternating periods of both drought and floods on a regional basis), the lack of security in a large part of the country, the lack of imported inputs to support production, and inappropriate sectoral policies. For 1987, overall production is expected to continue to expand due to donor support for the sector and a deliberate effort by the GPRM to improve the rural-urban terms-of-trade.

The industrial sector in 1980 accounted for almost 40% of real GSP. From 1980 through 1986, the sector's production has contracted at an annual rate of 13.5%, falling to less than 45% of its 1980 level in 1986. Capacity utilization rates have generally been in the 20% to 40% range. The major constraint facing the sector has been the shortage of foreign exchange which has severely limited the availability of imported raw materials and spare parts for a largely deteriorated capital stock. In addition to the foreign exchange shortage, the sector has been hampered by the predominance of parastatals lacking both general managerial talents and any reasonable degree of efficiency, as well as by a pricing system which has led to large economic losses. Due to the release of funds from the World Bank in late 1986 for industrial inputs, industry is reported to be "leading" the economic expansion in 1987.

The only available price index for Mozambique is the consumer price index which presents a distorted view of the actual movement in prices due to the predominance of controlled prices in the index. Thus, developments that would normally show up as increased prices have appeared as shortages of commodities in official markets rather than as official price increases. Despite this caveat, official inflation has averaged just under 20% per annum over the 1980-1986 period, with a rate of over 25% for the period 1983 through 1985. For 1987, a major increase in the official consumer price index can be expected as the effects of the January and June 1987 devaluations are passed through to official prices. For 1987 as a whole, the price index is expected to increase 135% to 140% principally due to these price adjustments.

While such a significant jump in prices would normally raise the spectre of great deprivation and hardships for the population, it must be remembered that wages have also been increased by 125% for the year. In addition, a large portion of the population have been purchasing commodities in parallel markets due to the general shortage of goods in official markets. As a result, they have already largely adjusted to the higher price levels. Further, as official prices have been adjusted upwards, parallel market prices have remained steady or declined, so that overall there could be a reduction in the actual (not official) cost of living for a major portion of the population.

2. Balance of Payments, External Debt and Exchange Rate (Tables 5-12)

Balance of Payments. Since 1980 Mozambique has shown a chronic ex-ante balance of payments deficit, although the problem has worsened significantly since 1982. From 1980 through 1982 the cumulative ex-ante deficit was $242 million, and was financed by decreasing foreign reserves from $268 million (equivalent to four months of imports) to $51 million (21 days of imports) in 1982. In 1983 the ex-ante deficit increased by 130% over its 1982 level despite a 24% reduction in imports. This deficit was financed by a further reduction in foreign reserves to the equivalent of three days imports and the accumulation of $285 million in debt servicing arrears. Given the increasing balance of payments deficits from 1984 through 1986 (ranging from $330 million to $542 million) and the low levels of foreign reserves, subsequent financing was accomplished through the accumulation of additioual debt arrears and the provision of debt relief by creditor countries. By the end of 1986, Mozambique's arrears on external debt totalled almost $1.2 billion, or approximately one-third of its total external debt including arrears.

The reasons for Mozambique's deteriorating external balance include the following:

-- Exports of goods, and services declined from $452 million in 1980 to $198 million in 1986, a contraction of over 45%;
-- Merchandise imports declined by approximately one-third from $800 million in 1980 to $543 million in 1986, but still increased relative to exports;
-- Scheduled debt service (excluding arrears) increased by almost 300%, rising from $145 million in 1980 to $544 million in 1986; and
-- Non-interest service expenditures increased by more than 78%, rising from $69 million in 1980 to $123 million in 1986.

The structure of Mozambique's balance of payments presents a number of structural anomalies which represent major problems for resolving the country's external imbalance:

-- Since 1982 current debt service before debt relief has exceeded total exports by as much as 150%, a fact which is expected to continue through 1992;
-- Including previously accumulated debt arrears, total debt service obligations have exceeded total exports by as much as 600%.
-- Donor assistance (excluding debt relief) which equalled $35.50 per person in 1986 has consistently financed roughly 60% of total imports; since 1982 these flows have been twice the level of Mozambique's total exports; and
-- Despite the high level of donor assistance, total imports have exceeded total exports plus donor assistance by up to 20% since 1983.

The above factors indicate an extreme dependence on external financing which must be overcome if the Mozambican economy is to become a viable economic unit. For the period 1987 through 1990, balance of payments estimates and projections indicate a continuation of major ex-ante overall deficits of more than $350 million per year before debt relief, with the projected ex-ante overall deficit falling to $289 million in 1991 and $264 million in 1992. Debt relief for 1988 agreed to at the 1987 Paris Club meeting for Mozambique is expected to reduce the level of required financing to just over $11 million in 1988. For 1989 through 1992, the provision of maximum debt relief should be sufficient to close the projected ex-ante financing gaps. However, if such debt relief is not provided, arrears of $1.4 billion could easily be accumulated from 1989 through 1992.

The above projections are based on very optimistic growth rates for the major components of the balance of payments. Specifically, merchandise exports and donor assistance are projected to increase at annual rates of 16.4% and 12.2%, respectively, while debt service payments are projected to decline at an annual rate of 4.6% due to a significant fall in amortization payments. These three assumptions alone generate an additional $488 million in 1990 compared to 1986. To support the rehabilitation and growth of the economy, merchandise imports are projected to increase at an annual rate of 11.3%.

Financing of the continuing overall deficits is projected to be principally through debt relief. For 1987, the Paris Club agreed to reschedule $470 million of current service payments and $1.1 billion of arrears. Rescheduling of current debt service payments from 1988-1992 is expected to average roughly $300 million to $375 million per year. With no further accumulation of arrears, the GRPM would still be required to use over 40% of total export revenues for debt service in 1987, and over the period 1988 through 1990. The combination of optimistic assumptions concerning resource flows, the high debt service ratio remaining after debt relief, and the remaining financing gaps implies that the likely results in the out-years of 1988 through 1990 will be a further accumulation of debt arrears, as well as a contraction of imports below the levels projected. Such a reduction in import levels will in turn slow the rehabilitation and recovery of Mozambique's economy.

External Debt. As of the end of 1986, Mozambique's external debt totalled almost $3.1 billion. Of this total amount more than 38% or $1.1 billion represented debt service arrears. (Note: The 1987 Paris and London Club meetings agreed in principle to reschedule over $700 million of these arrears.) This debt is equivalent to 78% of estimated Gross National Product in 1986 and corresponds to approximately $213 per person. The structure of Mozambique's debt is heavily oriented towards medium- and long-term debt (99.5%) and government creditors (73%). The largest creditor group is the western (OECD) countries (42% of total), closely followed by the centrally planned economies (33% of total).

As noted above debt servicing is a major problem in Mozambique's balance of payments. Fullj payment of debt service obligations in 1986 and 1987 would have required approximately 250% of revenues from merchandise and service exports. For the period 1988 to 1992, debt service obligations are projected to decline from 207% of foreign exchange earnings in 1988 to 136% of foreign exchange earnings in 1992. This decline in Mozambique's debt service ratio is primarily due to the projected growth in foreign exchange earnings. With the provision of maximum debt relief given current Paris and London Club rules, the projected debt service to exports ratios are substantially reduced to 48% in 1988 and 34% in 1992. While these levels of debt relief are sufficient to close the projected balance of payments financing gaps, the debt service burden after relief will still be high relative to foreign exchange earnings.

