AGRICULTURAL POLICY ANALYSIS PROJECT, PHASE III

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MOZAMBIQUE
PL-480
TITLE III
EVALUATION

MAY 1995

APAP III
Research Report
No. 1005

Prepared for

Agricultural Policy Analysis Project, Phase III (APAP II)

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LIST OF ACRONYMS

AGRICOM	State Enterprise for Agricultural Marketing
APAP	Agricultural Policy Analysis Project
APROC	Association of Cereal Processors (small hammer-mill operators)
ARDA	Seventh Day Adventist Association
ATA	Actual Time of Arrival
BCFM	Broken Corn and Foreign Material
BCM	Banco Comercial de Mocambique
BM	Banco de Mocambique
BPD	Banco Popular de Desenvolvimento
BSTM	Banco Standard Totta de Mocambique
CFM	Compañia de Ferrovias Moçambique (Railroads)
CIDA	Canadian International Development Agency
CIM	Compañia Industrial da Matola (Grain Mill)
CIP	Commodity Import Program
CNSP	National Commission for Salaries and Prices
DAE	Department of Agricultural Economics
DEA	Department of Agricultural Economics of the MOA
DO	Delivery Order
DPPCN	Department for the Prevention and Control of Natural Calamities
EC	European Community (now the European Union = EU)

Ecu	European Currency Unit (Ecu 1 = approximately US$1.25)
EU	European Union
ETA	Estimated Time of Arrival
FAO	Food and Agriculture Organization of the United Nations
FFW	Food-for-Work
FRELIMO	Frente de Liberação de Moçambique
FY	Fiscal Year
GAPVU	Gabinete de Apoio a Populacão Vulneravel
GRM	Government of the Republic of Mozambique
GTZ	German Agency for Technical Cooperation
ICM	Instituto de Ceriais de Moçambique
IMBEC	Importador de Bens de Consumo
IMF	International Monetary Fund
IPP	Import Parity Price
ITSH	Internal Transport, Storage and Handling
LTC	Land Tenure Center (University of Wisconsin)
MOA	Ministry of Agriculture
MOC	Ministry of Commerce
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MSU	Michigan State University
MT	Metical (official rate US$1 = MT 6800 on 15.01.94; free market MT 7700)

mt	Metric Ton
n.d.	no date
NGO	Non-Governmental Organization
NSA	Novo Sistema de Abastecimento (Maputo/Beira rationing system)
OP/TRAN	Operation Office in USAID/Washington for Procurement
PFP	Policy Framework Papers
PRE	Programa de Rehabilitacão Económica (Economic Rehabilitation Program)
PSSP	Private Sector Support Program
PSS/TA	Private Sector Support/Technical Assistance
PVOs	Private Voluntary Organizations
RENAMO	Resistencia Nacional de Mozambique
REDSO	Region Economic Development Support Office
RSA	Republic of South Africa
SADC	Southern Africa Development Community
SADCC	Southern Africa Development Coordination Conference (forerunner of the present SADC)
SERC	Second Economic Recovery Credit Program
SIMA	Sistema Informacão de Mercado Agrícola
TA	Technical Assistance
UK	United Kingdom
UNDP	United Nations Development Programme
UNICEF	United Nations Childrens Fund

USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WB	World Bank
WFP	World Food Program

PREFACE

An evaluation of the PL-480 Title III Program in Mozambique was done during a two-week period between February 3, 1995 and February 17, 1995. The evaluation team was composed of a food and agriculture policy specialist from Development Alternatives, Inc. and an agribusiness specialist from Abt Associates Inc. engaged through the Agricultural Policy Analysis Project (Phase III). This final report incorporates USAID/Mozambique's comments on an earlier draft that was discussed before the team left the country. Additional data and interviews were obtained by the agribusiness specialist between February 18 and 28 and incorporated into the final report.

The team would like to thank Don Drga and Richard Newberg of the USAID Agricultural and Food Resource Office, Cheryl McCarthy, USAID Program Officer, and Scott Allen, USAID Program Economist. We would also like to thank Rui Benefica, Research Associate of the Ministry of Agriculture/Michigan State University Research Team. All of these individuals provided freely of their time while under heavy workloads. Their insights and guidance were very useful. Dinah Robain was a great help to the team in obtaining appointments and in keeping our schedule. The entire Mission staff was supportive of our efforts.

Due to lack of time the team used secondary data for most of its analysis. Any errors or misinterpretation of this data is our responsibility.

Donald Brown
Jeff Dorsey

EXECUTIVE SUMMARY

SUMMARY OF FINDINGS

- The Title III program provided needed maize to people in Mozambique at a time when food production levels were insufficient to meet food security requirements.
- By keeping food prices low in the marketplace, the Title III program provided an income transfer to low income people. This was the real food safety net.
- Title III contributed significantly to increased competition in the food market, resulting in greater market efficiency.
- Except for the import parity price (IPP), all policy indicators have been met in substance. Progress has been made in reaching the IPP for maize.
- Since 1991, changes have occurred in Mozambique that now make achievement of food self-reliance possible.
- Title III had serious quality problems with the maize it was bringing into the country. Upgrading standards has solved this problem.
- The consignees' financial discipline and accountability is much better than that of the Government (GRM).
- Delivery schedule for Title III arrivals is a pivotal problem. Clustered deliveries can cause oversupplied markets, difficulty for receivers, wastage, and instability in the market, and can ultimately discourage local production.
- Improved information on Title III deliveries can help to alleviate some negative side effects of clustered deliveries. The GRM has not been as helpful as it should be in providing information to potential consignees.
- The consignee selection process managed by the Ministry of Commerce for the GRM is now neither as transparent nor as effective as it has been and should be. The Ministry has moved away from the established pre-qualification system that had been in place.

SUMMARY OF RECOMMENDATIONS

Overall Recommendations

- USAID should begin planning for a well-managed draw-down of the Title III program over the next five to six years. The management of this draw-down is critical. Too rapid a reduction of the Title III program could lead to food shortages and resultant economic and political instability. Too large a Title III program, on the other hand, could hinder expansion of local food production and eventual achievement of food self-reliance.

Policy Reform Recommendations

- USAID should press the GRM to continue movement toward import parity pricing of commercial food aid. In urging this policy change, USAID should coordinate its policy dialogue with other appropriate donors, such as the Canadians and the European Union.

- USAID may want to revise its policy matrix for the Title III program to better reflect the thrust of its present policy orientation.

- Two new policy areas that USAID may want to consider for the Title III program are: 1) revision of the financial relationship between consignees, GRM, and the special account; and 2) incorporation of the DANIDA-funded program of management and technical assistance to the port into the overall scheme for privatization.

Program Management Recommendations

USAID Management

- USAID should attempt to make USAID/Washington aware of the problems caused by Title III deliveries arriving too close together, giving too large a quantity at one time to be handled effectively.

- USAID should establish an efficient and transparent information system on arrivals of Title III shipment both in time and quantity. USAID should take the lead in requiring the GRM to participate in this open market information system.

- USAID should seek means to provide greater coordination of both emergency and commercial food aid among donors, GRM, and grain traders.

- USAID may want to consider alternate delivery systems for Title III that reduce its negative impact on production and marketing of local maize.

- USAID should again offer technical assistance to the Ministry of Commerce for improving the handling and monitoring of commercial food aid shipments and to the Ministry of Finance for local currency monitoring.

GRM Management

- The GRM should abide by its commitment to a transparent system for selection of consignees for Title III commercial food aid, as it did in the past. If there is reluctance to return to the previous system, then USAID should require that the GRM initiate an alternate open and transparent system for this selection.

- The GRM should establish and support a system of information dissemination to the marketplace on Title III ship arrivals and tonnage.

- The GRM should undertake a full examination and reform of port procedures and customs regulations. Establishment of separate autonomous port authorities for the major ports should be a part of this examination. A USAID-supported maritime consultant could work with the GRM in looking at port and customs procedures and regulation to improve efficiency and reduce losses.

- Payment and financing of local currency requirements should be reexamined. The GRM, with USAID, should look at alternate ways to assure full and timely deposit of owed local currency into the special account of the program. Bank terms for guarantees required of consignees should also be reviewed.

RESUMO GERAL

- O programa do Título III forneceu o milho necessário ao povo de Moçambique numa época em que os níveis de produção eram insuficientes para atender aos requisitos de segurança alimentar.

- Ao manter os preços dos alimentos a um nível baixo no mercado, o programa do Título III permitiu a transferência de rendimentos para as pessoas mais necessitadas. Foi realmente uma rede de segurança alimentar.

- O Título III contribuiu significativamente para aumentar a concorrência no mercado de alimentos, resultando em maior eficiência do mercado.

- Com excepção do preço paritário das importações (PPI), todos os indicadores de política foram substancialmente observados. Fez-se progresso em conseguir o PPI para o milho.

- Desde 1991, ocorreram mudanças em Moçambique que agora tornam possível conseguir a auto-suficiência nos alimentos.

- O Título III continha sérios problemas relacionados com a qualidade do milho que levava para o país. A melhoria dos padrões solucionou este problema.

- A disciplina e responsabilidade financeiras dos consignatários é muito melhor do que a do Governo (GRM).

- O cronograma de entrega dos produtos do Título III apresenta um problema central. Entregas por conglomerado podem causar excesso de suprimento, dificuldades para os recebedores, desperdício e instabilidade no mercado, podendo, em última análise, desincentivar a produção local.

- Melhor informação a respeito das entregas do Título III pode ajudar a aliviar alguns efeitos negativos colaterais das entregas por conglomerado. O GRM não tem sido tão prestativo quanto o deveria ser na prestação de informação a consignatários potenciais.

- O processo de seleção de consignatários, dirigido pelo Ministério do Comércio para o GRM, não é agora nem transparente nem tão eficiente como fôra e como deveria ser. O Ministério afastou-se do sistema de pré-qualificação estabelecido que tinha em funcionamento.

RESUMO DAS RECOMENDAÇÕES

Recomendações gerais

- A USAID deve começar a planear uma redução do Programa do Título III nos próximos cinco a seis anos. A gestão dessa redução é crítica. Uma redução demasiadamente rápida do programa do Título III poderia levar à escassez de alimentos e à consequente instabilidade económica e política. Um programa do Título III demasiadamente grande, por outro lado, poderia prejudicar a expansão da produção local de alimentos e a eventual consecução da auto-suficiência de alimentos.

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Recomendações sobre a reforma de políticas

- A USAID deve exercer pressão sobre o GRM no sentido de continuar a passagem para o preço paritário das importações da ajuda alimentar comercial. Ao instar nesta mudança de política, a USAID deve coordenar o seu diálogo de política com outros doadores apropriados, tais como os canadianos e a União Européia.

- A USAID deve rever a sua matriz de política para o programa do Título III reflectir melhor o impulso da sua actual orientação de política.

- Duas novas áreas de política que a USAID poderia considerar para o programa do Título III são: 1. revisão da relação financeira entre consignatários, o GRM e a conta especial; e 2. privatização do porto, incluindo separar o porto da paraestatal ferroviária CFM.

Recomendações sobre a gestão do programa

Gestão por parte da USAID

- A USAID deve procurar conscientizar a USAID/Washington para os problemas causados pelas entregas do Título III que chegam com intervalo muito próximo, dando um volume demasiadamente grande de uma só vez para ser manuseado efectivamente.

- A USAID deve estabelecer um sistema de informação eficiente e transparente de chegadas de remessas do Título III, em termos tanto de tempo como de quantidade. A USAID deve assumir a liderança em conseguir que o GRM participe deste sistema aberto de informação de mercado.

- A USAID deve procurar meios de proporcionar maior coordenação da ajuda alimentar tanto de emergência como comercial entre doadores, o GRM e os comerciantes de cereais.

- Seria conveniente que a USAID considerasse sistemas alternativos de entrega do Título III que reduzam o seu impacto negativo sobre a produção e a comercialização do milho local.

- A USAID deve oferecer novamente assistência técnica ao Ministério do Comércio para melhorar o manuseio e a supervisão de remessas de ajuda alimentar comercial e ao Ministério das Finanças para a supervisão da moeda local.

Gestão por parte do GRM

- O GRM deve cumprir o seu compromisso com um sistema transparente de selecção de consignatários para a ajuda alimentar comercial do Título III, como fez no passado. Se houver relutância em voltar ao sistema anterior, a USAID deveria solicitar ao GRM o estabelecimento de um sistema alternativo aberto e transparente para essa selecção.

- O GRM deve estabelecer e apoiar um sistema de divulgação da informação ao mercado sobre chegada e tonelagem das remessas do Título III.

- O GRM deve fazer um exame completo e reformar os procedimentos e regulamentações alfandegárias. O estabelecimento de autoridades portuárias autónomas para os principais portos deve ser parte desse exame. O consultor em assuntos marítimos, apoiado pela USAID, poderia trabalhar com o GRM no exame dos procedimentos e das regulamentações portuárias e alfandegárias, a fim de melhorar a eficiência e reduzir as perdas.

- Deve-se examinar o requisito de pagamento e financiamento em moeda local. O GRM, juntamente com a USAID, deve examinar meios alternativos de assegurar plena e oportunamente o depósito de moeda local devida numa conta especial do programa. Devem ser examinados os termos bancários de garantias, requeridos dos consignatários.

1. BACKGROUND ON THE PL-480 TITLE III PROGRAM IN MOZAMBIQUE

On July 1st 1991 the U. S. Agency for International Development (USAID) signed an agreement with the Government of the Republic of Mozambique (GRM) for a PL-480 Title III commercial sales program in Mozambique. This agreement replaced the FY 89-91 Section 206 program.

The PL-480 Program had been completely revamped by the 1991 Farm Bill, which subsumed the former Title II Section 206 activities under the revised Title III Program. The Title III Program provided grant funds for the import and commercial sale of food aid in selected countries. To qualify for a Title III program, a country had to demonstrate both an appropriate policy need which its government was willing to meet and a critical need for food aid. To show a critical need for food aid, a country had to be either in the least developed category of countries, as defined by World Bank criteria for concessional lending, or it could be characterized by a combination of low average caloric consumption, high child mortality and inability to meet food security requirements though domestic production or import. Mozambique met all of these conditions.

The Title III Program in Mozambique retained the policy objective of the Section 206 program, which had been to improve the effectiveness and efficiency of the GRM's Food Safety Net. This policy objective deals with food security. As events dictated, the Title III policy objectives were modified and amended during the course of the program (see section 2.1.1).

Funding levels for the Title III program were between $15 and $18 million. In 1992, however, funding levels for the program were increased sharply to $49 million in response to the 1991/92 drought that affected the country.

1.1 Rationale for the Title III Program in Mozambique

As mentioned above, two things are required for a Title III program, an achievable policy agenda, ideally related to food security, and a demonstrated need for food assistance. The food security-based policy agenda of Title III is detailed in Chapter 2. Mozambique, as the poorest country in the world, readily demonstrates its need for food assistance. This situation is changing, however. Success in the policy area for food security should result in less need for donor-based food assistance. It is critically important for the Title III program that its funding level and duration be in phase with and supportive of food self-reliance within the country.

At the present time, Mozambique cannot meet its food needs though internal resources either by production or by the use of foreign exchange for commercial food imports. In May 1994 FAO and WFP conducted a joint food needs assessment for Mozambique for the growing season 1994/1995. The assessment took into account both the changing needs and the changing size of the population in the country. The biggest changes were the result of the ending, with the General Peace Accord signed in 1992, of almost 16 years of civil war. Food needs in Mozambique were increased by the need to feed some 1.5 million people who had fled the war and who were now returning to Mozambique from neighboring countries. At the same time large numbers of internal migrants (*deslocados*) had begun returning from the cities to their places of origin. In addition, as many as 90,000 soldiers from both sides and their families were returning home after being demobilized. Additional food was also required for about a half million people adversely affected by poor harvests caused by drought and by the destruction wrought in the Nampula region by Cyclone Nadia. Table 1.1 summarizes the food needs for the 1994/1995 period.

Table 1.1 1994/1995 Staple Food Balance Sheet
(metric tons)

	Maize	Rice	Wheat	Sorghum & Millet	Total Cereals	Pulses
DOMESTIC AVAILABILITY						
1993/1994 Production	526	65	-	193	784	95
UTILIZATION 1994/95						
Food Need	854	158	125	163	1,300	195
Other Needs	43	7	4	30	84	
Total	897	165	129	193	1,384	
IMPORT REQUIREMENTS						
Planned Commercial Imports	-	60	45	-	105	-
Food Aid Requirement:						
Commercial Food Aid	189	40	84	-	313	84
Emergency Food Aid	182	-	-	-	182	16
Total	371	100	129	-	600	100

Source: FAO/WFP, *Mozambique Food Aid Need 1994/1995*, May 1994

As can be seen in Table 1.1, total need for maize is almost 900,000 metric tons, while production is estimated at about 526,000 tons. This leaves an import requirement for maize of over 371,000 tons. No commercial imports are anticipated to fill this gap. The reason for the lack of private commercial imports is the extremely limited amount of foreign exchange in the country. This problem is discussed in the analysis of foreign exchange availability in section 2.5. In a situation of highly restricted availability of foreign exchange, traders are much more likely to import consumer items, with their limited risk and high profitability, rather than risky perishable food commodities with uncertain profit margins. The result is that Mozambique is faced with a need for 182,000 tons of maize for emergency food aid and 189,000 tons of maize for food aid under programs such as Title III.

The World Food Program (WFP) monitors in a comprehensive manner emergency food supply and demand. Monthly, WFP tracks donor-funded emergency food aid supplies and updates the changing site-specific demand for emergency food assistance. Mozambique's Ministry of Commerce, through its Department of Food Aid, also tracks, in a less rigorous manner, both emergency and commercial food aid. Table 1.2 indicates, for selected commodities, promises and deliveries by donors of commercial food aid in the April 1994 to March 1995 period. The U.S. Title III program is the only one delivering maize on a commercial food aid basis.