Exchange Rate. Through 1986 Mozambique's currency has been highly overvalued relative to foreign currencies. While pegged to a basket of six currencies, in order to adjust the metical to relative fluctuations in the exchange value of Mozambique's major trading partners, the rate at which the metical was pegged to the basket was not adjusted either in response to domestic inflation or the general shortage of foreign exchange in the country. Adjusting the official exchange rate for domestic inflation, but ignoring external inflation, the metical's value appreciated relative to the dollar by a total of 157% from 1980 through 1986. In 1984 and 1985 the parallel market exchange rate of Mt 1,500 per dollar was approximately 35 times as large as the official exchange rate. In 1986 the official exchange rate appreciated further and the parallel market rate depreciated, raising the ratio of the parallel market rate to the official rate to a factor of almost 47.

As a result of the extreme differential between the official and parallel exchange rate, individuals or firms allocated foreign exchange received an implicit effective subsidy of roughly 97% for each dollar allocated in 1984-1986.

In 1987 the GPRM has twice devalued the metical relative to the dollar, placing the official exchange rate at a level of Mt 400 per dollar at the end of November 1987. The rate of Mt 400/US$ represents a 92% nominal and a 52% real devaluation relative to the 1980 exchange rate. In response to these devaluations, the parallel market rate has fallen to a level of Mt 900/US$ in Maputo and Mt 800/US$ in other cities, so that the implicit effective subsidy on an allocated dollar of foreign exchange has declined to 50%-55%. A further devaluation of the metical to an official rate of Mt 450 per dollar could occur by the end of the year if the GPRM is to implement its Economic Recovery Plan and comply with the conditions of the IBRD's Second Rehabilitation Credit. Such a devaluation is expected to prevent a further appreciation of the Metical in real terms due to domestic inflation.

3. Fiscal and Monetary Situation (Tables 13-16)

Mozambique's fiscal and monetary situation from 1980 though 1986 can be divided into two distinct periods. From 1980 through 1983, the GPRM's domestic financial policies were moving towards an increasingly expansionary position. The overall budget deficit (including grants) in 1980 was 9% of GSP; by 1983 the deficit had increased in absolute terms by 99% to 14.6% of GSP. While budgetary revenues increased by 50% over this period, total expenditures increased by 64%, leading to the rapid increase in the overall deficit. These large budgetary deficits, averaging 21% of the broad money supply over these four years, were a major force behind the 24% annual average rate of growth of the broad money supply for the period.

In contrast, both budgetary revenues and expenditures, as well as the deficit contracted both in absolute terms and relative to GSP beginning in 1984. Compared to 1983, budgetary expenditures declined by 5.5% in 1984 while the absolute size of the deficit fell by 17%. By 1986, the overall deficit had declined to 7.6% of GSP compared to 14.6% in 1983. In conjunction with this decline in the budgetary deficit which averaged 11% of the broad money supply from 1984 through 1986, the rate of growth of the broad money supply also declined to a rate of 14.4% per annum. For 1987, a major expansion in the absolute size of budgetary expenditure and overall deficit is expected. These increases are primarily due to adjustments following from the 1987 devaluation of the metical and other pricing policies, as well as a major increase in investment expenditures. To prevent the increased budget deficit from leading to a major increase in the money supply, the IMF SAF Program has placed tight ceilings on the provision of domestic credit to the government. It is estimated that under the SAF Program, the money supply will be reduced to 43%-44% of GSP, as compared to 76% in 1985 and 70% in 1986.

In early 1987 the GRPM substantially revised the structure of interest rates. Interest rates charged for credit were raised from their previous average of 5% per annum to 15%-16% per annum, while rates paid on time deposits increased from an average 10% annual rate to 20%-26% per annum. While representing a doubling or tripling of interest rates, these changes have not been sufficient to generate positive real interest rates, especially for the extention of credit.

C. <u>The GPRM Economic Recovery Program (ERP)</u>

Beginning in 1984 and 1985 the GPRM slowly began introducing selected policy measures as means of testing the idea of economic reform. The principal measures introduced at this time were:

-- A foreign exchange retention scheme which allowed selected exporters to retain a variable portion of their export revenues in order to import inputs for further export production;
-- A revised investment code to provide the legal basis for increased foreign investment;
-- Free market pricing for fruits, vegetables and selected animal products;
-- A revised labor law providing greater autonomy for enterprises to dismiss workers for economic reasons and to introduce wage differentials for more productive workers; and
-- Authority for selected agricultural export enterprises to engage in external trade without using a parastatal trading company.

While the above measures were a tentative move in the direction of economic reform, they failed to address the key policies which were contributing to the inefficiencies and decline of the country's economy. In 1987, the GPRM announced its Economic Recovery Plan (ERP) which covers the period 1987-1989. The ERP is designed to address the macroeconomic and sectoral policies which have constrained the performance of the economy. The ERP has received the support of both the IBRD and IMF.

The principal objectives of the ERP are to restrain the decline in the economy, establish an economic policy environment which will be conducive to future economic growth, and stabilize the country's internal and external financial situation. The general approach of the ERP is to reduce the influence of centralized administrative controls in the economy by allowing market forces to play a greater role in determining the allocation of resources, income and performance of economic units and individuals. The specific policy measures of the ERP are detailed in the following paragraphs.

External Policies. The exchange rate is to be adjusted to a marketing clearing level by the end of 1989. The devaluations in the first half of 1987 are the first steps in achieving this goal. Further devaluation of the metical is expected in 1987 in order to raise the official exchange rate to a level equal to 50% of the parallel market exchange rate.

As the exchange rate adjustments are implemented, the role of administrative allocations in both the foreign exchange and trade areas are to be reduced. By mid-1988 a program to progressively reduce the number of imported products free from administrative allocations will be concluded with implementation to begin in the latter half of 1988. Foreign exchange for non-allocated imports will be purchased through the banking system without administrative restrictions.

Another element of the ERP's external policies is to progressively reduce the number externally traded product groups which can only be traded through state trading companies. By the end of 1987, the number of import product groups are to be reduced from eleven to five (petroleum, pharmaceuticals, agrochemicals, cereals and electricity), while the number of export product groups are to be reduced from three to one (sugar). Further reductions in these groups are to be made in 1988 and 1989.

To support export incentives while the exchange rate is being adjusted, the foreign exchange retention scheme is to be expanded and rationalized. In early 1987 the retention scheme was broadened to include all exporters of non-traditional products while the dispersion and levels of retention rates was reduced from an average of 70% to an average of 50%. In addition, participants in the scheme are now allowed to buy and sell rights to use the retained foreign exchange through the banking system. In 1988, the scheme is to be expanded to cover all exporters and the range of retention rates is to be reduced further.

Pricing Policies. The general purpose of the new pricing policies is to allow prices to more accurately reflect market forces in order to promote efficiency throughout the economy. As with other measures, pricing changes are to be phased over the course of the ERP. The number of products subject to direct price controls are to be reduced by transferring products to either the regulated price list or to market-determined prices. In 1987 the list of fixed price commodities are to be reduced from 46 to 37 with a further reduction to 32 commodities planned for the beginning of 1988.

Over the course of the ERP, the category of regulated prices are to be phased out. In the interim, the process for determining the allowable levels for regulated prices is to be made more flexible by allowing firms to determine and implement price changes with an ex-post review by the relevant sectoral ministry instead of a prior review by the Ministry of Finance as has been the case.

In determining all fixed or regulated prices, the principle of import parity prices are to play an increasing role. Thus, prices of key commodities in neighboring countries are to act as basis for price reviews and prices are to be adjusted as the exchange rate is devalued. Following the January 1987 devaluation, prices were quickly revised; however, prices have yet to be revised following the June 1987 devaluation.

Distribution Policies. Domestic trade is to be made more competitive by allowing greater private sector competition with parastatal enterprises and trading companies at all stages.

Fiscal and Monetary Policy. Under the supervision of the IMF, the GPRM is to follow strict fiscal and monetary policies in order to stabilize the domestic financial situation and promote efficiency in the government and parastatal sectors. To date the GPRM has fully complied with the strict limits fiscal and monetary limits established in conjunction with the IMF and IBRD programs.

GPRM implementation of the ERP during its first year has been impressive and in full compliance with all agreements. The specific changes made include:

-- Devaluation of the exchange rate from Mt 38.50/US$ in 1986 to Mt 400/US$ as of the end of November 1987;
-- Reduction from 11 to 5 of the number of import product groups which can only be imported by parastatal trading companies;
-- Redcution from 3 to 1 of the number of export product groups which can only be exported by parastatal trading companies;
-- Broadening of the coverage of the foreign exchange export retention scheme to cover all non-traditional exports;
-- Allowing exporters to buy and sell rights to retained foreign exchange earnings;
-- Reduction from 46 to 37 of the number of products subject to direct price controls;
-- Increasing use of the principle of border prices for products still subject to price controls;
-- Increases in controlled prices of up to 1400% following the January 1987 devaluation; and
-- Complete adherence to strict monetary and fiscal targets established in conjunction with the IMF and IBRD programs.

Further implementation of the ERP is expected in 1988. Among the changes expected are:

-- Devaluation of the metical to further reduce the differential between the official and unofficial rates;
-- Further reductions in the number of import and export product groups restricted to trade by parastatal trading companies;

-- Implementation of a program to reduce the scope of administrative controls and allocation of foreign exchange for imports;
-- Expansion of the foreign exchange export retention scheme to cover all exporters;
-- Reducing from 37 to 32 the number of commodities subject to direct price controls; and
-- Continued adherence to strict monetary and fiscal limits.

TABLE 1. MOZAMBIQUE: GLOBAL SOCIAL PRODUCT, 1980-1986

Item	1980	1981	1982	1983	1984	1985	1986	1980-85	1980-86
				(Meticais Billions, 1980 Prices)					
Global Social Product	82.2	84.2	78.8	64.3	58.1	53.6	56.0	--	--
Agriculture	30.8	31.1	30.8	24.0	24.4	24.6	25.0	--	--
Industry	32.6	33.6	29.0	23.2	18.3	14.7	14.6	--	--
Construction	4.8	4.7	4.9	5.0	4.5	4.3	6.2	--	--
Transport	8.1	9.0	8.3	6.6	5.1	4.5	4.6	--	--
Commerce and Other	5.9	5.8	5.8	5.5	5.8	5.5	5.6	--	--
				(Millions, June 30)					
Population	12.1	12.4	12.7	13.1	13.4	13.8	14.1	--	--
GSP Per Capita (Meticais)	6791.5	6778.6	6181.5	4914.9	4327.2	3889.9	3959.5	--	--
Exchange Rate (Mt/US$)	32.40	35.35	37.77	40.18	42.44	43.18	40.42	--	--
GSP Per Capita (US$)	209.6	191.8	163.7	122.3	102.0	90.1	98.0	--	--
				(Indices, 1980=100)					
Global Social Product	100.0	102.4	95.9	78.2	70.7	65.2	68.1	--	--
Agriculture	100.0	101.0	100.0	77.9	79.2	79.9	81.2	--	--
Industry	100.0	103.1	89.0	71.2	56.1	45.1	44.8	--	--
Construction	100.0	97.9	102.1	104.2	93.8	89.6	129.2	--	--
Transport	100.0	111.1	102.5	81.5	63.0	55.6	56.8	--	--
Commerce and Other	100.0	98.3	98.3	93.2	98.3	93.2	94.9	--	--
Population	100.0	102.6	105.3	108.1	110.9	113.8	116.9	--	--
GSP Per Capita (Meticais)	100.0	99.8	91.0	72.4	63.7	57.3	58.3	--	--
GSP Per Capita (US$)	100.0	91.5	78.1	58.4	48.6	43.0	46.7		
			(Annual Growth Rates)		(Annual Average)				
Global Social Product	NA	2.4%	-6.6%	-20.3%	-10.1%	-8.1%	4.4%	-8.6%	-6.4%
Agriculture	NA	1.0%	-1.0%	-24.9%	1.7%	0.8%	1.6%	-4.5%	-3.5%
Industry	NA	3.0%	-14.7%	-22.3%	-23.7%	-21.9%	-0.7%	-15.9%	-13.4%
Construction	NA	-2.1%	4.2%	2.0%	-10.5%	-4.5%	36.6%	-2.2%	4.3%
Transport	NA	10.5%	-8.1%	-22.9%	-25.8%	-12.5%	2.2%	-11.8%	-9.4%
Commerce and Other	NA	-1.7%	0.0%	-5.3%	5.3%	-5.3%	1.8%	-1.4%	-0.9%
Population	NA	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
GSP Per Capita (Meticais)	NA	-0.2%	-9.2%	-22.9%	-12.7%	-10.7%	1.6%	-11.1%	-9.0%
GSP Per Capita (US$)	NA	-8.9%	-15.8%	-29.1%	-18.2%	-12.4%	8.4%	-16.9%	-12.7%

SOURCE: CNP/DNE, Informacao Estatistica 1986, April 1987.

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TABLE 2. MOZAMBIQUE: GROSS NATIONAL PRODUCT, 1980-86
(Meticais Billions)

Item	1980	1981	1982	1983	1984	1985	1986	(Annual Growth) 1980-85	1980-86
				(Current Prices)					
Gross National Product	78.2	81.4	92.4	91.3	109.3	147.6	158.4	12.7%	1.8%
Private Consumption	64.0	64.9	76.6	79.9	93.5	127.9	133.2	13.8%	12.2%
Gross Capital Formation	14.8	16.3	17.9	9.1	11.4	10.1	16.3	-7.6%	1.6%
Government Consumption	13.8	16.6	18.9	21.3	22.5	24.2	26.9	11.2%	11.1%
Net Exports	-14.4	-16.4	-21.0	-19.0	-18.1	-14.6	-18.0	0.3%	3.7%
Population (Millions)	12.1	12.4	12.7	13.1	13.4	13.8	14.1	2.6%	2.6%
GNP Per Capita (Meticais)	6461.0	6553.2	7248.3	6978.6	8140.6	10711.6	11199.8	10.1%	9.2%
Exchange Rate (Mt/US$)	32.40	35.35	37.77	40.18	42.44	43.18	40.42	5.7%	3.7%
GNP Per Capita (US$)	199.4	185.4	191.9	173.7	191.8	248.1	277.1	4.4%	5.5%

SOURCE: CNP/DNE, Informacao Estatistica 1986, April 1987.