Table 1.2 Selected Commercial Food Aid 1994/1995: Promises and Deliveries As of December 1994
(metric tons)

Donor Countries	Maize		Rice		Wheat	
	Promises	Deliveries	Promises	Deliveries	Promises	Deliveries
Australia	-	-	-	-	24,000	24,000
Canada	-	-	-	-	43,255	42,357
EU	-	-	10,000	-	7,500	-
France	-	-	-	-	10,220	-
Italy	-	-	-	-	2,929	-
Japan	-	-	40,000	17,950	-	-
United States of America	70,180	70,180*	-	-	-	-
Other countries	-	-	1,000	-	-	-
Total	70,180	70,180	51,000	17,950	87,904	66,357

* As of December 1994, 37,645 tons had been received in-country, and the rest was aboard a ship nearing Mozambique.

Source: Ministry of Commerce, Department of Food Aid

Two important caveats need to be remembered in looking at the food need estimates seen in Table 1.1. First, estimating food needs is an inexact science, particularly in a country with as poor a statistical base as Mozambique's. Second, the food security situation in Mozambique is extremely dynamic.

WFP itself has some questions on the accuracy of their food need assessment for any given point in time. This is particularly true concerning the figures on commercial food aid. Estimating project commercial food aid need in Table 1.1 is done by calculating the simple residual between import requirements and emergency food aid. Commercial food aid estimates may have been excessive, at least for a particular time frame.

Calculating actual, rather than estimated, demand for commercial food aid is more complex than for emergency food aid. Demand for emergency food aid is a relatively simple calculation of the number of people at risk multiplied by standard coefficients of food requirements for the period of time they are at risk. Demand for commercial food aid, however, is affected by the many different forces acting in the marketplace. Commercial food aid is handled by business people in search of a profit. Thus commercial demand is the result of judgment by these business people not only on the present and future supply and demand for the commodity, in this case maize, but also on supply of close substitute products and on future donor shipments of food aid. In addition, judgments are based on prospects for future general political stability and economic activity. Totally accurate forecasts of all these variables are simply not possible.

The second caveat concerns rapid changes projected in the food security situation in Mozambique. It needs to be noted that it is only in the past year that hundreds of thousands of people, refugees and demobilized soldiers, have begun to return to their farms after a number of years away from farming. Even with support by World Vision and other private voluntary organizations (PVOs), it will take several years, assuming no major droughts, before these people will be able to reestablish their farms. At the same time, market and transportation infrastructure are just now beginning to be reestablished, or put into place for the first time. Building infrastructure will take some time. Then Mozambique should have the resources needed to become self-reliant in food. The big question for the Title III program is when, and to what degree, this self-reliance will develop.

Today, the rationale for the Title III program is compelling. That rationale should diminish over time as Mozambique becomes able to produce enough to cover its own food needs or gains enough foreign exchange from exports, primarily of agricultural goods, to import food to fill these needs. The question is: when this will occur? Some observers believe that Mozambique's move to food security could occur in as little as three years. Many knowledgeable people, on the other hand, put this time at closer to five years. At any rate, the time period is subject to the vagaries of climate and political stability. Frequent droughts could extend the period of adjustment needed to reach self-reliance. USAID management of its Title III effort could be critical to the success of Mozambique's drive to self-reliance in food. An abrupt or premature reduction of the program could result in a major food crisis. The resultant political and economic instability could retard the food security effort by years. On the other hand, continuation of the Title III program beyond its need clearly could hamper the full development of domestic production and commercial imports to meet national food requirements (see section 2.1.1).

1.2 Evaluation Methodology

The scope of work of this evaluation (see Annex A) asked the evaluation team to look at four major issues. First, the team was to evaluate the specific impact of the policy objectives of the program as well as the impact of the Title III Program on the GRM's budget and general economic situation. Second, it was asked to judge the appropriateness of the chosen policy objectives and to recommend possible changes or additions to the policy agenda of the program.

Third, it was to look at how well the Title III program promoted expansion and competition in markets for agricultural products. Finally, the evaluation team was asked to look at possible alternatives that could achieve the same desired impact as the present Title III program.

A two-person team responsible for the evaluation spent two weeks in Mozambique in February 1995 doing field work; subsequently the team leader returned to the United States to complete the final version of the report while the other team member spent an additional ten days in Mozambique gathering additional information and analysis for the final report. The team was composed of an agricultural and food policy specialist/team leader and an agribusiness and marketing specialist. The two team members had been part of a four-person team that had previously spent three weeks evaluating the Private Sector Support Program (PSSP).

Each team member was responsible for a specific section of the evaluation. No field trips were made outside of the Maputo area specifically for this evaluation. It was not possible to visit Beira, port-of-entry for a significant proportion of Title III maize. During the PSSP evaluation, however, both team members had participated in field trips to a food-surplus, export-oriented area in the northern Nampula province, to the food-deficit area around Chokwe, and to a greenbelt area around Xai-Xai.

During the evaluation, interviews were conducted with a wide range of individuals within USAID and with private business people, bankers, GRM officials, representatives of bilateral and multilateral donors, PVOs, maize wholesalers, large and small-scale millers and technical assistance staff from cooperative institutions. A list of people contacted is provided in Annex B. The team also reviewed a number of documents related to the Title III activities. The Agricultural Policy Analysis Project (APAP) core staff had collected a number of documents from sources in Washington, D.C., for the team's use. These documents were left with the Mission at the end of the evaluation. A complete list of documents referred to is seen in Annex C.

Before leaving the country, the team made a presentation to the staff of USAID on its findings and recommendations. A draft of the evaluation was also left with the Mission. Comments from the Mission on this draft were incorporated into the final evaluation report. Principal issues arising from the evaluation were discussed with appropriate staff of the GRM's Ministry of Commerce.

1.3 Report Structure

This evaluation report is organized around two major sub-units. The first concerns policy objectives and program impact. The second concerns program management and support. The emphasis of the scope of work was on the first sub-unit. In carrying out the evaluation, however, the team found that management and support activities had important direct influence on the success of the program and on the impact of its policy objectives.

Section 1 of the evaluation presents the history of the Title III program in Mozambique. In addition, it highlights the basic need for the program in terms of food requirements of the country. Estimates are also made of how long the program should be continued, and at what levels.

Section 2 focuses on the Policy Objectives of the Title III program and their impacts. The overall objective of the Title III program is food security. This objective can be considered in three policy areas. These areas are looked at in turn with a description followed by a discussion of the impact of each particular policy area. This chapter also looks at related issues of foreign exchange and the banking sector.

Program management and support are looked at in section 3. There are four subsections in this section. Subsection 1 describes the structure of the Title III program and how the various parts of the program are to work. In subsection 2, the management responsibilities of the GRM are reviewed and evaluated. USAID management responsibilities are examined in subsection 3. Finally, subsection 4 reviews the technical assistance support provided to the program.

The evaluations team's recommendations for both policy reforms and program management are contained in section 4. This chapter also contains alternative approaches the Mission may want to consider.

2. PL-480 POLICY OBJECTIVES AND PROGRAM IMPACT

2.1 Overview

The Title III program was a follow-on activity from the FY 89-91 Title II, Section 206 program in Mozambique. A shift had been made in response to changes to the Farm Bill of 1991 that restructured the PL-480 program. The development objectives of Title III were adopted in whole from the previous Section 206 program. The objective focused on improving the effectiveness and efficiency of the GRM's food safety net program, mostly in Maputo and Beira. Increased incentives for domestic food production were also an objective. In support of these objectives, a policy framework with three self-help measures was also adopted from the Section 206 program. These measures served as basic policy objectives for the program. They were: a) improve the food security of vulnerable population groups, b) strengthen competitive markets and improve the potential for long-term increases in agricultural productivity, and c) improve public sector management of food assistance programs. Associated with these three policy objectives in the original 1991-1993 Program Agreement for the Title III program were a total of seven specific performance indicators (see Table 2.1). In the cable requesting the original Title III program (91 Maputo 703) it was clear that the focus of the policy issues was phasing out of the national food ration system (NSA) and replacing it with an administratively streamlined safety net and a market-based allocation of previously rationed food commodities. While the focus has remained the same, events which have occurred since the Title III program was put into place have sharply changed the priorities and direction of the program.

2.1.1 Evolution of Policy Objectives and Performance Indicators

Since 1991 when the Title III agreement was signed, two events—one environmental, the other political—have had significant impact on development activities in Mozambique. The first event was an extremely severe drought that began in late 1991 and carried over into 1992. Maize production dropped by almost 30 percent during this period. This global figure masks the severity of the problem, as the northern, more fertile regions had significant surplus at the time. The central and southern parts of the country, however, bore the brunt of the drought. The drought threatened millions of Mozambicans and caused a major increase in numbers of displaced people. In mid-1992 the GRM declared a disaster, and donors, including USAID, responded quickly to prevent a major human catastrophe.

The second significant event was the October 4, 1992 signing of a peace agreement between the ruling FRELIMO government and the RENAMO rebels. The agreement came out of negotiations held in Rome between the warring parties. These negotiations had been under way since mid-1990. The peace agreement stipulated a ceasefire and the holding of muliparty elections within the year.

Table 2.1 Policy Agenda for the Title III Program

Policy Objectives	Performance indicators: 1991-1993 Agreement July 8, 1991	Amendment 1 January 29, 1992	Amendment 2 July 7, 1992	Amendment 3 January 28, 1993	Amendment 4 June 15, 1994
1. Improve the food security of vulnerable population groups	a. Introduce a more effective food safety net program in Maputo and Beira. GRM will develop a plan by December 1991 to phase out NSA and replace it with a food safety net program. GRM intends to phase out NSA by June 1993.		a. Date of development of plan moved to December 1992.		
	b. Food security research Food Security Department of MOC will complete a food security and welfare survey in Maputo by August 1992.				
				c. Announcement of import parity price for yellow maize to consignees. GRM will publicly announce it will raise price to importers to import parity prices by April 1, 1993.	

Table 2.1 Policy Agenda for the Title III Program (Cont.)

Policy Objectives	Performance indicators: 1991-1993 Agreement July 8, 1991	Amendment 1 January 29, 1992	Amendment 2 July 7, 1992	Amendment 3 January 28, 1993	Amendment 4 June 15, 1994
2. Strengthen competitive markets and improving the potential for long-term increases in agricultural productivity.	a. Agricultural producer prices: GRM will maintain minimum producer prices of maize, beans and rice and will announce minimum prices by Sept. 30, 1991. Market determined consumer prices of domestic maize, beans and rice. Framework for liberalizing prices of edible oil, yellow maize and sugar.				
	b. Local agricultural purchases: GRM will implement pilot program with World Vision by August 1991 for local purchase for emergency distribution in Zambezia		b. Deleted		

Table 2.1 Policy Agenda for the Title III Program (Cont.)

Policy Objectives	Performance indicators: 1991-1993 Agreement July 8, 1991	Amendment 1 January 29, 1992	Amendment 2 July 7, 1992	Amendment 3 January 28, 1993	Amendment 4 June 15, 1994
3. Improving Public Sector Management of Food Assistance	a. System analysis: with Louis Berger, GRM will do analysis of commodity control system with options by August 1991.				
	b. Promoting private sector participation and competition in commercial food programs: Maximize direct sales to private wholesalers and millers. MOC will submit plan by Sept. 30, 1991 on how to sell to private millers. By December 31, 1991 MOC will submit plan on increased private participation and competition.		b. Date of MOC submission of plan moved to December 1992 from December 1991		
	c. Increase financial discipline in commercial food programs: By Sept. 30, 1991 GRM will submit confirmation of timely payment of counterpart funds prior to call forward of commodities.				
			d. Standby contract with a private sector warehouser. GRM makes contract to handle maize that is delivered in excess of what can be readily received at dockside.		

This timetable was too optimistic and actual implementation of the agreement was slow and tortuous. A U.N. peacekeeping force projected to implement the ceasefire was not fully installed until early 1993. Actual demobilization of both forces did not start until mid-March 1994.

The planned elections were delayed until October 1994, but they were ultimately successful and accepted by all parties.

To see how these two events changed priorities for the Title III program, it is important to recall what the situation was like in Mozambique when the Title III program agreement was signed in mid-1991. The country was in a state of war. Travel by donor staff or Government officials outside the major cities was difficult if not downright dangerous. While beginning to diminish with the introductions of reforms under the PRE, the socialist/statist views coming from Mozambique's Marxist-Leninist background were still much in evidence in some of the Government's actions and in some of the donors' orientations.

The 1991/1992 drought first opened up the countryside to wide-scale access for donors and relief agencies. It became evident that the food security problem was not limited to the major cities of Maputo and Beira. The Peace Agreement and the slow movement toward free elections continued the process of opening up the countryside and providing security to the agricultural production areas. More importantly, this agreement accelerated movement toward a market-based economy. Aspirations that had been vague hopes in 1991 became potential, if not actual, realities in 1995. Movement toward a market-based economy has changed the emphasis of the policy objective of the Title III program. In 1991 the key impact desired from the Title III program was phasing out of the food ration system in Maputo and Beira. Today the key impact desired from the Title III program is establishment of a market-based national food security structure.

A recent USAID policy paper on food aid and food security defines food security as the situation, "when all people at all times have both physical and economic access to sufficient food to meet their dietary needs for a productive and healthy life." This definition has three variables: food availability, food access and food utilization. The Title III program in Mozambique directs its policy framework specifically at the first two of these variables.

Food access is related to having adequate resources to obtain appropriate food. Work by Cornell University researchers, based on a 1991 survey of households in Maputo (Sahn 1991), and work by others indicate that about 10 to 20 percent of Mozambique's urban population is absolutely poor. These people require a welfare safety net for basic provisions, including food. The original focus of the Title III program was on helping these absolutely poor people.

For the other 60 to 70 percent of the population, food security means having an adequate supply of good quality affordable food on the market. This food can come from internal production or from imports. Two elements of the Title III policy framework become critically important in this regard. These are a) strengthening competitive markets and improving potential for long-term increases in agricultural productivity, and b) promoting private sector participation and competition in commercial food programs. Essentially these two elements should result in increasing agricultural productivity through higher producer prices and increased local agricultural purchases, and establishing an efficient marketing structure for food to assure the lowest possible price and greatest variety for consumers. Other elements of the framework support these general thrusts. In a future iteration of the Title III policy framework, USAID may want to restructure the policy matrix to reflect fully the evolution of Title III policy objectives.

The Title III policy framework is not isolated. It fits into a series of policy issues being addressed with the GRM by USAID and other donors (see section 2.1.3). Within this series of policy issues, achievement of equitable land tenure is as important as higher producer prices are in increasing agricultural production and productivity and in making possible the achievement of food security. USAID's Private Sector Support Program (PSSP) has land tenure reforms as part of its policy framework.

2.1.2 Policy Dialogue Process

The development of the original policy objectives and performance indicators for the Title III program was completed under the predecessor Section 206 program, whose policy objectives were rolled over into the Title III program.

Actual policy dialogue since 1992 supporting these and other subsequent policy issues has taken place in a series of meetings primarily between USAID's Agriculture and Food Resource Office and the Ministry of Commerce. Day-to-day dialogue has identified and molded policy issues that were important for either achieving the food security objectives or for making the Title III program more effective. Policy issues were also identified from a series of studies undertaken by the Ministry of Commerce or through technical assistance support provided to the program. USAID's continual monitoring of the program also produced additional refinement in the policy agenda.

Significant policy issues were formally recognized by USAID and the GRM when they were added to the policy matrix through one of the four amendments to the program agreement. To date, only two separate performance indicators have been added to this agenda. In Amendment 2, an indicator was added to the policy objective on improving public sector management of the food assistance program. This indicator requires the GRM to seek a standby contract with a private sector warehouser to regulate better the discharge of commodities at the dock when there were inadequate numbers of receivers to take a commodity from the vessel. The second addition occurred in Amendment 3. This indicator requires the GRM to announce publicly that it would raise the release price paid by consignees for Title III commodities and, over time, move to an import parity price for yellow maize.

With the exception of the last addition on import parity pricing of yellow maize, all of the policy objectives and indicators have been met in substance. The Mission is now negotiating with the Ministry of Commerce on the final point of import parity pricing. Since the Ministry has already agreed in principal to establish this pricing level for the European Union (EU), it is likely that USAID's policy dialogue on this issue will also be successful.

2.1.3 Relationship to PSSP and PFPs

The policy frameworks of the PSSP and the Title III programs are complementary and mutually supportive. The six policy objectives of PSSP are directed to increasing competition and market forces in support of agricultural production and productivity. Two of the three Title III policy objectives have much the same goal. The third policy objective includes both improving a food safety net and linking agricultural product prices to the world market through import parity pricing of commercial food aid.

The Title III policy objectives are also similar to those on the agricultural side of the PFP as well as to policies supported by major food donors such as the EU and WFP. Both WFP and the EU have also supported import parity pricing of commercial food aid. The long-term objective, food security in Mozambique built on a combination of internal production and competitive imports paid for through agricultural export earnings, is shared by most major donors and multi-lateral organizations.

2.2 Improving Food Security of Vulnerable Population

At the time of the first evaluation, USAID was dissatisfied with the way its Title III food aid was being distributed and with the failure of the state-controlled distribution network to supply low income consumers at prices reflecting the low price established for Title III maize. At the level of the wholesale trade, a study by Louis Berger recommended changes which were refined by a second study done by Austral. These changes were largely implemented. At the level of final consumers, the establishment of some type of targeted program to replace the largely irrelevant *Novo Sistema de Abastecimento* (NSA) distribution system was envisioned. As will be seen below, no such targeted system was ever developed, but the goal of contributing to the food security of the low income population was nonetheless largely achieved as a result of the choice of yellow maize as the commodity to be supplied by the Title III program.