TABLE 3. MOZAMBIQUE: COMPOSITION OF GSP AND GNP, 1980-1986
(Percent)

Item	1980	1981	1982	1983	1984	1985	1986	Average
Global Social Product	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Agriculture	37.5%	36.9%	39.1%	37.3%	42.0%	45.9%	44.6%	40.5%
Industry	39.7%	39.9%	36.8%	36.1%	31.5%	27.4%	26.1%	33.9%
Construction	5.8%	5.6%	6.2%	7.8%	7.7%	8.0%	11.1%	7.5%
Transport	9.9%	10.7%	10.5%	10.3%	8.8%	8.4%	8.2%	9.5%
Commerce and Other	7.2%	6.9%	7.4%	8.6%	10.0%	10.3%	10.0%	8.6%
Gross National Product	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Private Consumption	81.8%	79.7%	82.9%	87.5%	85.5%	86.7%	84.1%	84.0%
Gross Capital Formation	18.9%	20.0%	19.4%	10.0%	10.4%	6.8%	10.3%	13.7%
Government Consumption	17.6%	20.4%	20.5%	23.3%	20.6%	16.4%	17.0%	19.4%
Net Exports	-18.4%	-20.1%	-22.7%	-20.8%	-16.6%	-9.9%	-11.4%	-17.1%

SOURCE: Calculated from Tables 1 and 2.

TABLE 5. MOZAMBIQUE: BALANCE OF PAYMENTS, 1980-1990
(US$ Millions)

ITEM	1980	1981	1982	1983	1984	1985	1986	Est. 1987	Projections 1988	1989	1990	1991	1992
TRADE BALANCE:	-519.3	-520.3	-606.7	-504.8	-444.0	-347.1	-463.6	-548.1	-593.9	-644.8	-690.3	-737.1	-785.2
Exports	280.8	280.8	229.2	131.6	95.7	76.6	79.1	99.2	121.6	136.0	152.6	171.3	192.3
Imports	800.1	801.1	835.9	636.4	539.7	423.7	542.7	647.3	715.5	780.8	842.9	908.4	977.5
NET SERVICES:	96.4	55.8	30.8	-0.2	-32.1	-92.9	-158.7	-198.7	-192.2	-217.0	-200.8	-200.5	-194.1
Receipts:	171.3	178.5	171.3	165.7	118.1	107.1	119.0	122.2	128.0	134.2	140.9	148.1	158.5
Transportation	92.6	82.0	83.4	66.4	34.5	39.4	45.0	33.8	36.5	39.4	42.5	45.9	49.6
Worker's Remittances	53.4	64.5	63.5	75.2	57.0	40.8	50.0	50.0	50.0	50.0	50.0	50.0	52.5
Other	25.3	32.0	24.4	24.1	26.6	26.9	24.0	38.4	41.5	44.8	48.4	52.2	56.4
Expenditures:	74.9	122.7	140.5	165.9	150.2	200.0	277.7	320.9	320.2	351.2	341.7	348.6	352.6
Transportation	25.6	27.4	28.3	32.9	24.5	38.7	34.0	40.8	42.4	44.1	45.9	47.7	49.6
Worker's Remittances	25.3	29.4	23.6	19.9	25.7	25.0	23.0	23.0	23.9	24.9	25.9	26.9	28.0
Interest Due	6.1	35.9	60.3	88.2	80.9	117.3	154.7	193.1	196.9	230.6	227.5	239.8	245.8
Investment Services	na	na	na	na	na	na	50.0	40.0	32.0	25.6	15.4	6.1	na
Other (net)	17.9	30.0	28.3	24.9	19.1	19.0	16.0	24.0	25.0	26.0	27.0	28.1	29.2
CURRENT ACCOUNT BALANCE	-422.9	-464.5	-575.9	-505.0	-476.1	-440.0	-622.3	-746.8	-786.1	-861.8	-891.1	-937.6	-979.3
DONOR ASSISTANCE:	559.0	775.6	804.0	428.9	432.6	377.8	497.0	650.0	700.0	754.2	812.9	876.8	946.3
Grants	55.9	57.4	79.4	89.6	167.8	139.0	213.0	349.3	384.3	422.7	464.9	511.4	562.6
Loans Disbursements	503.1	718.2	724.6	339.3	264.8	238.8	284.0	300.7	315.7	331.5	348.0	365.4	383.7
AMORTIZATION	138.9	309.2	329.3	296.5	337.8	278.5	335.5	369.0	320.7	240.5	272.1	228.1	231.2
SHORT-TERM CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ERRORS & OMMISSION	-29.6	-68.4	-41.6	43.9	25.6	-12.7	-27.2	0.0	0.0	0.0	0.0	0.0	0.0
EX-ANTE OVERALL BALANCE	-32.4	-66.5	-142.8	-328.7	-355.7	-353.4	-488.0	-465.8	-406.8	-348.1	-350.3	-288.9	-264.2

SOURCE: GPRM, Strategy and Program For Economic Rehabilitation, July 1987, and IMF Article IV Consultations, October 1987.

TABLE 4. MOZAMBIQUE: CONSUMER PRICE INDEX, 1980-1986

Item	1980	1981	1982	1983	1984	1985	1986	1980-85	1980-86
			(Indices, 1980=100)						
Total	100	102	120	155	202	261	305	--	--
Food	100	101	123	155	194	290	326	--	--
Non-Food	100	103	117	156	208	239	285	--	--
Services & Other	100	102	116	154	206	238	283	--	--
			(Percentage Changes)					(Annual Average)	
Total	NA	2.0%	16.3%	25.6%	26.5%	25.6%	15.6%	19.2%	18.6%
Food	NA	1.0%	19.7%	23.1%	22.4%	40.2%	11.7%	21.3%	19.7%
Non-Food	NA	3.0%	12.7%	28.8%	28.8%	13.9%	17.6%	17.4%	17.5%
Services & Other	NA	2.0%	12.9%	28.3%	29.1%	14.4%	17.3%	17.3%	17.3%

SOURCE: CNP/DNE, Informacao Estatistica 1986, April 1987.

TABLE 6. MOZAMBIQUE: BALANCE OF PAYMENTS, 1980-1990
(US$ Millions)

ITEM	1980	1981	1982	1983	1984	1985	1986	Est. 1987	Projections 1988	1989	1990	1991	1992
FINANCING:	32.4	66.5	142.9	328.7	355.7	353.5	488.0	465.9	395.4	-4.6	-15.0	-15.0	-10.0
Net Foreign Assets	32.4	66.5	142.9	43.4	-63.0	7.8	5.8	-19.0	-25.0	-15.0	-15.0	-15.0	-10.0
Assets (increase -)	32.4	66.5	142.9	43.4	-32.1	22.4	-19.0	-19.0	-25.0	-15.0	-15.0	-15.0	-10.0
Reserve Assets	32.4	68.7	148.5	46.8	-23.0	20.5	-23.5	-19.0	-25.0	-15.0	-15.0	-15.0	-10.0
Bilateral Payments	0.0	-2.2	-5.6	-3.4	-1.4	2.3	4.9	0.0	0.0	0.0	0.0	0.0	0.0
Other	na	na	na	na	-7.7	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	0.0	0.0	0.0	0.0	30.9	14.6	-24.8	0.0	0.0	0.0	0.0	0.0	0.0
IMF (net inflow):	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.4	23.1	10.4	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.4	23.1	10.4	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in Arrears	0.0	0.0	0.0	285.3	205.6	152.7	482.2	-711.2	0.0	0.0	0.0	0.0	0.0
Exceptional Financing	0.0	0.0	0.0	0.0	213.1	193.0	0.0	1180.7	397.3	0.0	0.0	0.0	0.0
Debt Relief	0.0	0.0	0.0	0.0	213.1	193.0	0.0	1180.7	397.3	0.0	0.0	0.0	0.0
FINANCING GAP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.4	352.7	365.3	303.9	274.2
MEMORANDUM ITEMS:													
Reserves:													
Level	268.4	199.7	51.2	4.4	69.0	48.5	72.0	91.0	116.0	131.0	146.0	161.0	171.0
Months of Imports	4.0	3.0	0.7	0.1	1.5	1.4	1.6	1.7	1.9	2.0	2.1	2.1	2.1
Arrears	0.0	0.0	0.0	285.3	490.9	643.6	1125.8	414.6	414.6	414.6	414.6	414.6	414.6
Debt Service:													
Scheduled:													
Current	145.0	345.1	389.6	384.7	418.7	395.8	490.2	562.1	517.6	471.1	499.6	467.9	477.0
Including Arrears	145.0	345.1	389.6	384.7	704.0	886.7	1133.8	1687.9	932.2	885.7	914.2	882.5	891.6
After Relief:													
Current	145.0	345.1	389.6	384.7	205.6	202.8	490.2	-618.6	120.3	471.1	499.6	467.9	477.0
Including Arrears	145.0	345.1	389.6	384.7	490.9	693.7	1133.8	507.2	534.9	885.7	914.2	882.5	891.6
Actually Paid	145.0	345.1	389.6	99.4	0.0	50.1	8.0	92.6	120.3	471.1	499.6	467.9	477.0
Debt Service Ratio (XGS):													
Scheduled:													
Current	32.1%	75.1%	97.3%	129.4%	195.8%	215.5%	247.5%	253.9%	207.4%	174.4%	170.2%	146.5%	136.0%
Including Arrears	32.1%	75.1%	97.3%	129.4%	329.3%	482.7%	572.3%	762.4%	373.5%	327.8%	311.5%	276.3%	254.2%
After Relief:													
Current	32.1%	75.1%	97.3%	129.4%	96.2%	110.4%	247.5%	-279.4%	48.2%	174.4%	170.2%	146.5%	136.0%
Including Arrears	32.1%	75.1%	97.3%	129.4%	229.6%	377.6%	572.3%	229.1%	214.3%	327.8%	311.5%	276.3%	254.2%
Actually Paid	32.1%	75.1%	97.3%	33.4%	0.0%	27.3%	4.0%	41.8%	48.2%	174.4%	170.2%	146.5%	136.0%
Imports GS/XGS	193.5%	201.1%	243.8%	269.9%	322.7%	339.5%	414.1%	437.3%	414.9%	418.9%	403.6%	393.6%	379.2%
IGS/(XGS+DA)	86.5%	74.8%	81.1%	110.5%	106.7%	111.1%	118.0%	111.1%	109.1%	110.5%	107.1%	105.1%	102.5%
Donor Assistance/XGS	123.6%	168.9%	200.7%	144.3%	202.3%	205.7%	250.9%	293.6%	280.4%	279.1%	277.0%	274.5%	269.8%
Donor Assistance/IGS	63.9%	84.0%	82.3%	53.5%	62.7%	60.6%	60.6%	67.1%	67.6%	66.6%	68.6%	69.8%	71.1%

SOURCE: GPRM and IMF.

TABLE 7. MOZAMBIQUE: BALANCE OF PAYMENTS, RESOURCES
(US$ Millions)

ITEM	1980	1981	1982	1983	1994	1985	1986	Est. 1987	Projections 1988	1989	1990	1991	1992
Trade Balance	-519.3	-520.3	-606.7	-504.8	-444.0	-347.1	-463.6	-548.1	-593.9	-644.8	-690.3	-737.1	-785.2
Net Services, Excluding Interest	102.5	91.7	91.1	88.0	48.8	24.4	-4.0	-5.6	4.7	13.6	26.7	39.3	51.7
Short-Term Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors & Omissions	-29.6	-68.4	-41.6	43.9	25.6	-12.7	-27.2	0.0	0.0	0.0	0.0	0.0	0.0
AVAILABLE OWN RESOURCES	-446.4	-497.0	-557.2	-372.9	-369.6	-335.4	-494.8	-553.7	-589.2	-631.2	-663.6	-697.8	-733.5
Donor Assistance	559.0	775.6	804.0	428.9	432.6	377.8	497.0	650.0	700.0	754.2	812.9	876.8	946.3
IMF Purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.4	23.1	10.4	0.0	0.0	0.0
Debt Relief	0.0	0.0	0.0	0.0	213.1	193.0	0.0	1180.7	397.3	0.0	0.0	0.0	0.0
Bilateral Arrangements	0.0	-2.2	-5.6	-3.4	-1.4	2.3	4.9	0.0	0.0	0.0	0.0	0.0	0.0
AVAILABLE TOTAL RESOURCES	112.6	276.4	241.2	52.6	274.7	237.7	7.1	1292.4	531.2	133.4	149.3	179.0	212.8
Interest	6.1	35.9	60.3	88.2	80.9	117.3	154.7	193.1	196.9	230.6	227.5	239.8	245.8
Amortization	138.9	309.2	329.3	296.5	337.8	278.5	335.5	369.0	320.7	240.5	272.1	228.1	231.2
IMF Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DEBT SERVICE	145.0	345.1	389.6	384.7	418.7	395.8	490.2	562.1	517.6	471.1	499.6	467.9	477.0
BALANCE:													
Own Resources	-591.4	-842.1	-946.8	-757.6	-788.3	-731.2	-985.0	-1115.8	-1106.8	-1102.3	-1163.2	-1165.7	-1210.5
Total Resources	-32.4	-68.7	-148.4	-332.1	-144.0	-158.1	-483.1	730.3	13.6	-337.7	-350.3	-288.9	-264.2
ADJUSTMENTS:													
Decrease in Reserves	32.4	68.7	148.5	46.8	-23.0	20.5	-23.5	-19.0	-25.0	-15.0	-15.0	-15.0	-10.0
Increase in Arrears	0.0	0.0	0.0	285.3	167.0	137.6	506.6	0.0	11.4	352.7	365.3	303.9	274.2

SOURCE: Calculated from Tables 5 and 6.