2.2.1 More Effective Safety Net; Phasing Out NSA

The NSA was established in Maputo in 1981 and in Beira in 1986 as a response to the failure of the centrally planned distribution system to assure adequate supplies of food and basic consumer goods to the populations of these two major urban centers. The purpose of the NSA was to assure a reliable minimum ration of basic foodstuffs to all households in the two population centers. The system did not target low-income households, but it was designed to provide a minimum ration to all families in the two cities. According to a Cornell University study, by the end of 1991, about 65 percent of the households in Maputo had ration cards, and 35 percent did not. The role played by income in determining whether or not a household had a card was found to be minimal, although larger family size and higher educational levels were related to increased likelihood of having a ration card. Of households not having cards, 83 percent had never applied, more than half of these because they were not interested or too busy. Of people who did apply, half were turned down because of lack of documents or because they were *deslocados*. Many of the poorest households who depended on the NSA to meet their needs on a daily basis were frequently unable to take advantage of their ration cards. Even if they had a card and food were available, they could not always bring together at one time the funds necessary to purchase their total ration.

Thus the system, even if it had worked, was not designed to cater in any special way to needy families. As time passed, the system became increasingly irrelevant to consumers at all income levels, since very little product was available through the system, and most purchases were made off-ration in the parallel market. By 1992, only 7 percent of the maize consumed in Maputo and Beira was purchased through NSA; by the following year, the system had effectively ceased operations.

As it became clearer that NSA was incapable of dealing with chronically malnourished, food-insecure and absolute poor households, alternative mechanisms were sought to provide for the needs of this population. The *Gabinete de Apoio a População Vulneravel* (GAPVU) was proposed, in a study done by Pragma, as the best mechanism for reaching this population through a cash transfer scheme. This study analyzed cash-for-work, food-for-work (FFW), and small enterprise development projects in urban centers; most of these activities were limited to low-impact programs not requiring large complementary capital and management inputs. All these programs were noted to be intensive in management and administrative requirements. While the WFP and some of the NGOs have implemented FFW programs in rural areas, such programs have never been supported by Title III in urban centers. GAPVU did receive funding from the German Agency for Technical Cooperation (GTZ). About 70 percent of the cash income transfer provided by the program was found to be spent on food and another 10 percent on fuel and other materials for preparing food. By August of 1992, 14,000 households were benefitting from the program.

According to USAID, it first looked at the workings of the NSA after reviewing the results of a study of the Peri-Urban region around the city of Maputo. This study provided information that enabled USAID to get consensus from other donors and the GRM to agree to *de facto* dismantling of the NSA. These changes in NSA did not take place officially until the Cornell study was completed in 1994, but USAID indicated changes actually occurred after the IDA/Bingham (SUNY)/Batista work confirmed the problems with NSA. The Peri-Urban study, second only to the LBI/Austral study, provided the basis for USAID's efforts to phase out NSA. Work by MSU and Cornell confirmed this earlier work.

The situation in Maputo has improved since the early 1990s when these schemes were most in the limelight. Population influxes to the city are no longer as prevalent. As peace has become a reality in rural areas, the population displaced by the war is, for the most part, returning to its places of origin. Many long-term residents capable of working have developed coping mechanisms or found employment of some kind, mostly in the informal sector, at a level at least supporting subsistence. A small number of absolutely destitute people still exists. No large-scale income transfer programs have been developed, nor at this stage of Title III's evolution in Mozambique, are any such programs called for.

While Title III as a commercial program is not able to target directly final recipients as emergency programs do, the choice of yellow maize for importation under the program does largely favor low income groups. Research results have shown a willingness on the part of low-income consumers to consume yellow maize when it is sold at a discount from the price of the preferred white maize. The choice of yellow maize for import rather than other commodities such as wheat, rice or cooking oil, all of which the United States also produces in large quantities, was a wise choice in terms of providing greater benefits to low income groups within the urban population. Low income populations, in particular, benefitted from the fact that maize prices were kept lower, as a direct result of Title III imports, than would have otherwise been the case.

Survey research by MSU indicates that at the relatively small discount of 30 percent in the price of yellow maize compared with that of white maize, fully half the respondents in the lowest two income quintiles would switch from white maize to yellow. People in upper income quintiles apparently could afford to be far more adamant in their preference for white maize. Since the research was done at a time when there were problems with the quality of yellow maize being shipped under Title III, a higher percentage of the low income population might switch or might be willing to switch at a smaller price differential if quality were better.

2.2.2 Food Security Research

The Program Agreement stipulated that the Department of Food Security of the Ministry of Commerce would complete a food security and welfare survey in the Maputo area by August 1992. Cornell University undertook this survey and, after some delay, completed it and presented it to the GRM and donors. MSU has done food security and welfare surveys and studies that are now widely used by donors and the GRM for food policy decisions. Food security is one of the main focuses of MSU research efforts in Nampula province, where there is a link between income from smallholder production of export crops, such as cashews and cotton, and food security during the hungry season. MSU's work on agricultural marketing establishes the fact that producers in areas which have traditionally supplied food-deficit urban areas are responsive to price signals. This result plus the conclusion that there is a positive and relatively strong relationship between the prices of yellow and white maize, though cross-elasticities have yet to be estimated quantitatively, imply that care must be exercised in terms of the total volume and scheduling of Title III imports of yellow maize if these imports are not to act as a disincentive to increase domestic maize production. An MSU staff study separate from work under the cooperative agreement confirms a strong link between food security of rural households and their access to land. Research by the Land Tenure Center also supports this conclusion.

2.2.3 Approaching an Import Parity Price for Yellow Maize

Not long after commercial food aid began to be delivered to Mozambique, concern was voiced over the subsidized price at which yellow maize was being supplied to millers and wholesalers. This subsidy was not being passed on to final consumers but was being absorbed as excess profits by the first recipients in the chain, and frequently not by the enterprise itself but by people associated with it who were responsible for diversions and outright thefts of food grain. Even after most food grain came to be channeled to private wholesalers, the subsidy was retained. Excess profits were still retained at the level of the first consignees and provided no benefit whatsoever to final consumers. Benefits to consumers were derived principally from the relatively low maize prices which resulted from the large volumes of maize brought into the market.

By insisting on a price subsidy at the level of the primary importers, the GRM is apparently proceeding on the assumption that such a subsidy is passed down the marketing chain to final consumers. In the past, price subsidies may have served to keep inefficient parastatal enterprises in operation, but now most of the maize imported under Title III is channelled through private traders who sell at the highest price they can obtain in the market. According to economic theory, in the short run the price at which a product is purchased is irrelevant to its eventual sale price, which is determined by supply and demand. The wholesaler's decision whether or not to purchase to begin with is based upon his perception that the eventual price at which he can sell will exceed his costs. In most, but not all, cases, wholesalers have been able to sell maize at prices far above the release price plus their marketing costs, and thus have made a profit. The release price has been set so low, however, that wholesalers' profits have been excessive, far greater than those which would be necessary to assure their purchases of Title III maize. Firms fortunate enough to have been selected by the Ministry of Commerce for the first ships have, in most cases, made very high profits indeed.

Wholesale firms make their highest profits when maize is in short supply. Short supply normally coincides with the arrival of the first ship carrying PL-480 maize. Profits are lower on later arrivals. When ships' arrivals are clustered, as has frequently occurred, profits are lower. Regardless of the release price, an excessive amount of maize entering the market in a short period of time can flood the Maputo market. This market is capable of handling 8,000 mt per month. Thus, the cargo of a ship carrying 15,000 mt takes almost two months to work its way through the market. Poor quality maize has consequent short shelf-life and poor consumer acceptance. Low quality thus can affect wholesalers' willingness to take maize, even at greatly subsidized prices. Very large port losses related to port mismanagement affect the profitability firms can expect from Title III maize. Late and non-transparent selection of consignees by MOC also limits the ability of firms to profit from maize imports and thus affects their willingness to pick up Title III shipments on a timely basis.

A number of candidates on which to base the import parity price (IPP) have been proposed: FAS Gulf Coast, in order to exclude excessively high U.S. shipping charges; CIF rates, for low cost suppliers using non-U.S.-flag carriers; or border prices of Swaziland, RSA or Zimbabwe for white maize, appropriately adjusted to reflect consumer preference for white maize and the lower cost of producing higher yielding yellow maize. It should be noted that there is a statutory requirement for the other major U.S. food aid program, Title II, that commodities which are monetized have to be sold for a minimum of the FAS price.

Over time, there has been some movement toward more realistic release prices, which have increased from their low levels when commercial food aid began in 1983. At certain times, they have begun to approximate FAS prices. The fact that prices are quoted in meticals makes adjustment to an IPP difficult. The National Commission for Salaries and Prices (CNSP) sets imported maize prices, as well as prices for wheat and rice. Once set, these prices generally are not readjusted for about a year. Since prices are set in meticals, their value in dollar terms erodes over time as a result of periodic devaluations of the metical. The price was last set, on March 23, 1994, at MT410 per kilogram, and it had not been readjusted by the end of February 1995. The metical fell from an average of MT5,615 in March 1994 to MT7,140 by the third week of February 1995. Thus, the per ton release price of maize, which was $73.02 in March, had deteriorated to $57.42 by late February, a reduction of 21 percent. With the FAS price of maize hovering around $100 per ton, wholesalers were paying, by the end of February 1995, only about 57 percent of the FAS price of maize.

The reference price for South African Grain Board yellow maize in early 1994 was US$164 per ton. With transport and handling costs added, a ton of maize from South Africa would probably approach $200 CIF Maputo, although WFP reported being able to bring in maize from South Africa at $160 CIF Maputo, and it can import bagged maize at $199 per ton CIF Maputo. When considering white maize border prices—in RSA, Swaziland, or Zimbabwe—these should be adjusted for consumer preferences for yellow maize, i.e. discounted by some factor. The appropriate discount factor for yellow maize should be established by additional empirical research into consumer preferences for yellow and white maize. MSU has already begun to research this question. The FAS price is still considerably below border prices for yellow maize, which are in the $160-$200 range.

In January 1995 the Canadian International Development Agency (CIDA) signed a Memorandum of Understanding (MOU) on wheat for C$10 million (US$7.4 million) for the next two years at a rate of US$135 per ton, specified in U.S. dollars. The previous rate had been US$67, so the new rate represents a substantial move toward import parity price of wheat. It should be noted that the CIF cost to CIDA is US$211. CIDA has been informed that the mills are bringing in commercial imports of wheat from South Africa at a cost of US$250 CIF. South African wheat is of lower quality (softer) than Canadian wheat. Mills reported to the evaluation team commercial imports coming in at costs ranging narrowly around US$200 per ton CIF from South Argentina and France. One miller reported that the arrival of highly subsidized food aid wheat wreaks havoc with flour prices every time it comes on the market. He expressed the belief that a more stable price would be in the interest of all parties.

Like USAID, CIDA has been dissatisfied that the very large subsidy to primary consignees, mills, in the case of wheat, has apparently been absorbed almost entirely, 70 to 85 percent, by these consignees. What little benefit remains has been shared approximately equally by bakers in terms of slightly lower flour prices and by consumers in terms of slightly lower bread prices. CIDA will soon be negotiating prices and other conditions for its 1995/1996 wheat program. At that time the issue of price will come up again.

CIDA has established the precedent for pricing imported grain in dollars rather than meticals. Second, it has established a price which is around 68 percent of the alternative CIF price of wheat now being paid by millers. On the world market, wheat and maize prices normally move together, with wheat commanding a premium of 20 to 30 percent. The FAS price of maize in the United States fluctuates around $100 per ton, roughly 26 percent less than the wheat price agreed by the GRM and CIDA. The maize price is due for renegotiation with the GRM. Now would be the appropriate time to set the maize release price at the FAS price in U.S. dollars payable by consignees in meticals at the highest legal exchange rate prevailing on the day they make payment for their consignment.

This proposal has a number of advantages. Among them are these:

1) Setting the price in U.S. dollars is logical since the commodity is imported and has to be purchased in U.S. dollars. The wholesalers are well aware that U.S. dollars are required, for they are already importing numerous other commodities such as televisions and VCRs which they pay for in U.S. dollars, purchased, for the most part, at a premium in the parallel market. Change to U.S. dollar-based pricing is long overdue and has already been agreed upon between the GRM and CIDA. This point was made by the evaluation team to MOC. Pricing in U.S. dollars should be a non-negotiable condition of 1995/1996 Title III shipments.

2) It is important to take advantage of the low world price of maize to establish the principle that, at the very least, the cost of the maize has to be covered, even if transport and insurance cost are donated. With U.S. maize stocks relatively high, major price increases are not likely to be in the offing immediately.

3) Most of the resettlement of refugees, displaced people, and former members of the two armies has been achieved. Road transport is improving. A new market system geared to the post-war situation is becoming stronger. Provided they have access to land, and markets are allowed to function freely, Mozambican farmers should be in a position to start producing a significant part of the country's maize requirements and supplying an increasing part of the maize requirements of urban areas. Farmers now require a maize price that is attractive in order to stimulate domestic production. Moving Title III imports to the FAS price in dollars will have the effect of raising maize prices in the market and thus providing needed incentive.

4) Urban consumers have had the benefit of artificially low prices for maize during the period when the economy was disrupted by war and in the period of adjustment to a peacetime economy. Many recent immigrants to Maputo and Beira have left, returning to their areas of origin. This return is desirable. It is assumed that those remaining have done so because they have adjusted to the urban environment and have found employment of some kind. Although there are still serious economic problems in urban

Mozambique, need for a low maize price to allow the displaced population to survive has lessened. At this point, a higher maize price may act as an incentive for more recent migrants to urban areas to move back to the rural areas from which they fled. The policy of maintaining long-term subsidies for food for the urban masses has shown itself a failure elsewhere in Africa; it is not necessary to repeat this mistake again in Mozambique.

2.3 Strengthening Competitive Markets and Increase Agricultural Productivity

The second major policy objective of the Title III program is to strengthen competitive markets and to improve potential for long-term increases in agricultural productivity. This objective is to be met in two ways: first, by supporting the maintenance of adequate producers' prices for maize, beans, and rice and second, by encouraging PVOs and emergency relief agencies to expand local agricultural purchases.

2.3.1 Agricultural Producer Prices and Markets

An objective of both the Title III and PSSP policy agendas has been to ensure producers adequate prices, through improved production and marketing channels, for surpluses of white maize and other farm products. The crucial role of PSSP's commodity import program (CIP) in opening vegetable markets in Mozambique in 1985 has been reported elsewhere. As a result of the same policy dialogue, producer prices were changed from fixed to floor prices and were substantially raised. USAID, recognizing that large quantities of food aid made available at subsidized prices could act as a disincentive to producers to expand production and could affect producer prices, established as a stated goal of the policy dialogue with the GRM a movement towards import parity prices.

Research, principally by Michigan State University (MSU), on the impact of food aid on producer prices cannot be said to be definitive at this point, but it has advanced far enough to support some tentative conclusions, the most important of these being the following:

- Urban Mozambique is an important market for white maize;

- Although cross-elasticities for white and yellow maize have not been established quantitatively, the two products clearly are reasonably close substitutes, and most consumers, given a sufficient price discount for yellow maize will substitute yellow for white maize;

- Market integration and price transmission are stronger in the south and central regions of the country, which have traditionally supplied white maize to Maputo and Beira, but they are weaker in the more remote markets of the north, disfavored by high land transport costs and high coastal shipping freight rates;

- The relevant price for setting the yellow maize import parity price for southern Mozambique is the world market price for Swazi, South African, and

Zimbabwean white maize. This price, however, would have to be discounted to take into account consumer preferences for white maize. Currently maize can be purchased on the world market for prices US$100 per ton plus shipping, which from Argentina is less than US$50 per ton on non-U.S. bottoms, implying that yellow maize sourced internationally may be competitive with maize from neighboring countries.

Wholesale traders purchase maize from Maputo, Gaza, and Manica provinces. Occasional small amounts of white maize are purchased in surplus areas of the north around Cabo Delgado and shipped to Maputo by sea. Anecdotal reports of traders deferring or abstaining from purchases of domestically produced white maize as a result of the availability and favorable price of yellow maize food aid are frequent and credible. Thus the quantity of food aid arriving at subsidized prices at the wholesale, though not consumer, level clearly appears to affect trader decisions on purchasing white maize directly at harvest. Uncertainty about future commercial food aid arrivals and prospective losses from having to hold such food aid commodities also limits the amount of white maize consignees are willing to absorb from the harvest and reduces prices they are willing to pay to acquire it.

In a closed economy, at harvest time producer prices fall sharply as the new harvest makes its way into marketing channels. Prices reach a low around the time that maximum volumes are available for sale. Prices normally rise in subsequent months. They rise faster or slower depending on the amount of on-farm holding by farmers and commercial holding by grain merchants. In poor countries with deficient on-farm holding facilities, most farmers sell any surplus they have available shortly after harvest. Prices normally peak at the time of maximum scarcity right before the next harvest. This simple scenario changes to the extent that the economy is open and can import the same or substitute commodities from the rest of the world. In an open economy, prices change, but they follow the general pattern of low post-harvest and high pre-harvest prices.

MSU research has also shown that transmission of retail prices is strong in the southern region; probably strong in the central region, although sufficient data to fully confirm this strength are lacking; and relatively strong in some urban-rural market areas in the north. As would be expected, relationship between prices in Maputo and in northern provinces is weak at this stage of development (MOA/MSU No. 12 October 1993.) Tables 2.2 and 2.3 present data first on wholesale and retail maize prices and second on wholesale yellow and white maize and producer prices for white maize.

Table 2.2 Maize Prices at Wholesale and Retail Levels

	MAPUTO AREA				BEIRA AREA				NAMPULA	
Months Years	**Yellow whsale**	**Yellow retail**	**White whsale**	**White retail**	**Yellow whsale**	**Yellow retail**	**White whsale**	**White retail**	**White whsale**	**White retail**
1992										
January		506	433						380	
February		485	522						400	
March		711							436	
April		948					778		467	
May		1037							467	
June		569							467	
July		661					556		525	
August		759							535	
September		683							518	
October		579							607	
November	388	535	897	1345		491		809		
December	386	523	1100	1546	471	445	1078	624	703	
Average	387	666	738	1446	471	468	804	717	500	
1993										
January	367	528	1100	1147	481	393	698	609	713	586
February	353	523	1200	1727	458	305	698	749		619
March	337	527	1050	969	443	311		685		571
April	333	537	1069	695	422	286	480	514		485
May	284	516	1017	738	436	260	1090	345		457
June	310	491	895	790	423	250	480	361		527
July	318	501	941	778	463	251	575	393	700	540
August	352	490	725	773	450	267	672	342	750	571
September	359	479	633	809	424	257		388	750	571
October	360	480	823	781	350	288		386	746	571
November	358	496	792	805		229		342	700	571
December	404	590	903	955	350	286		419	700	571
Average	345	513	929	914	427	282	670	461	723	553
Yel/White%	37.1				66.8					
1994										
January	468	702	877	1130	350			571	767	571
February	496	721	867	1310	448	476		524	800	569
March	482	649	877	1064	350			514		603
April	510	673	847	887	350			537	900	675
May	478	823	861	997				485	875	571
June	518	798	881	984				495	850	546
July	659	984	941	1020				543	900	552
August	933	1478	1073	1509				683	760	547
September	755	1430	1515	1805				895	836	529
October	867	1691	1390	1608		1143		1429	833	564
November	780	1539	1427	1738		1000	1400	1400	860	571
December	739	1047	1503	1656		1085		1429	1210	890
Average	640	1045	1088	1309	375	926	1400	792	872	599
Yel/White%	58.8									

Yellow maize wholesale price as percentage of white maize price.

Source: Michigan State University-DEA data.

Table 2.3 Maize Prices at Wholesale and Producer Levels

ionths Years	MAPUTO AREA YELLOW wholesale	MAPUTO AREA WHITE wholesale	MAPUTO AREA WHITE producer (Chokwe)	BEIRA AREA YELLOW wholesale	BEIRA AREA WHITE wholesale	BEIRA AREA WHITE producer (Manica)	NAMPULA WHITE wholesale
92							
uary		433					380
bruary		522					400
arch							436
pril					778		467
lay							467
une							467
uly					556		525
August							535
September							518
October							607
November	388	897					
December	386	1100	900	471	1078		703
93							
uary	367	1100		481	698		713
oruary	353	1200	880	458	698		
arch	337	1050	777	443			
pril	333	1069	575	422	480		
May	284	1017	563	436	1090		
une	310	895	561	423	480		
ly	318	941	578	463	575	434	700
ugust	352	725	500	450	672	405	750
eptember	359	633		424		223	750
ctober	360	823		350		240	746
ovember	358	792				280	700
ecember	404	903		350			700
erage	344	929	633	427	670	316	723
/White%	37.1			66.8			
4							
uary	468	877		350		240	767
bruary	496	867	700	448		400	800
arch	482	877	665	350		271	
pril	510	847		350		300	900
ay	478	861				300	875
ne	518	881				300	850
ly	659	941				300	900
ugust	933	1073				343	760
eptember	755	1515				500	836
ctober	867	1390				701	833
ovember	780	1427			1400	787	860
ecember	739	1503				1260	1210
erage	640	1,088		375		475	872
l/White%	58.8			n.a.			

Yellow maize wholesale price as percentage of white maize price for months.
te: Correlation between yellow wholesale and white producer prices: Maputo = 0.30 & Beira = 0.77.
Maputo = 0.30 & Beira = 0.77.
urce: Michigan State University-DEA data.

Researchers from MSU, as well as others familiar with the subject in the southern African context, are convinced that white and yellow maize are substitutes. Cross-elasticities have not been estimated, but the simple correlation of white and yellow maize retail prices in Maputo is 0.77, meaning that 59 percent ($0.77^2 = 0.59$) of the variation in the white maize prices between March 1990 and July 1992 can be explained by the price of yellow maize alone.

Data provided by MSU on retail and wholesale prices are presented in Table 2.2. These data were used to reestimate the correlation between yellow and white maize retail prices. This correlation was found to be 0.80 for the 12 months of 1994, confirming the results obtained by MSU for an earlier period. The finding is that a low retail price of yellow maize is associated with a correspondingly low retail price of white maize. Thus, for example, result of the arrival of two or more ships carrying Title III yellow maize at the same time will be lower prices of white maize on the retail market. The low white maize prices are reflected back to producers, and if enough yellow maize is available, traders will be reluctant to purchase white maize, reducing the incentive for farmers to produce a marketable surplus. Retail data for Beira and Nampula are presented but not analyzed, as they appear to be suspect, since retail prices given are consistently lower than wholesale prices.

Data for wholesale prices of yellow and white maize are also analyzed in Table 2.2 to determine the price relationship between the two products. In the Maputo market in 1993, the wholesale price of yellow maize was only 37 percent of that of white maize. For 1994, the corresponding percentage was 59 percent. This change appears to be related to a major improvement in the quality of yellow maize. For Beira, however, in 1993, the percentage was 67 percent. The wholesale price of yellow maize averaged almost MT100 higher than in Maputo, while the wholesale price of white maize was over MT200 lower. Apparently there was a shorter supply of yellow and a more abundant supply of white maize in Beira than in Maputo. Wholesale price data for both yellow and white maize for 1994 are too sparse to permit measurement of their ratio.

Table 2.3 refers to wholesale prices for both yellow and white maize and producer prices for white maize in nearby maize-surplus areas. Data on producer prices is sparse and the time-series relatively short. Nevertheless, expected tendency of relatively high prices before harvest followed by relatively lower prices at harvest can be observed in Chokwe data for 1993. The producer price series for Manica in 1994 shows low and stable producer prices from the start of the harvest in April through July. A period of rising prices starts in August after the post-harvest glut is absorbed by the market. Prices continue to rise, dramatically so toward the end of the year, helped upward by a delay in the arrival of Title III shipments.

Producer prices can expect to be affected by volumes and scheduling of food aid arrivals. Arrivals at or shortly before harvest are particularly detrimental to traders' purchases of domestically produced white maize. To have the least disincentive effect for domestic production, Title III maize shipments should arrive between September and December. Earlier arrivals could reduce the incentive for traders to buy white maize in expectation of the arrival of cheaper yellow maize food aid. Later arrivals may cause high-levels of carry-over stocks which could also affect purchases from producers.

2.3.2 Local Agricultural Purchases

Prices can also be affected by donor and NGO purchases of local white maize. Destruction of the marketing system by neglect, years of war and past interference in its operation has come up repeatedly in press reports during the evaluation team's mission. MSU has also done at least one study (MOA/MSU No. 4E January 1992) specifically on the subject of smallholder marketing. Putting in place a market structure meeting the needs of post-war Mozambique will take time. Until the market system is well established and traders are fully prepared to resume their traditional role of inter-seasonal holding of grain supplies, donors and NGOs could make a major contribution by purchasing maize in producing areas for distribution in food-deficit areas. Sufficient internal transport and storage and handling (ITSH) funds must be available to allow for transport of purchased maize from the producing areas to the places where it is most needed. Internal transport costs are high because of the state of the road system. Responding mostly to improved security, transportation rates were reduced by 40 percent between 1993 and 1994. The coastal shipping monopoly and grossly inefficient port system make it more expensive to transport maize from Pemba to Maputo ($60/mt) than to bring it in from Europe ($32/mt) or the River Plate (under $50/mt).

A number of agencies are involved in local purchases of maize both within Mozambique and from neighboring countries within the Southern Africa region. The World Food Program is making some purchases of this type and plans to make more in the future, WFP has the support of some donors, including EU, France and Belgium, who have been convinced of the cost-effectiveness of purchases and of their positive impact on rural incomes. At one point, WFP had some difficulty in making such purchases because ICM, formerly AGRICOM, had announced a price of MT700 despite not having funds to support this price. After complaints from WFP, which was paying MT577 (US$90) per ton, reflecting prices being paid for white maize within the region, ICM reduced the offer price to MT550. Nevertheless, actions like this interfere with donor purchases and hamper marketing in general. Private traders normally do not announce prices they are not prepared to pay; ICM shouldn't do it either. If it hadn't been for ICM's interference, WFP would have made more purchases in Mozambique, to the benefit of local producers. Remaining amounts WFP needed to acquire were bought in neighboring southern African countries.

A potential problem in the purchase of local maize by PVOs and donors is the distortion it might create in the local marketplace. It can be argued that if local or regional traders are not ready to purchase maize from local markets their reluctance may be caused by basic problems in the marketplace such as poor transportation, limited storage, and other barriers to free market operations. PVOs and donors have greater access to resources than do most local traders, and the former are not constrained by need to make a profit. By operating in local maize markets, PVOs and donors could therefore distort local markets. There are mitigating factors, however, to this possible distortion. By temporally operating in the local markets, PVOs and donors can help to reduce market barriers. They can do this in several ways. Because most of these local markets have been dormant for a number of years, purchases by PVOs could cover the risks of reopening these dormant markets. They could also help identify major barriers to market expansion such as bottlenecks in transportation and storage. These bottlenecks could then be priority items for donor, private sector, or Government action. In addition, many markets may not be fully operational because of lack of information on prices and effective demand. PVOs could help provide this information.

World Vision is also purchasing some white maize using funds obtained from the monetization of commodities other than maize. It is able to purchase maize in grain surplus districts, generally the same ones in which its agriculture program operates, and to deliver this maize to food deficit areas at a cost of US$165-US$210 per ton. With sufficient resources, i.e., if larger quantities of products were available for monetization, local purchases could be expanded. Other commodities, including wheat, rice and vegetable oils, have been considered for monetization by USAID. There are a number of problems with all of these. Wheat, for example, appears to have a ready market with CIM and other millers. Nevertheless, it is still a subsidized product with little prospect at this time of having its subsidy removed. Rice has been tried in the past, during the drought years of 1993-1994, but it had problems with cross elasticity with maize and an existing significant level of commercial imports. The vegetable oil market was found to be very complex, with both monopolies and monopsonies, cheap illegal imports, nascent artisanal production, and an inefficient local industry. All of these problems make the necessary market analysis and disincentive analyses for this commodity very difficult.

2.4 Improving Public Sector Management of Food Assistance Programs

Soon after the start of the Title III program there was increasing dissatisfaction by USAID with the way food aid was being managed, and discussions with the GRM led to a decision to study existing procedures and to devise and implement better procedures for getting food to the people the aid was intended to serve. The first steps in carrying out these changes were studies commissioned to Louis Berger International and Austral Consultoria.

2.4.1 Analysis of Food Assistance System

The Berger study found that Maputo and Beira had been targeted for reception of fully half of the donated maize for distribution through the NSA rationing system. The study also showed that only about one ton in three actually reached the system and that only about 20 percent of the countervalue payments owed to the Ministry of Finance were paid by the parastatal enterprise receiving consignments (IMBEC) or to it by subsequent participants in the marketing chain, most of them also parastatal enterprises. The Berger study advocated movement a) toward increasing competition, b) streamlining the distribution process, c) putting all transactions on a commercial basis bound by contractual payment obligations to the Ministry of Finance, d) integrating physical planning with financial responsibility for payments and improving controls, e) eliminating subsidies and increasing retail margins, f) liberalizing wholesale prices, and g) allowing wholesalers to sell to whomever they wished. The Austral report followed up by reviewing the pre-qualification system set up to implement these recommendations.

The analyses contained in the two reports were ex-post generally correct and most of their major recommendations have been implemented. In minor areas, such as number of consignees, adjustments have been made by the GRM and the USAID Mission in the direction of increasing transparency and competition at the wholesale level by increasing the number of consignees. Recently, however, MOC has deviated in important ways from the agreed-on system of consignee selection in a way that makes selection less transparent and that affects orderly operation of the whole program. Recommendations on warehousing agents have not been implemented, nor should they be, as port and other warehouse facilities are generally available for the small quantities not picked up by consignees directly from ships. Properly managed, the program should have no need of warehousing at all. This still leaves an important unanswered question: who pays, and at what price, for storage of grain not picked up by consignees? Legally the maize belongs to the GRM but it has few resources or desire to pay these storage costs. USAID no longer has title to nor responsibility for the maize once it is delivered, so there would be problems with USAID's paying these costs. The most logical solution would be to have the consignees pay for storage costs. This solution, however, would require a more binding arrangement between the MOC and the consignee than has been put into place to date. The price of yellow maize has been raised to a level closer to the FAS or import parity price, but setting the price in meticals rather than U.S. dollars and allowing long intervals between establishing par value erode the U.S. dollar value of the release price and hinder movement toward a more realistic value for Title III yellow maize.

2.4.2 Promoting Private Sector Participation and Competition in Commercial Food Programs

The changes implemented as a result of the Berger and Austral reports and as a result of discussions between the GRM and the Mission have had a positive impact in promoting competition in the food grain sector. A relatively large number of firms have received food aid shipments directly as consignees, and most of these firms have been private. Traders able to handle only small volumes have been allowed to pick up consignments as small as 250 mt directly from the boats, with no evidence, based on information analyzed to date, that picking up these small amounts has been detrimental to the efficiency of the unloading. The unloading is inefficient for reasons unrelated to the size of consignee's individual allotments. From one recent ship, for example, 22 consignees received consignments, providing for considerable competition at the time of delivery and, based on a market demand of 11,000-12,000 mt per month in Maputo, for at least 1.5 months thereafter.

Financial constraints brought on largely by simultaneous or nearly simultaneous arrival of two or more ships puts a burden on all wholesalers and is detrimental to maintaining reasonable stability in the market. Failure of MOC to notify traders sufficiently in advance and failure to extend to traders the generous financial terms provided to the GRM by USAID are also major factors limiting the ability of the market to handle large simultaneous deliveries at one time. Small wholesalers with limited ability to arrange additional financing are more adversely affected than are large traders. If smooth scheduling is not possible, all traders, and small traders in particular, would benefit from smaller but more predictable deliveries so as to arrange financing well in advance. Greater transparency would also be necessary to promote market efficiency and competition. Greater transparency means that information about arrivals should be made available simultaneously and publicly to all market participants.

Small hammer mill operators have benefitted by access to consignments of Title III yellow maize and by reduction of local milling of highly finished yellow maize meal by CIM and other millers. The Association of Cereal Processors (APROC) was founded in October 1991. It has received a total of 10,000 mt of maize. Its ability to purchase Title III maize directly at the release price has been a major strength of the organization, and its membership grew from 42 to a high of 120 millers. More recently, membership has fallen as some members have moved back to their places of origin and have taken their mills with them. Financial problems related in part to losses on one consignment of poor quality Title III grain have limited APROC's 1994 consignments to 2,000 mt. It should be noted that besides improving competition in maize marketing in low-income, peri-urban neighborhoods, small hammer mill operations like those of APROC's save women from considerable the drudgery of pounding maize and give them more time to carry out more productive and profitable activities.

The way food aid has been handled by USAID/Maputo has contributed substantially to competition in the market. USAID insisted on having a large number of consignees to take delivery of Title III commodities. Some other donors have consigned similar amounts of food aid to as few as two consignees, who have made use of their market power in the expected way, by colluding to raise prices. One banker recognized that some of the people wholesaling grain in large quantities today were selling grain by the *caneca* (tin can full), not so many years ago. USAID has contributed to the growth in the number of small wholesalers. Raising the number of small wholesalers contributes to a competitive market.

2.4.3 Increasing Financial Discipline in Commercial Food Programs

The third component of improving public sector management of food assistance programs was an emphasis on increased financial discipline within the commercial food program. As formulated in the original program agreement in 1991, this objective stipulated that by the end of the fiscal year (FY) 1991 the GRM would confirm that arrangement had been made with designated consignees for timely payments of counterpart funds to Banco de Moçambique prior to the call forward of commodities. In a reporting cable in May 1992 (92 Maputo 2294), the Mission indicated that this confirmation had been made by the GRM. In addition, the cable went on to report that the GRM had also put into place a strict system of consignee selection, a system which followed the recommendations of the study on system analysis of the Title III program (section 2.4.1). This selection system has helped to insure adequate discipline on the part of the consignees in paying the Ministry of Finance within the time stipulated in the bank guarantees.

In an October 1992 cable (92 Maputo 3929), the Mission further noted that not only was the GRM continuing to deposit local currency to the special account as stipulated, but that the GRM was taking a number of other actions to improve financial discipline. These actions included tightening the collection of counterpart funds, modifying the structure of the Bank of Mozambique to better follow commercial food aid and counterpart generations, and limiting the GRM's ability to issue interest-bearing promissory notes to finance Government operations.

A September 1993 cable (93 Maputo 25130) further substantiated the GRM's efforts to tighten financial discipline in the program, requiring greater accountability of the consignees before they were allowed to pick up grain deliveries. CIM, one of the largest parastatal millers, had been barred from participation in the program because it could not meet the strict GRM's financial conditions.

Payment by the designated consignees remained under good control, helped in part by the obligation to pay the bank guarantee to the Ministry of Finance. Since late 1993, however, some of the financial discipline shown by the GRM seems to have weakened badly.

The most recent report from the controller's office (December 30, 1994) indicates that the GRM has not made a single deposit into the special account for the Title III commodities purchased in FY 93. These counterpart funds, totaling some 25 billion meticals ($4.6 million), are now over 365 days overdue. This far exceeds the 180 days allowed in the agreement. The evaluation team was told that a formal request by the Ambassador had been made to the GRM to pay these overdue debts.

It is not clear why the GRM has decided not to deposit counterpart funds into the special account. Two possible reasons include: a) the tying of these funds to specific uses, including 10 percent set aside for use by PVOs, and b) the desperate situation in which the GRM finds itself on its current accounts. Repeated attempts by the evaluation team to meet with the Ministry of Finance to discuss this and other questions were fruitless; the representative from Finance did not show up for the one meeting which was arranged and did not reschedule the meeting.

The GRM has run a budget deficit every year over the past decade. Foreign grants became an important budget component in the first year of the PRE (Table 2.4). Grants rose nearly tenfold over the previous year, holding the overall deficit to a large 12 percent of GDP. Since 1987, there has been progress toward deficit reduction in real terms and as a proportion of GDP; in 1993 the deficit, after grants, was 5.2 percent of GDP. GRM revenue collections have improved since 1987, but lowering real deficits has been accomplished through increasing levels of foreign grants.