TABLE 8. MOZAMBIQUE: ANNUAL GROWTH RATES OF SELECTED ELEMENTS OF BALANCE OF PAYMENTS
(Percent)

ITEM	1980-85	1985-87	1987-90	1990-92
Exports	-26.0%	12.9%	14.4%	11.6%
Imports	-12.7%	21.2%	8.8%	7.4%
Service Receipts	-9.4%	6.6%	4.7%	5.9%
Service Expenditures	19.6%	23.6%	2.1%	1.6%
Donor Assistance	-7.8%	27.1%	7.5%	7.6%
Debt Service:	20.1%	17.5%	-3.9%	-2.3%
Interest	59.1%	24.9%	5.5%	3.9%
Amortization	13.9%	14.1%	-10.2%	-8.1%

SOURCE: Calculated from Table 5.

TABLE 9. MOZAMBIQUE: External Debt, end 1986
(US$ Millions)

Lender	DOD Excluding Arrears	DOD Including Arrears	Arrears Total	Arrears Principal	Arrears Interest
Medium- and Long-Term	1,933.0	3,068.4	1,135.4	854.8	280.6
Multilateral	122.3	124.9	2.6	1.4	1.2
OECD Countries	692.8	1,290.7	597.9	423.7	174.2
Governments	373.4	399.1	25.7	5.3	20.4
Insured Banks	179.1	505.9	326.8	263.3	63.5
Insured Suppliers	118.2	230.9	112.7	76.4	36.3
Noninsured Banks	20.5	151.9	131.4	77.5	53.9
Noninsured Suppliers	1.6	2.9	1.3	1.2	0.1
OPEC Countries (Govt)	311.4	387.0	75.6	67.2	8.4
CPE Countries (Govt)	733.8	1,020.0	286.2	231.4	54.8
Other Countries	72.7	245.8	173.1	131.1	42.0
Governments	3.7	6.1	2.4	1.6	0.8
Insured Banks	67.4	235.9	168.5	128.6	39.9
Noninsured Banks	1.6	3.6	2.0	0.7	1.3
Noninsured Suppliers	0.0	0.2	0.2	0.2	0.0
Short-Term	9.7	90.0	80.3	78.7	1.6
OECD Countries	4.2	67.4	63.2	62.0	1.2
Noninsured Banks	4.2	41.7	37.5	36.3	1.2
Overdrafts	0.0	25.7	25.7	25.7	0.0
CPE Countries	0.0	3.8	3.8	3.8	0.0
Banks	0.0	2.9	2.9	2.9	0.0
Overdrafts	0.0	0.9	0.9	0.9	0.0
Other Countries	5.5	18.8	13.3	12.9	0.4
Insured Banks	0.0	4.4	4.4	4.2	0.2
Noninsured Banks	5.5	14.0	8.5	8.3	0.2
Overdrafts	0.0	0.4	0.4	0.4	0.0
TOTAL	1,942.7	3,158.4	1,215.7	933.5	282.2
Medium- and Long-Term	1,933.0	3,068.4	1,135.4	854.8	280.6
Multilateral	122.3	124.9	2.6	1.4	1.2
Bilateral	1,810.7	2,943.5	1,132.8	853.4	279.4
Government	1,422.3	1,812.2	389.9	305.5	84.4
Private	388.4	1,131.3	742.9	547.9	195.0
Short-Term (Bilateral)	9.7	90.0	80.3	78.7	1.6

SOURCE: IMF.

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TABLE 10. MOZAMBIQUE: Structure of External Debt, end 1986
(Percentages)

Lender	DOD Including Arrears	DOD Excluding Arrears	Arrears Total	Arrears Principal	Arrears Interest
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%
Medium- and Long-Term	97.2%	99.5%	93.4%	91.6%	99.4%
Multilateral	4.0%	6.3%	0.2%	0.1%	0.4%
Bilateral	93.2%	93.2%	93.2%	91.4%	99.0%
Government	57.4%	73.2%	32.1%	32.7%	29.9%
Private	35.8%	20.0%	61.1%	58.7%	69.1%
Short-Term (Bilateral)	2.8%	0.5%	6.6%	8.4%	0.6%
TOTAL	100.0%	61.5%	38.5%	29.6%	8.9%
Medium- and Long-Term	100.0%	63.0%	37.0%	27.9%	9.1%
Multilateral	100.0%	97.9%	2.1%	1.1%	1.0%
Bilateral	100.0%	61.5%	38.5%	29.0%	9.5%
Government	100.0%	78.5%	21.5%	16.9%	4.7%
Private	100.0%	34.3%	65.7%	48.4%	17.2%
Short-Term (Bilateral)	100.0%	10.8%	89.2%	87.4%	1.8%

SOURCE: Calculated from Table 9.

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TABLE 11. MOZAMBIQUE: Debt Service Projections on External Debt, 1985-92
(US$ Millions)

Item	1985	1986	1987	1988	1989	1990	1991	1992
Original Debt Service	352.8	447.6	520.8	421.6	350.2	352.9	297.7	263.0
Principal	278.5	335.5	369.0	320.7	240.5	272.1	228.1	208.7
Multilateral	3.3	3.5	6.2	7.8	7.3	8.3	8.1	8.0
Bilateral	275.2	332.0	362.8	312.9	233.2	263.8	220.0	200.7
Interest	74.3	112.1	151.8	100.9	109.7	80.8	69.6	54.3
Multilateral	3.6	2.8	4.3	4.1	3.7	3.4	2.8	2.7
Bilateral	70.7	109.3	147.5	96.8	106.0	77.4	66.8	51.6
New Debt Service	43.1	42.6	41.3	95.9	120.9	146.7	170.2	214.0
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.5
On Refinancing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.5
On New Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	43.1	42.6	41.3	95.9	120.9	146.7	170.2	191.5
On Refinancing	40.2	39.0	37.5	84.2	100.5	117.0	130.8	142.0
On New Borrowing	2.9	3.6	3.8	11.7	20.4	29.7	39.4	49.5
TOTAL DEBT SERVICE	395.9	490.2	562.1	517.5	471.1	499.6	467.9	477.0
Principal	278.5	335.5	369.0	320.7	240.5	272.1	228.1	231.2
Interest	117.4	154.7	193.1	196.8	230.6	227.5	239.8	245.8
Estimated Amounts Subject to Rescheduling	193.0	0.0	469.5	397.3	356.4	384.1	350.2	356.5
Principal	NA	NA	NA	NA	224.1	253.6	212.6	215.5
Interest	NA	NA	NA	NA	132.3	130.5	137.6	141.0
Minimum Amount to be Paid with Rescheduling and Excluding Service on New Reschedulings	202.9	490.2	92.6	120.2	114.7	115.5	117.7	120.5
Exports	183.7	198.1	221.4	249.6	270.2	293.5	319.4	350.8
Debt Service/Exports Ratio:								
Scheduled	215.5%	247.5%	253.9%	207.3%	174.4%	170.2%	146.5%	136.0%
Minimum After Maximum Rescheduling	110.5%	247.5%	41.8%	48.2%	42.4%	39.3%	36.9%	34.3%

SOURCE: IMF.