The Title III program's disbursements have contributed positively to the GRM budget through generation of local currency. To date, some MT130 billion from Title III counterpart fund generations have been disbursed to the GRM. These disbursements amount to approximately 2 percent of GRM's total revenues.

Table 2.4 Mozambique: Government Finances, 1988-1994
(Programmed budget in billions of meticals)

	1988	1989	1990	1991	1992	1993	1994[a]
Total Revenue	**130.7**	**226.5**	**298.0**	**447.1**	**661.0**	**1,092.6**	**1,646**
Tax Revenue	110.1	199.8	266.4	379.8	574.1	995.0	1,512
Nontax Revenue	20.6	26.7	31.6	67.3	86.9	97.6	133
Total Expenditures	**288.5**	**473.0**	**693.2**	**958.3**	**1,496.1**	**2,307.8**	**3,796**
Current Expenditures	148.8	246.8	342.5	457.4	764.7	1,170.8	2,085
Capital Expenditures	139.7	227.0	350.7	500.9	731.4	1,137.0	1,171
Deficit Before Grants	- 157.8	- 246.5	- 395.2	- 511.2	- 835.2	- 1,215.2	- 2,150
Grants Received	91.8	159.8	226.3	382.5	690.0	932.2	1,766
Overall Deficit After Grants	**- 66.0**	**- 86.7**	**- 168.9**	**- 128.7**	**- 145.2**	**- 283.0**	**- 385**
Financing							
Foreign	52.9	81.7	168.5	127.7	115.9	204.1	166
Domestic	13.1	5.0	0.4	0.9	67.3	78.9	218

[a] Programmed

Source: Anuario Estatistico, National Planning Commission, National Statistics Direction and Internal Monetary Fund.

2.4.4 Standby Contract with a Private Sector Warehouser

The second program amendment in July 1992 added a fourth performance indicator under the policy objective of improving public sector management of food assistance programs. This indicator called for the establishment of a standby contract with a private sector warehouser for the transport, storage and release of maize to consignees for arrivals in excess of the amount that can be readily received and paid for by consignees at quayside. Release of maize by this private warehouser would follow the same terms and conditions as direct delivery of maize at the discharge of the vessel.

It was believed that the standby contract would help alleviate backlogging of commodities resulting from the stacking up of deliveries at the port. According to a reporting cable from the Mission (93 Maputo 05130), the Ministry of Commerce negotiated such an arrangement with Manica, a local private freight service company, and they were able to store 14,326 tons of yellow maize which arrived under the FY 92 program.

The managing director of Manica described in an interview a slightly different version of this arrangement. According to him, no standby contract was ever made. In November 1993, however, two vessels arrived in Maputo at almost the same time—OMI Missouri and Lash Atlantico—and no one was receiving the Title III maize. To deal with these large deliveries of Title III commodities, the Ministry of Commerce contacted Manica to provide temporary storage facilities on a standard fee basis of US$0.45 per ton storage cost and US$17 per ton for transportation and handling. From time to time Manica has taken excess cargo on a case by case basis, but, again, no contract has ever been signed. In most cases, cargo not picked up at the port is stored in CFM's warehouses inside the port. Cargo stays in these warehouses until the consignee gets around to picking it up.

Using private warehousers such as Manica is an attempt to deal with the effects, but not the causes, of maize deliveries which exceed effective demand. It is not a good permanent solution to the problem. Manica's warehouses are in Matola, some 14 km. from the port. Maize has to be transported to these warehouses either by rail or by road. In Mozambique there is limited rolling stock capable of moving large quantities of grains. Truck transportation of significant quantities is expensive. In addition, the cost of this type of storage is high, and the high cost further discourages receivers from picking up the maize. The only real solution to the problem is better scheduling of Title III deliveries.

The solution to the problem does not lie in having standby warehousing space available, but rather in scheduling deliveries better, in assuring compliance by the MOC with the agreed upon selection of consignees, and in insisting that financial terms provided to the GRM (180 days) be passed along to consignees for their payments. The MOC is informed by Manica of the ETA before a ship has even left port in the United States. The MOC has plenty of time to make this information public, to assure a transparent selection of clients, and to require advanced payment, or at least 20 percent down payment, on consignments before the ship arrives. If these procedures were to be followed, then consignees could be lined up with their papers and their trucks ready as soon as the ship was tied up at the dock. Unloading into warehouses, particularly the port warehouses owned by CFM which are the only viable alternative for avoiding additional loading, unloading, and transshipment costs, should be a last resort.

2.5 Foreign Exchange and the Banking Sector

The Title III Program, by providing grants for the importation of surplus U. S. commodities, has a direct impact on the balance of payment and foreign exchange situation within Mozambique. In addition, to be effective, the Title III Program needs to use the banking sector within the country. The long-term possibility of phasing out the Title III Program will ultimately depend on foreign exchange availability and the related strength of the banking sector to provide necessary credit and financial services in support of commercial cereal imports.

2.5.1 Foreign Exchange Considerations

Foreign exchange reforms have been an important element in USAID's parallel Private Sector Support Program (PSSP). Under the PSSP, USAID has established policy objectives related to foreign exchange. These objectives have a twofold purpose: a) to test policy and procedural options for increasing access to foreign exchange by private entrepreneurs in the agricultural sector, and b) to institutionalize market principles as a basis for foreign exchange allocations. Both objectives have been achieved; there is now somewhat greater access to foreign exchange, and the exchange rate is more market-related than in the past.

GRM management of foreign exchange has changed significantly over the past decade. Prior to the adoption of the *Programa de Reabilitação* (PRE) in January 1987, the official exchange rate of the metical was extraordinarily overvalued. Today, the price of foreign exchange is more market-related.

After the 1987 PRE, 1991 and 1992 saw two important changes in the GRM foreign exchange allocation system. In October of 1991, the GRM introduced a secondary market for foreign exchange. This secondary market allowed foreign currencies to be exchanged at market-related rates at licensed foreign exchange bureaus. In April 1992, the GRM unified exchange rates, and donor import support funds and export earnings were merged within the secondary market. Effectively, the secondary market is now the official exchange rate. The objective was to create a larger market whereby foreign currency would be allocated more through a market-related price. The results are apparent; since early 1993, the spread between the official and the parallel markets has declined from about 25 percent to a current level of around 6 to 8 percent (see Table 2.5). The difference likely represents transaction cost differences between using the official secondary market and the simpler parallel market.

The price of foreign exchange is Mozambique's most important price. Since October 1991, the foreign exchange price has been more market-related, that is, influenced by demand and supply in the parallel market. In 1994, about US$300 million, or around 70 percent of Mozambique's free foreign exchange, defined as the difference between the country's imports and predetermined uses such as donor-financed projects and debt service, came from donor balance of payments support. Much of this support is tied assistance. The fact that the assistance is tied has important implications for the country's foreign exchange market and for GRM foreign exchange management. The secondary market of foreign currencies traded outside import support fund exchanges is a thin market; perhaps less than 20 percent of all foreign currency exchange transactions are in the secondary market.

The secondary market works for relatively small and routine transactions—like purchase of travelers checks—but it does not provide ready access to foreign exchange for many private importers. Private importers wanting to import goods, especially capital goods, do not have ready access to foreign exchange. They may use other means, including the parallel market. The magnitude of the parallel market is unknown, but some observers estimate that transaction volumes ranged around US$60 million per month in 1994.

For many importers, inability to access foreign exchange is directly related to inability to access credit. Mozambique's financial system is in its infancy, and for the private sector commercial credit is difficult to obtain. The problem is twofold. First, Mozambique's financial system is in its infancy and lacks efficiency and direction. This makes it difficult to obtain private sector commercial credit. Second, there are major problems with the creditworthiness of many of the larger private sector firms.

The Title III program, with its foreign exchange component and subsequent generations of local currency, has a potential impact on both the GRM budget and its balance of payment situation. As part of the general economic decline since Independence, Mozambique has had a serious balance of payments problem. At Independence, export values were only half those of imports. Imports and exports peaked in 1981-1982, then began to decline. Merchandise exports dropped from US$281 million in 1982 to US$77 million in 1985, while imports dropped to half the 1982 levels. After adoption of the PRE, an upward trend in imports was not accompanied by a similar trend in exports (Table 2.6). Between 1988 and 1994, the trade deficit grew by 55 percent, and in 1994 export earnings covered only 14 percent of the country's imports.

Mozambique's most important export products are cashew nuts, shrimp, cotton fiber and sugar. Other exports are lobster, wood, copra, and cashew oil. Between 1987 and 1993, the export volume of all products fell, with the exception of the volume of shrimp and cotton, which together were valued at US$105 million in 1993.

Exports of goods and services are a small part of Mozambique's available foreign exchange; over 80 percent comes from donor assistance. The nation is the world's most aid-dependent country; external aid equalled US$67 per capita in 1993. Net development assistance is nearly 70 percent of published national GNP.

Table 2.5 Exchange Rate of the Metical to the U.S. Dollar, December 1992 through November 1994
(Secondary Market, Parallel Market, and Differential)

Month and Year	Secondary Market	Parallel Rate	Percentage Difference
December **1992**	2,948	3,350	13.6
January **1993**	2,960	3,450	16.5
February	2,973	3,600	21.1
March	3,000	3,750	25.0
April	3,038	3,800	25.1
May	3,110	3,950	27.0
June	3,400	4,050	19.1
July	3,692	4,500	21.9
August	4,109	5,000	21.7
September	4,611	5,100	10.6
October	5.009	5,300	5.8
November	5,221	5,700	9.2
December	5,370	5,800	8.0
January **1994**	5,437	6,000	10.4
February	5,509	6,350	15.3
March	5,615	6,640	18.3
April	5,723	6,575	14.9
May	5,786	6,588	13.9
June	5,917	6,700	13.2
July	6,138	6,720	9.5
August	6,297	6,730	6.9
September	6,397	6,800	6.3
October	6,507	6,950	6.8
November	6,536	7,000	7.1

Source: Banco de Mozambique.

Table 2.6 Mozambique: Balance of Payments, 1988-1994
(in millions of US$)

	1988	1989	1990	1991	1992	1993	1994[a]
Merchandise Exports (fob)	103.0	104.8	126.4	162.3	139.3	131.8	164.0
Merchandise Imports(cif)	- 735.6	- 807.7	- 877.5	- 898.7	- 855.0	- 954.7	- 1,143.8
Trade Balance	**- 632.6**	**- 702.9**	**- 751.1**	**- 736.4**	**- 715.7**	**- 822.9**	**- 979.8**
Exports of Services	156.6	166.7	173.4	202.8	222.6	239.8	242.6
Imports of Services	- 259.3	- 311.5	- 286.0	- 312.4	- 355.5	- 361.4	- 399.8
Private Transfers	78.0	85.0	97.5	107.6	110.0	125.0	127.5
Current Account, (excluding grants)	**- 657.3**	**- 762.7**	**- 766.2**	**- 738.4**	**- 738.5**	**- 819.6**	**-1,009.4**
Official Transfers	376.8	387.5	448.4	501.7	499.4	503.3	658.8
Current Account Balance (including grants)	**- 280.5**	**- 375.2**	**- 317.8**	**- 236.77**	**- 239.2**	**- 316.2**	**- 350.6**
Capital Account Balance	**- 126.2**	**- 55.0**	**- 83.5**	**- 187.5**	**- 155.1**	**- 107.0**	**- 7.4**
Foreign Borrowing	247.5	256.7	251.4	144.1	169.8	185.5	276.4
Loan Amortization	- 378.2	- 315.1	- 344.1	- 354.1	- 350.2	- 324.5	- 318.8
Direct Foreign Investment	4.5	3.4	9.2	22.5	25.3	32.3	35.0
Net Errors and Omissions	33.6	8.7	3.1	33.7	- 12.3	- 7.8	--
Overall Balance	**- 436.8**	**- 421.5**	**- 398.2**	**- 457.9**	**- 406.6**	**- 431.1**	**- 358.0**

[a] Programmed
Source: Anuario Estatistico, National Planning Commission, National Statistics Direction and International Monetary Fund.

Grant assistance dwarfs all positive balance of payments current account entries. Soft loan disbursements have also contributed to a positive balance. Payments deficits have been made up through debt relief and the amassing of debt arrears. Growth in private transfers and service exports have been positive, but together they did not equal service imports in 1994.

Most donor balance of payments support is tied assistance. Heavy dependence on donors for balance of payments support exposes the country to potentially large fluctuations in foreign exchange flows, and the tightly tied assistance greatly reduces GRM flexibility for managing the external trade balance.

The primary impact of the Title III program on Mozambique's balance of payments is to provide a net addition to merchandise imports. In the absence of the Title III program, the country might import some of the same food grains, but, *ceteris paribus*, it would be necessary to reduce other merchandise imports by the net amount of the Title III balance of payments contribution. Thus, over the life of Title III, cereal imports will add net US$68 million to the country's total merchandise imports. Using GRM published balance of payments import data (Table 2.6), imports under Title III over the life of the program will amount to about 1 percent of Mozambique's officially recorded imports.

2.5.2 Banking Considerations

The two state-owned banks *Banco Commercial de Moçambique* (BCM) and the *Banco Popular de Desenvolvimento* (BPD) dominate the financial system. In 1993, the two banks together controlled 89 percent of all commercial banking assets, 89 percent of all loans, and 86 percent of all deposits. Given access to central bank overdraft facilities, neither bank has an incentive to attract and mobilize domestic savings. BCM and other commercial banks are financing Title III letters of guarantee for consignees designated by the Ministry of Commerce. They also finance wholesalers' purchases during the domestic grain marketing season.

A World Bank study showed that in 1993 loans to the 30 largest borrowers were half of all commercial lending. Half of all loans to this client group were non-performing loans; none of the performing loans were to state-owned enterprises.

The three private banks, the *Banco Portugues do Atlantico*, the *Banco Standard Totta de Moçambique* and the *Banco de Fomento e Exterior,* play a small but positive role in resource mobilization. Little is known about informal financial markets, but they appear to have limited elasticity, given rural impoverishment.

The demand side of the financial market is also weak. Few private Mozambican businesses are creditworthy. Most state enterprises are debt-ridden and have little short or long-term promise of moving to positive bottom lines.

Although the overall picture is bleak, there has been some progress toward reform of the banking and financial system. A start was the separation of the commercial and central banking functions of the BM by opening the BCM in June 1992. At the same time, legislation was passed that permitted greater competition in the insurance industry. A number of foreign banks are showing interest in entering Mozambique. It is also important to note that in mid 1994 the BM deregulated interest rates for commercial banks. Interest rates on commercial loans are now positive.

Although there are small positive shifts, Mozambique's current banking system is not competitive and provides limited banking support to the economy. The allocation of a large proportion of total financial resources is governed by priorities of the state, not by the financial integrity of borrowers. Some reform steps have been taken, but the poorly operating system continues to be a major impediment to Mozambique's economic development.

The World Bank's Second Economic Recovery Credit Program (SERC) addresses many of the deficiencies of Mozambique's banking system. The SERC focuses on:

- Improving management of public expenditure and external aid;
- Strengthening monetary policy management of the Central Bank;
- Restructuring the financial sector; and
- Reforming state enterprise.

The SERC is a large—US$200 million, Swiss Francs 10 million, British Pounds 10 million and Danish Kroner 40 million—comprehensive effort to address key elements of fiscal and monetary policy and to support an interlinked program of enterprise and financial sector reform.

3. PROGRAM MANAGEMENT AND SUPPORT

3.1 Structure of the Title III Program

To evaluate the various program management and support aspects of the Title III program, a basic understanding of the relationships of resources and responsibilities among the various units and actors is important. These relationships and flows can be seen graphically in Figure 3.1.

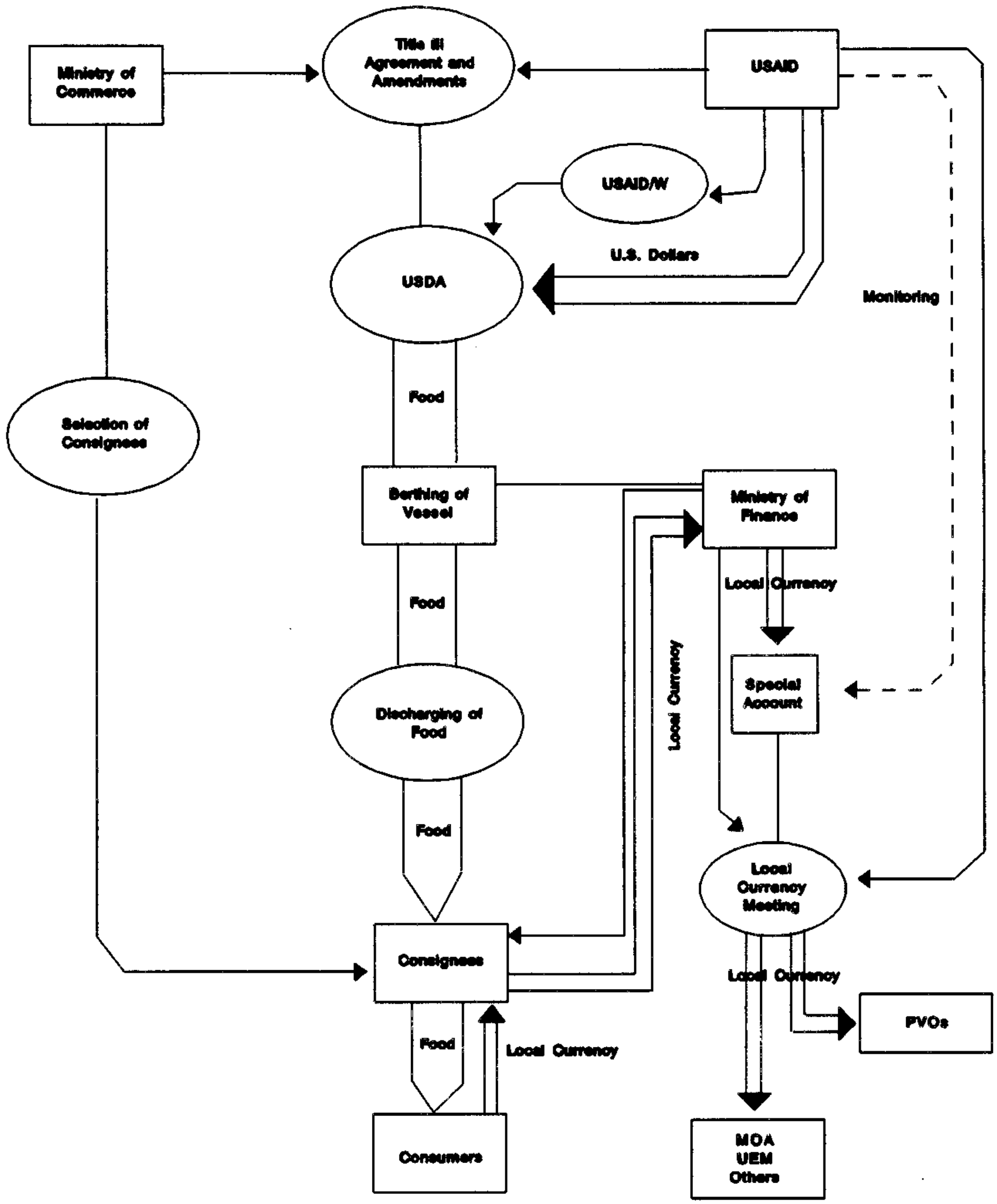
At the top of the Figure is the Title III Agreement and Amendments. These documents are signed by USAID and the Ministry of Commerce, representing the U.S. and Mozambican governments, respectively. USAID/Maputo processes the necessary documents to establish call-forward specifications and requested delivery dates and passes them on to USAID/Washington. They are then transferred with funds to the U.S. Department of Agriculture for the purchase and shipping of commodities to Mozambique. Before the call-forward is made, the Ministries of Commerce and Finance agree on the price to be paid by the consignees for the commodity when it arrives at port. Before the commodity arrives in port, the Ministry of Commerce makes a selection and qualifies the consignees for each shipment. When the vessel berths at the quay, the clock starts ticking on the 180 days required for the Ministry of Finance to deposit into a special account the counterpart value of the commodity delivered. This value is calculated on the basis of the highest legal exchange rate on the day of the vessel's arrival.

Funds in the special account are disbursed according to the directions of the local currency meeting attended by representatives of both the Ministry of Finance and USAID. Ten percent of local currency generations are earmarked for use by PVOs. The rest go to a range of activities, but mostly to the Ministry of Agriculture and the University Eduardo Mondlane. USAID's Controller's office monitors the special account.

Once the vessel docks in Maputo or Beira, it begins to discharge its food aid to the selected and pre-qualified consignees. At the time the commodity is discharged from the vessel it becomes the responsibility of the Ministry of Commerce or its designated consignee. On delivery the consignees are required to pay to the Ministry of Finance (Banco de Moçambique) 20 percent of the cost of the commodity. The consignees are required to have a bank guarantee for the payment to the Ministry of Finance according to the price established for the commodity by the Ministries of Finance and Commerce. These guarantees are usually valid for 60 to 90 days (see section 3.2.1). The consignees obtain from the sale of the commodity in the marketplace funds to complete payment to the Ministry.

FIGURE 3.1

FLOW CHART OF THE TITLE III PROGRAM



3.2 GRM Management

The GRM has three direct management responsibilities in handling Title III commodities. As soon as the commodities leave the ship at dockside they become the responsibility of the GRM or its designee. The first management task for the GRM, then, is selecting consignees who will receive Title III yellow maize at the port for wholesaling in the marketplace. The second activity concerns management of the port and related facilities. Finally, the GRM is responsible for the warehousing, if necessary, and distribution of any food aid brought in by the Title III program which is not picked up immediately by the consignees.

3.2.1 Selection of Consignees

During the first years of the food aid shipments, first under Title II, Section 206, and subsequently under the Title III program, all shipments between 1983 and 1990 were consigned to the Government supply agency, *Importador de Bens de Consumo* (IMBEC), the sole recipient for all food aid. Because of extremely poor payment performance by both IMBEC and other final recipients, and because of general lack of accountability, IMBEC was removed as an eligible recipient in 1990, and a limited expansion of food aid directly to the mills and to other distributors was undertaken.

Based on the recommendations of Louis Berger Associates, a pre-qualification system was established to select eligible wholesalers and millers before shipments were to arrive. The basic criteria were for firms to be licensed importers with sufficient capital, installations, and equipment, and no outstanding debts to the GRM or to the banks. Initially, 31 firms were selected, including some parastatal firms that would have been excluded had criteria been strictly observed. By July 1992 the number of firms had reached 70, and it is thought to be higher now. Bidding is reopened annually, new firms are pre-qualified, and food aid shipments are to be publicly announced in the newspapers along with invitations for pre-qualified firms to submit their bids to the Ministry of Commerce (MOC). This procedure was not followed during 1994, because, according to the MOC, of the low level of food imports by some donors. There is no indication that the MOC received prior approval from USAID for this major deviation from the established system.

The MOC's failure to follow procedures for pre-qualification and public announcement of prospective arrivals of Title III maize has made for a selection system that is not transparent. How firms are actually selected to receive a given cargo of a ship scheduled for arrival is unclear. It is also apparent that when firms consigned to receive part of a cargo lack interest or fail to pick up their cargoes, other firms are called and asked if they are interested. In some cases, firms not even pre-qualified are allowed to participate. For example, in the case of the Ultrasea, which docked January 6, 1995, some consignments that firms failed to pick up were reassigned to other unidentified consignees. These new consignees' names do not appear in data provided by Manica, which supplies the delivery order consignees normally need to pick up their consignments.

The number of consignees per ship is variable, but it can be as high as 20 or more, a sufficient number to guarantee considerable competition while consignees sell their maize stocks. There were 25 consignees allotted cargo from the Doris Gunther and 22 from the Ultrasea; both ships were simultaneously unloading while the evaluation team was in-country.

MOC's explanation for failure to follow the pre-qualification system is that when the market is empty as it was prior to the arrival of the first two ships in 1994, every trader in Beira and Maputo was anxious to obtain all the maize he could get. Since there were too many people interested in maize, MOC assigned cargo from the first and second ships on an exceptional basis to the strongest companies. By the time the third ship had arrived, trader interest had waned, a mixture of large and small companies had received assignments, and additional companies were called and invited to take consignments. MOC expressed the view that smaller companies are weaker, have fewer trucks, take longer to unload, and are generally undependable, making necessary MOC's administrative selection of firms based on its own discretion.

The evaluation team's view is that procedures established earlier are perfectly correct, should have been followed and, if followed, would have led to a more efficient unloading process. Analysis of the distribution of the cargos of the two ships which were in port during the time of the evaluation mission supports the team's view and contradicts MOC's view. Note, for example, that some of the firms MOC selected never did pick up their consignments. Many others failed to make payment, pick up their delivery orders, and then obtain customs clearances. The two state enterprises worked only one shift unloading instead of the three that some of the smaller private firms did. Some Ultrasea consignees were not informed of the ship's arrival until it was in port. Most troubling of all, the Ultrasea had to unload into CFM warehouses because of lack of consignees. This unloading into warehouses adds $2 per metric ton, and after 15 days another $0.40 per day per ton is assessed. In addition, such unloading leads to risking insecure storage, a severe problem within the port.

Although there were 70 firms pre-qualified in 1994, and interest in the maize was considerable, especially for the first two ships, nine of the 22 consignees for the Doris Gunther also received consignments from the Ultrasea. This duplication indicates that some firms desiring to purchase maize must have been left out. For the Ultrasea, not a single consignee had arranged before the arrival of the ship to pick up his delivery order. Firms took an average of 17 days from the docking of the ship until they finished unloading, and some of them did not finish unloading from warehouses and rail cars until after the ships had left. Given these results, the evaluation team feels that MOC should abide by and follow the consignment system agreed to earlier. Consignments made since 1991 should be audited by a firm familiar with maritime commerce, and new procedures should be recommended. The team also has its own recommendations for the near term.

3.2.2 Port Management and Reception of Title III Shipments

The ports of Maputo and Beira are owned and operated by the parastatal *Companhia de Ferrovias de Mozambique* (CFM) which integrates all ports and railroads in the country. The inefficiency of this parastatal is legendary, as is its high rate of pilferage and theft. Its poor reputation is a factor in decisions by major shippers who have alternatives to move their traffic through non-Mozambican ports, as they do with tobacco from the eastern Transvaal, which in the past was shipped through Maputo and now is sent through Durban, despite greater distance. Although not as well organized as in the past and somewhat reduced in volume, pilferage within the port still averages about 3 percent in the case of yellow maize. All unloading is done by stevedores who work for the port. Consignees are not permitted to bring their own workers into the port to unload cargos, except when the port is overwhelmed with work.

The agent for ships bringing in Title III shipments is Manica Freight Services, SARL. As ship's agent, Manica, is responsible for the vessel's entrance, its berthing, and coordination with MOC for off-loading. The procedure for consignment of the ship's cargo to selected receivers is the following: Based on a draft survey carried out by Manica to establish actual tonnage, the bill of lading is handed to the Ministry of Commerce. The Ministry assigns tonnage to several receivers, and sends the list to *Banco de Moçambique* (BM). The assigned receivers effect payment of the counter-value corresponding to the tonnage they have been assigned, and BM issues them a receipt for this payment. The receiver bring this receipt to Manica, which issues a delivery order. This delivery order is taken to customs, which takes payments, reported to be 7.5 percent duty and 0.5 percent customs fee, and then sanctions delivery. Following standard procedures, this process should take 36 hours; some expediters, for an additional fee, can process customs documents faster. For the two ships reviewed by the evaluation team, however, it took consignees an average of between six and seven days to clear customs.

Once a receiver has customs documents in his possession, discharging to him can begin. How fast an individual consignee can pick up his cargo depends on the number of trucks he has available and on the number of hours laborers work unloading the ship. The maximum is 24 hours/day. The average discharging rate is around 750 mt per day after the documents are ready and discharging actually begins. Consignees generally pick up their cargo directly from the ship which off-loads it with evacuators or grabs into hoppers. CFM bags it for loading onto consignees' trucks. The only consignees with the capability to take bulk cargo are the millers. All other consignees require bagged maize; there are no bulk storage facilities other than silos at CIM in Matola for CIM's exclusive use.

A silo complex constructed with German funding and British ODA support for civil works is being built adjacent to, but independent of, CIM in Matola. It will be ready for unloading of grain from rail cars by the end of 1995, and it will be able to take grain in bulk from the port by the end of 1996. Originally designed for long-term food security, the silos are now intended to facilitate unloading by providing short-term storage when needed. The enterprise operating this grain transfer facility will be privatized and will be able to serve the unloading of all types of grain. It will be able to transfer grain directly into baggers or trucks, initially at 200 mt per hour, and eventually at a rate of 400 mt per hour. Excess grain can be safely stored in these silos if sufficient trucks are not available. Unloading costs will be high, estimated at DM40 per ton, approximately US$28 per ton at the current exchange rate of DM1.39 per dollar. These costs, however, may be lower than the costs in inefficiency, losses and annoyance of dealing with the port of Maputo. Except for the cost factor, once this complex is in operation, all grain brought into or through Maputo should logically unload at this facility. Unfortunately ship's draught is still limited to 9.5 meters (31 feet). This limit is not caused by the water depth, 11.5 meters, around the Matola facility but by the depth of the Sefine Channel, which is only 9.5 meters.

According to MOC and Manica, the principal bottlenecks affecting unloading are related to confusion in the port caused by the large number of consignees and by delays experienced by smaller consignees in getting their documentation in order. In addition, MOC and Manica contend that smaller consignees have few trucks and are unwilling to work three shifts. Manica notifies the Ministry of Commerce up to a month before a ship's arrival. Under these circumstances MOC should inform consignees about 15 days before the ship's arrival so that the consignees can arrange financing. Most consignees make no arrangements, however, until the ship actually docks. There are two possible reasons for this lateness in financing. In some cases the fault appears to lie with MOC, since it has stopped publishing invitations to bid on Title III cargos and only informs selected traders of expected arrivals. Other consignees only make financing arrangement after they have found out the ship is coming by seeing it berthed in the port.

Tables 3.1 and 3.2 have been based on information provided by the ships' agent, Manica, for the Doris Gunther and the Ultrasea, both of which were in port during the time the evaluation team was in-country. Some information may not be accurate, because MOC made arrangements to transfer some cargo not picked up by a few of the consignees to other firms and apparently did not inform Manica of these changes. Normally a firm can obtain a delivery order, without which customs clearance for cargo cannot be requested, only from Manica.

Because firms had been informed well ahead of time and because of their interest in getting maize at a time when there was none in the market, firms arranged payment, either cash or 20 percent plus bank guarantee, early in order to get a delivery order before the arrival of the Doris Gunther. Thirteen of the 25 consignees had delivery orders before the ship docked. The firms which did not have their orders ahead of time needed an average of six days after the Doris Gunther had docked to get their delivery orders. With the delivery order in hand, customs clearance, including payment of 7.5 percent duty, took another six to seven days on average. With customs clearance in hand, firms started unloading less than one day later. Unloading took an average of three days. The average number of days from docking to the time a firm was finished unloading its cargo was 17 days. These figures include estimated times for firms for which no information was available.

Table 3.1 Doris Gunther Unloading
(docked December 26, 1994)

Double Consign-ment?	Consignee	Metric Tons	Obtain Delivery Order	Customs Docs. Ready	Unload-ing Beg.	Unload-ing End	Total Days	No. of Trucks
			-----Days Taken to Carry Out Various Operations-----					
	Arm. Combomune	250	(3)	9	1	5	15	3
Yes	Muchiachia[a]	250	2	n.a.	n.a.	n.a.	40	n.a.
Yes	Agi Commodity	500	(5)	8	0	1	9	4
	Alfa[a]	500	22	n.a.	n.a.	n.a.	40	n.a.
Yes	COIL	500	4	14	0	5	23	3
Yes	E.A.C. Maputo	500	3	11	1	1	16	6
	E.D. Capela	500	1	9	1	3	14	8
	Iaem. M. Marques	500	(4)	2	1	6	9	4
	Inacio Sousa	500	(6)	1	0	2	3	9
Yes	ICM	500	(6)	8	0	3	11	3
	Jose F. Almeida	500	10	8	0	3	21	3
	Jose M. Ferreira	500	(3)	10	1	5	16	4
	Laley e Filhos	500	21	4	4	1	30	n.a.
	Manuel Pereira	500	(5)	8	0	0	8	10
	Maxixe Comercial	500	(5)	4	0	5	9	4
	Mazhar Khan	500	14	7	1	8	30	n.a.
Yes	MIT	500	1	8	1	0	10	17
	Poliex	500	24	5	1	1	31	n.a.
	Sesagro	500	22	3	1	4	30	n.a.
	Sorimex	500	(5)	10	1	2	13	2
Yes	U. Geral Coops.	500	(4)	2	1	10	13	3
	Euragel	750	(6)	2	3	0	5	6
Yes	Universal Com.	750	(6)	8	1	2	11	9
Yes	Socoma	1000	(3)	9	1	2	12	8
	Aproc	2000	2	11	0	6	19	5
	Totals and Means	14500	3	6.7	0.8	3.0	17.0	6.2
	Docs. Ready Firms[b]		(4.7)	6.2	0.8	3.3	10.3	5.3
	Docs. Not Ready Firms		6.1	6.8	0.5	2.2	20.2	5.2

[a] Estimated total time.
[b] Firms with documents ready before the arrival of ship.

Table 3.2 Ultrasea Unloading
(docked January 6, 1995)

nsignee	Metric Tons	Obtain Delivery Order	Customs Docs. Ready	Unload-ing Beg.	Unload-ing End	Total Days	Number Trucks	Hours Worked
		--------Days Taken to Carry Out Various Operations--------						
Dipromar	250	10	9	1	5	25	4	8
d. D. Capela	250	0	7	0	1	8	3	24
gi Commodity	500	18	2	1	6	27	5	11
ssamo Rugnate	500	18	3	0	8	29	4	8
izingo Com.	500	4	5	1	2	12	8	10
gropa	500	3	10	1	4	18	4	8
comel	500	5	2	0	2	9	6	10
ita Trading	500	7	7	0	1	15	11	14
shail Dist.	500	Never picked up delivery order.						
.C. Maputo	500	5	9	0	4	18	4	8
Mohamed	500	5	3	0	2	10	3	24
T	500	3	8	0	2	13	4	10
uchiachia Com.	500	10	13	0	10	33	6	4
oliex	500	3	3	0	1	7	10	24
oil	500	Never picked up delivery order.						
geme	750	5	2	0	1	8	7	24
ntilal	750	Never picked up delivery order.						
coma	750	10	4	0	2	16	6	11
anuel Marques	1000	7	7	0			3	4
M	1250	5	6	1	9	21	2	8
Geral Coops.	1250	0	10	0			3	4
Commercial	2000	5	3	0	6	14	7	14
ls & Means	14750	6.5	5.9	0.3	3.9	16.6	5.3	12.0
MT and less*	7000	7.0	6.2	0.3	3.7	17.2	4.8	10.9
500 MT*	7750	5.3	5.3	0.2	3.0	14.8	7.0	10.8

only those consignees who have finished operations.

ocs. < 1 week Firms	3.3	5.2	0.2	2.6	10.6	4.7	12.9
ocs. 1 week+ Firms	11.4	6.4	0.3	4.6	20.7	5.6	8.6

The situation for the Ultrasea was similar, except that with two ships in port at the same time there was less rush to line up for delivery orders and not one of the firms had its delivery order ready before the ship docked. One consignee told the evaluation team that it has been informed of the arrival of the Ultrasea only after it had docked; late information to consignees appears to have been general. Apparently, MOC did not make public announcement of the arrival of either ship. MOC failed to provide the evaluation team with photocopies of all newspaper publications inviting bids for Title III maize arrivals. It had agreed to provide the team with these copies before the team's departure at the end of business on February 28, 1995. Again, for the first six days, the Ultrasea unloaded into CFM warehouses, increasing costs by at least $2 per ton to consignees and increasing the risk of losses through pilferage.