TABLE 12. MOZAMBIQUE: EXCHANGE RATE 1980-1987
(Meticais/US$)

Item	1980	1981	1982	1983	1984	1985	1986	1987-01	1987-06	1987-12
Official Exchange Rate	32.40	35.35	37.77	40.18	42.44	43.18	38.50	200.0	400.0	450.0
Parallel xchange Rate	NA	NA	NA	NA	1500.0	1500.0	1800.0	1200.0	900.0	900.0
Parallel/Official	NA	NA	NA	NA	35.3	34.7	46.8	6.0	2.3	2.0
Consumer Price Index	100	102	120	155	202	261	305	309	610	686
Official Deflated by CPI	32.4	34.7	31.5	25.9	21.0	16.5	12.6	64.7	65.6	65.6
Percentage Devaluation:										
Official:										
Period	NA	8.3%	6.4%	6.0%	5.3%	1.7%	-12.2%	80.8%	50.0%	11.1%
Cumulative	NA	8.3%	14.2%	19.4%	23.7%	25.0%	15.8%	83.8%	91.9%	92.8%
Deflated Official:										
Period	NA	6.5%	-10.1%	-21.4%	-23.4%	-27.0%	-31.1%	80.5%	1.3%	0.0%
Cumulative	NA	6.5%	-2.9%	-25.0%	-54.2%	-95.8%	-156.7%	49.9%	50.6%	50.6%

SOURCE: CNP/DNE, Informacao Estatistica 1986, April 1987.

TABLE 13: MOZAMBIQUE: GOVERNMENT BUDGET, 1980-1987
(Meticais Billions, Current Prices))

ITEM	1980	1981	1982	1983	1984	1985	1986	Est. 1987-6/30	Proj. 1987
TOTAL REVENUE AND GRANTS:	16.8	20.1	23.3	25.1	25.3	21.9	25.4	28.5	139.3
REVENUE:	14.7	18.3	21.0	22.1	22.4	18.9	21.5	22.4	80.2
Taxes:	12.0	12.6	15.4	16.2	16.3	13.6	15.7	18.2	70.5
Direct:	3.8	4.2	6.3	6.8	4.4	4.4	4.3	5.1	10.2
Business	2.7	3.0	4.7	5.1	3.2	3.3	3.1	3.7	7.5
Personal	1.1	1.2	1.6	1.7	1.2	1.1	1.2	1.4	2.7
Indirect:	8.2	8.6	9.1	9.4	11.9	9.2	11.4	13.1	60.3
Consumption	4.8	5.3	5.9	5.9	9.3	6.7	9.0	9.7	45.6
International Trade	2.8	2.5	2.1	2.4	1.8	1.5	1.0	2.5	11.9
Other	0.6	0.8	1.1	1.1	0.8	1.0	1.4	0.9	2.8
Participation in Parastatal Operations	0.6	3.2	3.0	3.0	3.0	1.7	2.7	0.0	0.0
Rents	1.1	1.2	1.3	1.4	1.4	1.5	1.6	0.8	2.9
Other	1.0	1.1	1.3	1.5	1.7	2.1	1.5	3.4	6.8
GRANTS	2.1	1.8	2.3	3.0	2.9	3.0	3.9	6.1	59.1
TOTAL EXPENDITURE:	24.1	30.7	34.2	39.6	38.7	30.7	37.4	41.0	188.4
CURRENT EXPENDITURE:	14.2	16.7	19.9	22.5	22.0	24.0	28.1	33.1	105.2
Wages and Salaries	5.1	5.8	6.5	7.2	7.2	7.6	8.0	5.1	17.2
Goods and Services	3.6	4.4	4.7	4.5	4.0	4.3	5.0	4.8	14.3
Defense	4.4	5.7	6.9	8.3	10.3	11.0	12.4	15.9	42.0
Other	1.0	1.4	1.4	1.5	1.4	1.6	2.7	4.4	34.2
Timing Adjustment	0.1	-0.6	0.4	1.0	-0.9	-0.5	na	2.9	-2.5
INVESTMENT EXPENDITURE	9.9	14.0	14.3	17.1	16.7	6.7	9.3	7.9	83.2
CURRENT DEFICIT:									
Excluding Grants	-0.5	-1.6	-1.1	0.4	-0.4	5.1	6.6	10.7	25.0
Including Grants	-2.6	-3.4	-3.4	-2.6	-3.3	2.1	2.7	4.6	-34.1
OVERALL DEFICIT:									
Excluding Grants	9.4	12.4	13.2	17.5	16.3	11.8	15.9	18.6	108.2
Including Grants	7.3	10.6	10.9	14.5	13.4	8.8	12.0	12.5	49.1

SOURCE: CNP/DNE, Informacao Estatistica 1986, April 1987, and Ministry of Finance.

TABLE 14: MOZAMBIQUE: STRUCTURE OF GOVERNMENT BUDGET, 1980-1986
(Percent)

ITEM	1980	1981	1982	1983	1984	1985	1986	(Average) 1980-85	(Average) 1980-86
TOTAL REVENUE AND GRANTS:	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
REVENUE:	87.5%	91.0%	90.1%	88.0%	88.5%	86.3%	84.6%	88.6%	88.0%
Taxes:	71.4%	63.7%	66.1%	64.5%	64.4%	62.1%	61.8%	65.4%	64.9%
Direct:	22.6%	20.9%	27.0%	27.1%	17.4%	20.1%	16.9%	22.5%	21.7%
Indirect:	48.8%	42.8%	39.1%	37.5%	47.0%	42.0%	44.9%	42.9%	43.1%
Other	16.1%	27.4%	24.0%	23.5%	24.1%	24.2%	22.8%	23.2%	23.2%
GRANTS	12.5%	9.0%	9.9%	12.0%	11.5%	13.7%	15.4%	11.4%	12.0%
TOTAL EXPENDITURE:	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
CURRENT EXPENDITURE:	58.9%	54.4%	58.2%	56.8%	56.8%	78.2%	75.1%	60.6%	62.6%
Wages and Salaries	21.2%	18.9%	19.0%	18.2%	18.6%	24.8%	21.4%	20.1%	20.3%
Goods and Services	14.9%	14.3%	13.7%	11.4%	10.3%	14.0%	13.4%	13.1%	13.2%
Defense	18.3%	18.6%	20.2%	21.0%	26.6%	35.8%	33.2%	23.4%	24.8%
Other	4.1%	4.6%	4.1%	3.8%	3.6%	5.2%	7.2%	4.2%	4.7%
Timing Adjustment	0.4%	-2.0%	1.2%	2.5%	-2.3%	-1.6%	0.0%	-0.3%	-0.3%
INVESTMENT EXPENDITURE	41.1%	45.6%	41.8%	43.2%	43.2%	21.8%	24.9%	39.4%	37.4%

SOURCE: CNP/DNE, Informacao Estatistica 1986, April 1987.