There appeared to be no significant relationship between unloading time and the number of trucks brought in to do the unloading. There was no significant difference in the number of hours worked among various categories of consignees. The three state enterprises worked only one shift unloading and were slightly slower than average speed in unloading, at 5.7 days compared to the average of 3.9 days.

The big delays in the overall time for unloading are not those identified by MOC. They are related, rather, to the way the process is being managed, principally to firms' not having documents ready at the time of a ship's berthing and using excessive time in obtaining customs clearance. Customs clearance took 57 percent of the time in the case of the Doris Gunther and 73 percent of the time for the Ultrasea. Improving the process to reduce these delays is imperative for smooth operation of the program. Factors under MOC's and MOF's control could reduce delay in having delivery orders ready.

3.2.3 Warehousing and Distribution of Food Aid

Warehousing became an issue when it was thought that significant amounts of grain might have to be unloaded into a central warehouse for subsequent release or allocation to small consignees. The original amounts recommended for consignment by the Louis Berger report were 3,000-5,000 mt per consignee, with cargoes up to 10,000 tons being broken down into two lots. The Austral report on pre-qualification of consignees recommended that the minimum amount for direct pick-up from ships be in the 1,000-1,500 mt range to reduce port congestion and losses. Smaller consignees, down to a minimum of 100 mt, would be assigned to pick up from a central warehouse. In fact, consignees have been able to pick up consignments as small as 250 mt and, allegations to the contrary, information reviewed in this report shows no difference in the time required for small and large consignments in terms of documentation and cargo unloading. No central warehouse facility has had to be set up, and unclaimed cargo is consigned to port warehouses and eventually removed by original, or new, consignees.

All recipients have their own warehouses sufficient for handling the amount of food aid they are consigned. Constraints on taking additional food aid are for the most part financial rather than physical. Most firms have storage adequate to the volumes handled and could, in any case, rent additional storage space for volume likely to be encountered under Title III in any normal, non-drought year. All wholesalers are equipped exclusively to handle bagged maize or flour, although some mills can handle bulk deliveries.

Manica has warehouses capable of handling up to 50,000 mt of bagged maize. Anfrena EE has additional storage capacity. Both are available for rental, and good quality dry maize could be kept for up to four months. ICM also has some warehouse capacity for its own use. EU is storing a small amount of white maize. WFP has plans to purchase and store an off-shore food stock from Zimbabwe and RSA and to bring it in by rail as needed. Transit time to bring this food in is approximately two days. The warehouses most frequently used are those belonging to CFM in the port. Although security is lax, they are the only ones located where they are needed—in the port next to the wharves.

Once the grain transfer and silo complex at Matola is finished, high speed unloading should obviate the need for additional warehouse capacity. Total capacity of the silos is 30,000 mt. Actual available capacity will depend to a large degree on how much of the capacity CIM is using at the time a ship is unloading. Given the high speed of unloading, need for storing Title III grain in these silos should be minimal.

In addition to buying food aid, some wholesalers, particularly those with commercial ties to food surplus areas in the central part of the country, already purchase white maize at harvest time for holding against the time of higher prices, usually within a few months thereafter. Proper scheduling of food aid deliveries during the next few years can help re-establish this practice and provide an incentive for a return to normal marketing practices in the maize market. A relatively stable maize market which takes into account food aid deliveries will also facilitate normal commercial purchases from other suppliers. While much attention has been focused on neighboring southern African countries, international grain suppliers, including the United States and Argentina, may be competitive in the Mozambique maize market provided that shipping is in non-U.S. bottoms.

3.2.4 Fulfillment of the Obligations of the Cooperating Country

Annex C of the Program Agreement for the Title III program contains the Standard Provisions for the Agreement. Article II of these standard provisions details the "obligations of the cooperating country." These obligations include 11 items ranging from having adequate personnel to carry out the program to not using local currency generations to support abortions. The evaluation team found no cause to believe that the GRM has not fulfilled all of its obligations under this proviso of the Program Agreement.

3.3 USAID Management and Monitoring

USAID's management responsibilities cover three major areas for the Title III program. The first is coordination of food aid shipments for delivery into the ports of Maputo and Beira. Coordination is an area where both USAID and the GRM, particularly the Ministry of Commerce, play important roles in terms of efficient working of the program. USAID has the responsibility of scheduling ship arrivals to facilitate smooth discharging of the Title III yellow maize. The MOC, on the other hand, is responsible for seeing that an adequate number of consignees are at dockside ready to accept delivery of the Title III commodities.

Two other major responsibilities of USAID are to see that the proper quality of food goods is imported through the Title III program and to monitor program activity, especially local currency accounts. Since the Title III program is for commercial food aid distributed primarily by the private sector, the quality of the commodity is critical to the success of the program. Likewise, proper monitoring is essential to assure that the public sector of the program, as well as its private sector, is working as it should.

3.3.1 Coordination of Food Aid Deliveries

One of the most critical and troublesome tasks for USAID's management team is the scheduling of deliveries of Title III commodities into the ports of Maputo and Beira. The timing and quantity of Title III yellow maize delivered to Mozambique and awareness in the market of these deliveries pose three serious issues that threaten Title III's overall objective of food security. The first of these issues is the inability of the Ministry of Commerce distribution system to handle efficiently the quantity of grain being delivered. The second issue relates to the depressing effect these deliveries may have on producer price for white maize. Finally, the third issue is the impact of these deliveries on market stability. These three issues can represent significant obstacles to Mozambique's overall food security. Management of the delivery of Title III commodities cannot be taken as a trivial matter.

Table 3.3 lists the various vessels that have delivered Title III yellow maize as of this evaluation. This same information is seen graphically in Figure 3.2. An immediate observation from these data is that the arrivals, with the exception of those in the drought year of 1992, are bunched in clusters in the October to February period. A closer look at the data shows that arrivals are not always spread out evenly within these months, but often several vessels have arrived within a period of a few weeks. The result of this closely packed clustering of deliveries has been an overloading of the ability of the system to deal with the quantity of commodities being delivered. Deliveries would make more sense if they started earlier and finished earlier in the year. Grain arriving in the period from August to December would be coming in late enough to allow the local harvest to work its way through the marketing chain. This time of delivery would also end early enough not to leave large carry-over stocks which could disrupt marketing when domestic production comes onto the market starting in April and May.

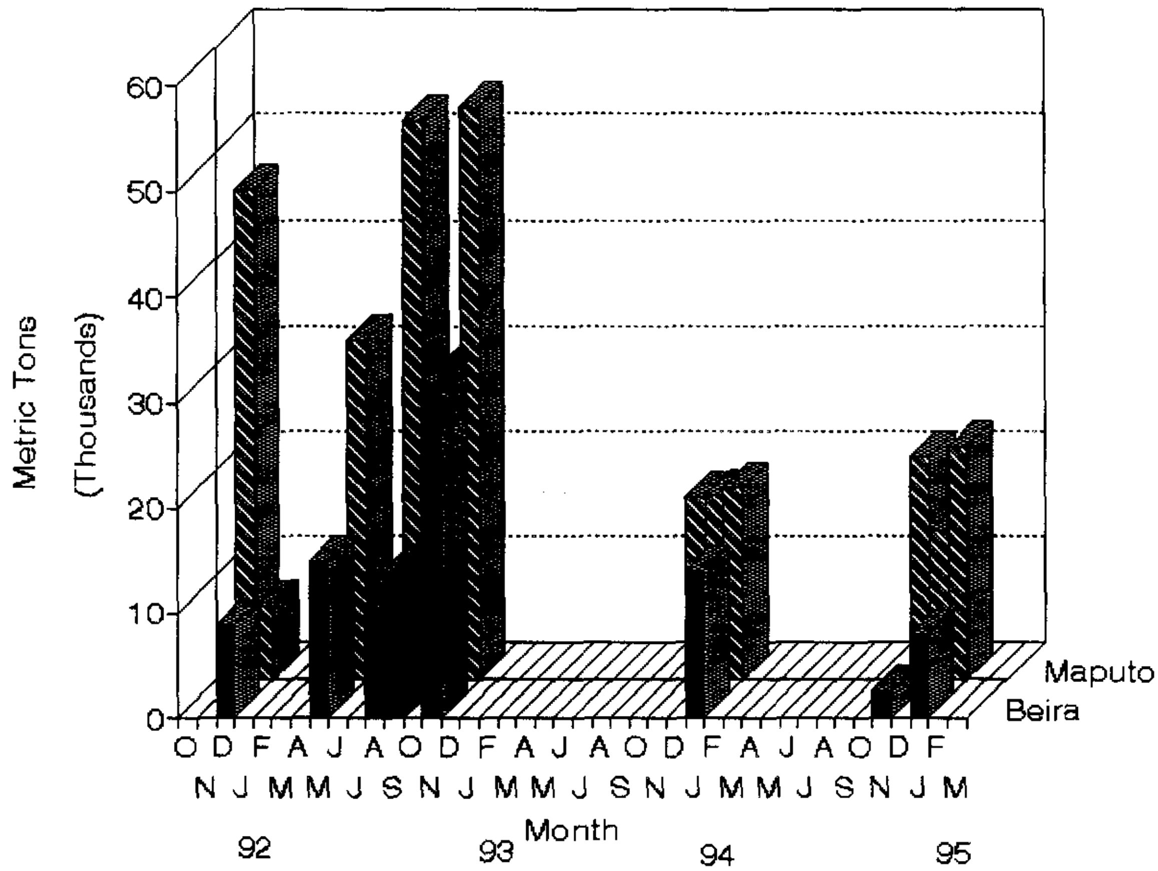
According to USAID figures, the average unloading rate in Mozambique for Title III shipments has been about 550 mt per day. The shipping agent Manica uses, as its rule of thumb for unloading, the figure of 750 mt per day. The difference between the two figures may be that Manica counts only the days the ship is actually unloading, whereas USAID counts the total time the vessel is at the quay. Because of problems with consignees getting their documents in order (see section 3), several days are often lost in seeing to financial and customs arrangements when the vessel first docks, with few, if any, consignee/receivers lined up at the dock to take delivery of the commodities as soon as the vessel arrives. In any event, on average 20 days are needed to unload a vessel carrying 12,000 mt of yellow maize.

Table 3.3 Food Deliveries under PL-480 to Mozambique

Date	Vessel	Total Tonnage	Maputo Tonnage	Beira Tonnage
1991				
11-12-91	Ashley Lykes	8,003	8,003	
11-12-91	Pride of Texas	10,012	10,012	
11-18-91	Lelaps	23,631	23,631	
11-20-91	Pride of Texas	4,990	4,990	
12-05-91	Pride of Texas	14,965		14,965
12-08-91	Marjorie Lykes	7,006	7,006	
12-14-91	Lelaps	3,800		3,800
1992				
05-09-92	Omi Missouri/Luis	15,000		15,000
05-19-92	Omi Missouri/Luis	32,250	32,250	
08-04-92	Ashley Lykes	5,000		5,000
08-08-92	Lash Atlantico/Kimol	22,500	22,500	
08-14-92	Lash Atlantico/Brighton	10,456		10,456
08-22-92	Meezan I	30,628	30,628	
09-05-92	Stella Lykes	14,000		14,000
10-05-92	George Liras	29,963	29,963	
11-02-92	John Lykes	6,000		6,000
11-02-92	Lash Atlantico/Vitor	32,999	32,999	
11-12-92	Omi Missouri/Argo	21,250	21,250	
11-28-92	Omi Missouri/Kyria	26,000		26,000
1993				
11-17-93	Sue Lykes	17,473	17,473	
12-16-93	General Jasinski	17,551	17,551	
1994				
01-12-94	M/V Inger	18,371	18,371	
01-15-94	Ashley Lykes	5,401		5,401
01-25-94	Louise Lykes	8,622		8,622
11-01-94	Lash Atlantico/Geohart	13,418	13,418	
11-08-94	M/V Nimy	7,734	7,734	
11-22-94	M/V Nimy	2,680		2,680
12-27-94	Doris Gunther	14,210	14,210	
1995				
01-04-95	Ultrasea	14,912	14,912	
01-06-95	Overseas Harriette	3,214		3,214
01-28-95	Overseas Harriette	7,307	7,307	

Source: Agriculture and Food Resource Office, USAID/Mozambique.

Figure 3.2 Title III Deliveries by Month



Port facilities in Maputo and Beira are limited, but it is physically possible to unload two vessels at the same time, as occurred during the time the evaluation team was in Mozambique when arrivals of the Doris Gunther and the Ultrasea overlapped. Limitations on unloading relate more to lack of transparency in the selection of consignees, insufficient advance notice, failure of MOC to publish ships' ETAs and tonnages and to invite bids, and failure to pass on to consignees the generous 180-day financial terms USAID provides the GRM. When no consignees are ready to take delivery, ships are unloaded into CFM's port warehouses, raising costs and making high losses probable. This kind of unloading raises complaints from the shipping company because it delays the unloading process. It eventually raises the cost of delivery of the Title III commodity, despite high freight charges which take "normal" delays into account.

Besides the physical problem of unloading vessels that are clustered together, a more important problem is the financial strain clustering puts on receivers who are to pick up the Title III commodities. Most consignees designated by the Ministry of Commerce (MOC) to receive commodities are local traders with extremely limited capital who are dependent on cash flow to operate. Clustering vessel arrivals causes these consignees financial hardship, as they are in no position to receive, that is, pay the down payment on, a second maize shipment until they have sold the first. The short period allowed by MOC and Ministry of Finance (MOF) to wholesalers for payment of the balance, generally 60 days, is insufficient to allow them to hold the maize from the second ship long enough for the market to recover from the glut caused by the simultaneous arrival of two ships.

The normal pattern observed every year is that consignees are eagerly awaiting the arrival of the first vessel. Their stocks are low and prices in the market are high. With the arrival of the second vessel, particularly if it occurs soon after the first vessel, consignees are less enthusiastic, often waiting until the vessel has docked before taking steps necessary to get their financing and paperwork in order so as to take delivery of maize from the second ship. Consignees for the second vessel also show concern about the quality of the commodity (see section 3.3.2) and the quantity and price of competing goods on the market.

The more the arrivals of vessels are grouped together, the more chaotic the situation becomes. Without adequate receivers at the port to take delivery of the Title III yellow maize, the vessels have to be unloaded into port warehouses or other storage facilities such as Manica. This unloading causes increased problems of pilferage, particularly when grain is stored in port warehouses. The end result is a operation that is costly, inefficient and often destabilizing to the market.

The second major issue caused by the quantity, timing and knowledge of the delivery schedule for Title III deals with impacts on producer prices for locally produced white maize. There are three elements linking arrivals of Title III yellow maize and the producer price of local white maize—expectations, leakages and the yellow maize price. The first two of these elements are related to the delivery schedule of the Title III commodities. The third element, price, is discussed in section 2.2.3 on import parity pricing.

An example of how expectations about Title III deliveries can affect local producer prices was provided to the evaluation team by representatives of the EU. Larger traders in the Zambezia province declined to buy local white maize at the May harvest time because they anticipated a large shipment of less expensive Title III yellow maize in the Beira market in July. They calculated they would make more profit dealing with the cheaper Title III yellow maize than with local white maize. As it turned out, there was no Title III delivery in July. The result was that local producers did not have their product purchased by the larger traders. The producers did not receive the higher price they would probably have received if there had not been the anticipation of a Title III delivery in the country. Consumers were also affected by unnecessarily higher prices resulting from a shortage of maize in the market.

As we see below, exact knowledge on arrivals of Title III deliveries is difficult to obtain at this time. Not only is it difficult for program managers to predict arrivals accurately, but once this information is available, dissemination of that information is also weak. For the last year at least, MOC has stopped announcing the arrival time of a vessel several weeks before its scheduled docking and it no longer invites bids on its cargo, as it is supposed to do under the pre-qualification system. In some cases, accurate information on known arrivals is purposely withheld from some traders. Traders in the country are aware of and act upon their expectation of future deliveries of Title III commodities. These expectations, however, are frequently incorrect. Expectations affect the quantity and price of local white maize brought onto the market.

It is critical for the long-term integration of rural producers into the national economy that deliveries of yellow maize under Title III be properly spaced and set at levels which support rather than hinder the expansion of local production of white maize. Transparency and accurate knowledge concerning Title III deliveries will lead to a more stable maize market and will encourage domestic maize production. Conversely, lack of transparency of the *modus operandi* and inaccurate information, or in some cases accurate but poorly shared information, impede the ability of the market to ration scare supplies intertemporally, discourage trader purchases of domestic maize production and act as a disincentive to farmers to produce maize for the urban markets.

When closely grouped deliveries of Title III yellow maize oversupply the market, oversupplied traders are unable to move their stocks at prices that cover their costs. Furthermore, the clustered deliveries create inefficient transferral of the maize, as described above, from the vessels to the receivers. This inefficient transferral, in turn, facilitates increased leakage of maize from the port. Stolen maize, when sold on the market, further reduces the price of yellow maize and its products at the retail level. The benefit of lower price to consumers is short-lived while the long term impact is to reduce quantities of local white maize being brought onto the market and, by extension, the rate at which producers will be able to return the country to self-sufficiency in maize.

The third major issue related to the timing and quantity of Title III deliveries is the uncertainty grouped deliveries have created in the market, uncertainty leading to less market efficiency and greater instability. Inappropriate expectations caused by lack of knowledge and periodic oversupply caused by clustered deliveries of Title III yellow maize create market uncertainty which must be compensated for by higher rents to cover added risk. Uncertainty also leads to market instability, as traders make decisions based on the vagaries of Title III deliveries rather than on the supply and demand realities of the internal market.

All three of these major issues hinder the achievement of the basic food security objective of the Title III program. Achieving this objective requires use of local production and selected imports to satisfy Mozambique's food requirements. To the extent that the timing and the quantity of Title III deliveries distort the market and consequent signals for resource allocation, they lengthen the time it will take for such a food security system to be put into place.