TABLE 15. MOZAMBIQUE: MONEY & CREDIT, 1980-1987

ITEM	1980	1981	1982	1983	1984	1985	1986	Est. 1987-6/30	Proj. 1987
(Meticais Billions)									
NET FOREIGN ASSETS	8.2	6.5	1.5	-1.6	1.0	0.6	0.4	10.6	9.7
Assets	8.9	7.4	2.8	2.5	4.0	2.9	3.5	44.1	39.9
Liabilities	0.7	0.9	1.3	4.1	3.0	2.3	3.1	33.5	30.2
DOMESTIC CREDIT	49.6	62.3	73.0	102.9	124.3	144.2	168.9	182.3	191.4
To the Government	1.7	6.3	3.9	13.6	22.3	27.0	32.9	39.0	57.9
To Others	47.9	56.0	69.1	89.3	102.0	117.2	136.0	143.3	133.5
NARROW MONEY SUPPLY (M1)	32.6	42.6	56.3	68.5	80.8	92.6	107.4	129.6	156.1
Non-Bank Currency	9.1	12.2	17.8	23.5	27.0	29.8	32.3	33.6	42.0
Demand & Savings Deposits	23.5	30.4	38.5	45.0	53.8	62.8	75.1	96.0	114.1
BROAD MONEY SUPPLY (M2)	35.3	45.7	59.5	72.4	83.6	96.5	111.5	133.7	160.2
M1	32.6	42.6	56.3	68.5	80.8	92.6	107.4	129.6	156.1
Time Deposits	2.7	3.1	3.2	3.9	2.8	3.9	4.1	4.1	4.1
(Indices, 1980=100)									
NET FOREIGN ASSETS	100.0	79.3	18.3	-19.5	12.2	7.3	4.9	129.3	118.3
Assets	100.0	83.1	31.5	28.1	44.9	32.6	39.3	495.5	448.3
Liabilities	100.0	128.6	185.7	585.7	428.6	328.6	442.9	4785.7	4314.3
DOMESTIC CREDIT	100.0	125.6	147.2	207.5	250.6	290.7	340.5	367.5	385.9
To the Government	100.0	370.6	229.4	800.0	1311.8	1588.2	1935.3	2294.1	3407.1
To Others	100.0	116.9	144.3	186.4	212.9	244.7	283.9	299.2	278.7
NARROW MONEY SUPPLY (M1)	100.0	130.7	172.7	210.1	247.9	284.0	329.4	397.5	478.8
Non-Bank Currency	100.0	134.1	195.6	258.2	296.7	327.5	354.9	369.2	461.5
Demand & Savings Deposits	100.0	129.4	163.8	191.5	228.9	267.2	319.6	408.5	485.5
BROAD MONEY SUPPLY (M2)	100.0	129.5	168.6	205.1	236.8	273.4	315.9	378.8	453.8
M1	100.0	130.7	172.7	210.1	247.9	284.0	329.4	397.5	478.8
Time Deposits	100.0	114.8	118.5	144.4	103.7	144.4	151.9	151.9	151.9
(Annual Percentage Changes)									
NET FOREIGN ASSETS	NA	-20.7%	-76.9%	-206.7%	162.5%	-40.0%	-33.3%	163.9%	318.8%
Assets	NA	-16.9%	-62.2%	-10.7%	60.0%	-27.5%	20.7%	126.7%	243.4%
Liabilities	NA	28.6%	44.4%	215.4%	-26.8%	-23.3%	34.8%	119.0%	227.6%
DOMESTIC CREDIT	NA	22.9%	15.8%	34.3%	18.9%	14.9%	15.8%	3.8%	12.5%
Claims on the Government	NA	131.0%	-48.0%	124.9%	49.5%	19.1%	19.6%	8.5%	56.6%
Claims on the Economy	NA	15.6%	21.0%	25.6%	13.3%	13.9%	14.9%	2.6%	-1.9%
NARROW MONEY SUPPLY (M1)	NA	26.8%	27.9%	19.6%	16.5%	13.6%	14.8%	9.4%	37.4%
Non-Bank Currency	NA	29.3%	37.8%	27.8%	13.9%	9.9%	8.1%	2.0%	26.3%
Demand & Savings Deposits	NA	25.7%	23.6%	15.6%	17.9%	15.5%	17.9%	12.3%	41.8%
BROAD MONEY SUPPLY (M2)	NA.	25.8%	26.4%	19.6%	14.4%	14.3%	14.4%	9.1%	36.2%
M1	NA	26.8%	27.9%	19.6%	16.5%	13.6%	14.8%	9.4%	37.4%
Time Deposits	NA	13.8%	3.2%	19.8%	-33.1%	33.1%	5.0%	0.0%	0.0%

SOURCE: CNP/DNE, Informacao Estatistica 1986, April 1987.

TABLE 16. MOZAMBIQUE: KEY DOMESTIC FINANCIAL VALUES AND RATIOS, 1980-1987

ITEM	1980	1981	1982	1983	1984	1985	1986	Est. 1987-6/30	Proj. 1987
				(Meticais Billions, Current Prices)					
Direct Taxes	3.8	4.2	6.3	6.8	4.4	4.4	4.3	5.1	10.2
Indirect Taxes	8.2	8.6	9.1	9.4	11.9	9.2	11.4	13 1	60.3
Total Taxes	12.0	12.8	15.4	16.2	16.3	13.6	15.7	18.2	70.5
Current Expenditures	14.2	16.7	19.9	22.5	22.0	24.0	28.1	33.1	105.2
Total Expenditures	24.1	30.7	34.2	39.6	38.7	30.7	37.4	41.0	188.4
Overall Budget Deficit, Including Grants	7.3	10.6	10.9	14.5	13.4	8.8	12.0	12.5	49.1
Narrow Money Supply (M1)	32.6	42.6	56.3	68.5	80.8	92.6	107.4	129.6	156.1
Broad Money Supply (M2)	35.3	45.7	59.5	72.4	83.6	96.5	111.5	133.7	160.2
Global Social Product (GSP)	82.2	85.9	90.5	99.0	119.7	127.6	158.5	190.1	227.7
				(Percentages)					
Ratios to GSP:									
Direct Taxes	4.6%	4.9%	7.0%	6.9%	3.7%	3.4%	2.7%	1.6%	2.8%
Indirect Taxes	10.0%	10.0%	10.1%	9.5%	9.9%	7.2%	7.2%	4.1%	16.6%
Total Taxes	14.6%	14.9%	17.0%	16.4%	13.6%	10.7%	9.9%	5.7%	19.4%
Current Expenditures	17.3%	19.4%	22.0%	22.7%	18.4%	18.8%	17.7%	10.4%	28.9%
Total Expenditures	29.3%	35.7%	37.8%	40.0%	32.3%	24.1%	23.6%	12.8%	51.7%
Budget Deficit	8.9%	12.3%	12.0%	14.6%	11.2%	6.9%	7.6%	3.9%	13.5%
Narrow Money Supply	39.7%	49.6%	62.2%	69.2%	67.5%	72.6%	67.8%	40.5%	42.9%
Broad Money Supply	42.9%	53.2%	65.7%	73.1%	69.8%	75.6%	70.3%	41.8%	44.0%
Budget Deficit/M1	22.4%	24.9%	19.4%	21.2%	16.6%	9.5%	11.2%	9.6%	31.5%
Budget Deficit/M2	20.7%	23.2%	18.3%	20.0%	16.0%	9.1%	10.8%	9.3%	30.6%

SOURCE: Calculated from Tables 1, 13 and 15.

Annex G

List of Tables