Given the significance of the delivery problem, it is important to understand how scheduling of deliveries is done and what, if anything, can be done to improve the process. The following is a brief history of how scheduling was done for FY 94.

At the beginning of each fiscal year planning period, the Project Officer in charge of the Title III program in the Agricultural and Food Resources Office of USAID/Maputo sends what is known as a call-forward cable (94 Maputo 4283) to USAID/Washington's Office of

OP/TRANS. Call-forward is a term used to describe the process of requesting future delivery of commodities by quantity, time of delivery and quality. This call-forward schedule is developed by the Project Officer after surveying consignees and holding discussions with the Ministry of Commerce, other donors, and others within the USAID Mission. For the FY 94 period the proposed schedule was to have 60,000 mt of yellow maize delivered, in equal monthly deliveries, over a five-month period from October to February. Two of those shipments were to be divided between Maputo and Beira. This proposed scheduling is seen in Table 3.4. Because regulations require that loading be completed in the calendar year, a request was made to load the February shipment on December 31.

After OP/TRANS received this call-forward cable, they sent an e-mail requesting the Mission to change the schedule. This was rejected by the Project Officer. USDA and OP/TRANS then let bids on purchase and shipping for the commodities for Mozambique. Results of that bidding were cabled to the Mission (94 State 236727). This response is seen in the second column of Table 3.4 under estimated time of arrival (ETA). The actual time of arrival (ATA) in seen in column three of the table. Several things should be noted from this table. First, the planned 60,000 mt became 70,000 mt on actual delivery. The request for 12,000 mt per delivery in five shipments over five months was changed to 15,000 mt in four shipments plus a single shipment of 10,000 mt. The shipments were also arranged to take place over a three-month period.

The reason for the difference between the ETA and the ATA can be explained by the slacktime allowed in the system. ETAs are based on the time the boat is loaded. Shipping companies are given a 15-day window to load. It is unclear why the shipper is given a 15-day window to load the vessel, as it only takes, on average, two days to load it. Transit time between the Gulf and Mozambique also has a slack of 10 days. It usually takes 20 to 30 days to transit this distance. If a boat is lightened, transferring cargo at sea to smaller ships who then discharge at the port, then an additional 9 to 10 days is added to the transit time. Between two vessels there is, therefore, a potential variation between ETA and ATA of plus or minus 25 to 35 days without exceeding USDA and OP/TRANS agreements. Recall that it takes at least 20 days to unload a vessel in Maputo, and the problem of clustering of shipments no longer seems merely possible but rather highly probable and possibly inevitable.

The problem is exacerbated when a given vessel is carrying multiple loads to different destinations and customers. This has occurred for the FY 94 shipments to Mozambique. The ATA of such a vessel is even more uncertain than usual because of conditions found in the other ports of call. In principle, the Mission should give concurrence if multiple loads are scheduled. In the recent multiple load shipment, the Mission was not notified until the vessel was already at sea. Below (section 3.3.2), another case is described, where, in the previous year, a shipment of grain that exceeded moisture specification was also shipped before asking Mission concurrence.

Table 3.4 Title III Delivery Schedule 1994/1995

Delivery Month	Mission Proposal	OP/TRAN Proposal (ETA)	Actual Delivery (ATA)
September 1994	12,000 (1)		
October 1994	12,000 (1)		
November 1994	12,000 (1)	10,000 (1)	23,832 (2)
December 1994	12,000 (1)	30,000 (2)	14,210 (1)
January 1995	12,000 (1)	30,000 (2)	25,433 (2)
Total	60,000	70,000	63,475

( ) = Number of shipments in parentheses.
Source: Agriculture and Food Resource Office, USAID/Mozambique.

USAID/Maputo has made a concerted effort to resolve the scheduling problem, but has had little success. There is serious doubt about resolving this problem within the structure of the existing system.

What can be done about this situation? The evaluation team suggests at least four possible actions that, although not solving the problem, could lessen its negative impact. These suggestions are: 1) a stronger effort by USAID/Maputo to make USAID/Washington aware of the problem; 2) greater coordination among donors, GRM and consignees; 3) increased information in both rural and urban markets on Title III deliveries; and 4) exploration of potential alternate delivery schedules. Details of these recommendations are presented in section 4.2

3.3.2 Quality of Title III Food Aid Commodities

Poor quality of maize delivered to Mozambique under U.S. food programs has been a major problem for USAID in the past. In January 1994 the Mission reported (94 Maputo 00082) that of the total of 143,000 mt of yellow maize imported into Mozambique from June to December 1993 under the Section 416(b) WFP, Title II PVO, and Title III programs, approximately 33,700 mt, or 24 percent, had been declared unfit for human consumption and was sold as animal feed or simply dumped. It was estimated that this amount represented a loss of $8 million. Some of the consignees interviewed in the last days of the evaluation indicated that poor quality maize had caused substantial losses affecting their balance sheets, and, in one case, the poor quality had significantly affected one firm's financial viability.

Under the Title III program, for example, the vessel Sue Lykes arrived in Maputo in mid-November 1993 with 17,473 mt of yellow maize that had been shipped with higher than stipulated moisture. USAID had not been advised of the high moisture level until after the ship had left the U.S. port. On arrival, some 11,467 mt had to be stored in a port warehouse, as receivers refused to accept maize with a high moisture content. Maize with high moisture content rots or suffers from stack-burn in short order unless the moisture can be removed by drying, for which no facilities are available in or around the port.

A much worse situation occurred in mid-December 1993 with the arrival of the vessel General Jasinski with 17,551 mt of yellow maize with a high amount of dust, fines, and cobs and an infestation of live insects. Because of problems with scheduling deliveries (see section 3.3.1) the vessel had to wait 15 days to discharge its cargo while discharging of the Sue Lykes was being finished. When the Sue Lykes left, the port warehouses were filled with grain that receivers had not accepted because of high moisture content.

Upon arrival, the maize in the General Jasinski had to be fumigated twice. One hold required three fumigations to control the insect infestation. An influential local newspaper reported that the cargo had arrived infested with insects. Several days later a local laboratory analysis of the grain indicated that it had a shelf life of only one month because of high content of broken corn and foreign material (BCFM).

On the first day of discharge of the vessel, 24 trucks were lined up to receive their quota of maize. Each day after that, however, fewer trucks arrived. By day five of discharging the vessel, only one or two trucks arrived to receive the maize. Consignees complained that they could not profitably handle maize of such poor quality and limited shelf life.

As pointed out by the Mission (94 Maputo 01127), maize under the Title III program is for human consumption, not for animal feed. The Title III maize is received and sold by business people seeking a profit in a competitive market. While a low quality commodity may be free from deleterious effects on human health, its physical appearance, including the presence of broken grain, dust and foreign material such as cobs, is an important factor for the consumer in choosing whether to purchase and use the good. Yellow maize is considered inferior to white maize in Mozambique and, as such, is self-targeting to the poorer consumer. But, as the Mission notes, even poor consumers have an appreciation of quality.

Secondly, given the poor storage conditions in Mozambique, the shelf life of a product is a critical factor in its profit or loss potential. Because most maize is brought into Mozambique during the rainy season, there is a tendency for it to have high humidity during this period. This high humidity affects the shelf life of the grain. High levels of BCFM in maize further reduces shelf life because of the hygroscopic nature of the BCFM. Traders are well aware of these facts.

Only 1,818 tons of the 17,551 tons of poor quality maize on the General Jasinski were accepted by receivers, and all the port warehouses were full of the wet Sue Lykes maize. Fortunately, USAID and the GRM were able to respond to a request from WFP to take 15,733 tons of the maize and store it for quick distribution among WFP's regional and district warehouses. WFP was able to distribute most of the maize before expiration of its limited shelf life.

Three other vessels delivered and discharged low quality maize to Mozambique to finish out the delivery schedule for the FY 93 Title III program. The quality of the maize they delivered was not as bad as that of the General Jasinski, but it was not good. Given the low level of acceptance of this grain by receivers and the shortfall in emergency food aid deliveries, 11,049 tons of this maize were loaned to WFP. At the end of the FY 93 program, some 9,500 tons of Title III maize were in port warehouses slowly being picked up by commercial receivers.

USAID/Washington and USDA responded to the Mission's repeated complaints about the quality of the Title III commodities by indicating that floods in the Mississippi watershed had reduced overall commodity quality. Nevertheless, they contended that maize shipped to Mozambique had been consistent with standard PL-480 specifications for maize and that it had been inspected and cleared on that basis. They suggested that the Mission should consider upgrading the specifications for maize called-forward and should apply more rigid specifications on transportation of the maize from U.S. ports to Mozambique.

The Mission questioned that the maize shipped to Mozambique, especially the insect-infested maize on the General Jasinski, fully met PL-480 specifications. Nevertheless, it was willing to call-forward an upgraded nonstandard PL-480 specification for maize. Most of the upgraded transportation specifications suggested by USAID/Washington had already been in place on the poor quality maize that had been delivered. In lieu of the standard PL-480 specification of U.S. grade No. 2 yellow maize with less than 14.5 percent moisture and U.S. grade No. 3 level of BCFM of less than 4.0 percent, the Mission specified U.S. grade No. 2 yellow maize at 14 percent moisture and a BCFM level of less than 2.5 percent. For this quality, the Mission anticipated that the Title III program would receive a lower quantity of maize because of the premium price of this non-standard grade. The Mission and the country were fortunate, however, that upgrading of specifications at a time of falling maize prices more than off-set the quality price premium and thus, in fact, allowed for imports of a larger total volume of maize.

At the time of the evaluation team's visit to Mozambique in February 1995, maize quality issues seemed to have been resolved. Evaluation team members inspected the discharging and bagging of Title III maize at the port and found the maize to be of an excellent quality. A visit by the team to the central market in Maputo also confirmed that there was high quality yellow maize being sold in bags, indicating that it was from Title III. Discussions with consignees, millers, other donors and Government officials all confirmed there had been a vast improvement in quality of the Title III yellow maize. They almost always mentioned the poor quality of past deliveries, contrasting them with the quality of maize received from the beginning of the 1994/1995 year on.

3.3.3 Local Currency Monitoring

Local currency generated by the Title III program is monitored by the Controller's office of USAID/Mozambique. The GRM's Ministry of Finance is technically responsible for monitoring these funds, as they belong to the GRM. In 1988 after the commodity import program (CIP) had been started by the Mission, it was found that the Ministry does not have the capability to handle monitoring of local currency at a level required by USAID regulations. Discussion with other donors who have programs similar to the CIP confirmed the inability of the Ministry to handle adequate monitoring of the local currency account. An offer of technical assistance to up-grade the Ministry's capability for monitoring was turned down by the past Minister of Finance.

In terms of quality, the local currency monitoring done by the controller's office is outstanding. The major problem the Controller's Office has is getting accurate information from the Central Bank and the Ministry of Finance. Recent personnel changes at the Ministry of Finance have made it more difficult to get some of this information. The competent person with whom the controller had been working at the Ministry has gone on extended study leave and has not been adequately replaced. The evaluation team made repeated requests for a meeting with the appropriate person in the Ministry, but when a meeting was arranged just before the departure of the last team, the representative of the Ministry was otherwise engaged and no further meetings could be rescheduled. The team evaluating CIDA wheat imports reported similar difficulties in obtaining information from the Ministry of Finance.

The Controller's Office continually monitors all local currency transactions of the Mission including the CIP, Title III, and predecessor activities such as the Section 206 program. Each month a detailed report is prepared on deposits, bank balances, commitments and disbursements. This report clearly shows, for example, the 25 billion meticals ($4.6 million) owed the special account of the Title III program by the Ministry of Finance for FY 93 commodity deliveries.

3.4 Technical Assistance

The Title III program had three technical assistance units providing support to analysis and monitoring of the policy framework. They were Louis Berger International, Cornell University, and Michigan State University. This technical assistance was provided under the PSS/TA project that also provides technical assistance support for the PSSP.

3.4.1 Louis Berger International

The technical assistance provided by Louis Berger International consisted of a study on the contribution of U.S. commercial food aid, principally of yellow maize, in the transition to a market economy. The principal finding was that most of the food aid provided was not being channelled as programmed through the *Novo Sistema de Abasetecimiento* (NSA), the ration system for the populations of Maputo and Beira, but rather was being systematically diverted and leaked through other distribution channels. The study also found that most of the local currency payments due to the GRM were not, in fact, being paid, and that what little had been paid was paid very late. The report identified a number of major issues: a) inefficient, highly concentrated distribution caused by inappropriate prices and GRM-controlled distribution system; b) non-payment; c) poor monitoring and internal and poor external controls; d) economic distortions caused by unclear subsidies; and e) insufficient Government-set margins to cover legitimate costs of marketing.

The study made 10 recommendations for a first phase:

1) Increasing competition through participation by a larger number of firms, including private sector firms;

2) Combining warehousing and wholesaling functions to increase efficiency and reduce marketing margins;

3) Handling transactions on a commercial basis;

4) Putting all transactions on a contractual basis between the Ministry of Finance and food aid recipients;

5) Integrating physical and financial planning, based on ability to pay as well as "need";

6) Decentralizing distribution and control functions;

7) Developing stronger financial controls;

8) Eliminating a 15 percent mills and warehouses subsidy designed to cover leakages;

9) Increasing retailing margins; and

10) Liberalizing wholesale prices and distribution to retailers.

The ultimate goals to be achieved in a second phase were the elimination of price and margin controls at all levels. At the same time, the program would continuing to monitor prices and market conditions, seek gradual elimination of subsidies, monitor parallel market prices in the interim before prices are freed entirely, and analyze alternative safety nets and the implementation of a safety net.

Recommendations were subdivided into a) consignment and port delivery, b) food aid distribution, and c) monitoring and control. Under consignment and port delivery, small shipments were recommended, with one consignee per shipment, and consignments of 10,000 mt or above were to be divided by the Ministry of Commerce between two consignees. A pre-qualification system was recommended. The Ministry of Finance was to sign contracts with consignees, stipulating a down payment of 20 percent and a guarantee by promissory note or letter of credit for the remainder. A contract with a clearing and warehousing agent like Manica was provided for, with an eye to consignment to warehouse until pickup.

Food aid distribution was to be diversified under various wholesalers and millers, including private wholesalers. Reforms were to be enacted by state-owned millers and other enterprises, with USAID reserving the right to exclude enterprises which failed to make agreed-upon changes.

The Louis Berger report was followed by the July 1992 report done by Austral Consultoria and Ernst & Young-Norma. This second report indicated that, generally speaking, the recommendations of the Berger report had been well thought out and had been implemented. One of the first recommendations implemented had been that of establishing a pre-qualification system. Under this system, criteria were established for pre-qualifying firms that would then be eligible to bid on tenders of Title III food aid. The basic criteria for firms to participate were the following:

- Be duly licensed by the Ministry of Commerce for wholesale marketing of food products;
- Have the capacity to transport and store a minimum quantity of 100 mt of grain at any one time;
- Have the financial capacity to undertake reception and distribution of a consignment;
- Have no outstanding debts with the GRM, no overdue taxes or obligations with the Ministry of Finance or with the Bank of Mozambique;
- Be willing to distribute to a list of firms provided by the Ministry of Commerce, if so required; and
- Be duly licensed as an importer by the Ministry of Commerce.

In an analysis of the first ships to be handled under it, the new pre-qualification system was found to be workable, and it was recommended that it be continued. This pre-qualification system was followed until recently, when it was inexplicably dropped by the Ministry of Commerce. Photocopies of the newspaper publications required by the system were promised the team, but were not actually provided by MOC.

3.4.2 Cornell University

Cornell University's Food and Nutrition Policy Program had a cooperative agreement with USAID/Mozambique. With support provided under this agreement, a number of research reports were produced that relate to the impact of Title III food aid.

Cornell's research findings have important implications for food policy. The principal findings are these:

- There is a lack of easily measured indicators of poverty; and
- Yellow maize is self-targeting.

These results justify the approach taken in the Title III program for making commodities available in ways which channel a high percentage of benefits to lower-income groups.

Work by Michigan State University showed that the NSA ration system had ceased to be an effective channel for reaching low income consumers, or for reaching any significant number of consumers of any income level, for that matter. This research justified abandoning the transfer of food grain through parastatal channels since a very high percentage of commodities consigned to these entities was finding its way into parallel private marketing channels anyway, and benefits of price subsidies were accruing to individuals in these entities and at various levels within the NSA rather than to consumers, particularly low-income consumers.

Cornell's research extended these findings to show that it would be very difficult to set up targeted food distribution programs to reach populations at risk. The difficulty would be caused by lack of correlation between easily identifiable indicators—head of household, education level of head of household, geographical location—and severity of household poverty and thus food insecurity. Lack of clear discriminating indicators upon which to base beneficiary selection, together with weakness of GRM's agencies which might manage them, justified the decision to keep commercial food aid separate from targeted programs. Such targeted programs were then limited to emergency food aid distribution, and were to be handled increasingly over time by PVOs able and willing to measure poverty directly and to use food aid resources accordingly.

Cornell also established the propensity of low-income households for consuming yellow maize and yellow maize products and for deriving a high proportion of their calories from these products, while higher income groups derived relatively low percentages of their calories from yellow maize (Table 3.5). Higher-income groups also obtained about twice as high as a percentage of their calories as did lower income groups from rice and cooking oil and nearly three times as much from bread, pasta, and other wheat-based products. These results support the choice of yellow maize as the predominant commodity to be imported under the Title III program.

Table 3.5 Contribution of Various Food Groups to Household Calorie Consumption by Income Levels

Commodity Group	Lowest Quintile	Highest Quintile	Whole Population
Yellow Maize	43.5	8.6	23.5
White Maize	9.0	6.7	9.9
Rice	11.5	20.7	18.1
Oil	3.2	7.6	4.9
Wheat, Bread, Flour	6.9	20.0	13.3
Meat, Fish, Dairy	1.7	7.5	3.8
All Starchy Staples	358	363	1809

Source: Sahn and Ninno (1994, Table 21, p. 42).

Cornell's recommendations for establishing a maize stamp program modeled on the USDA Food Stamp Program were never implemented. The judgment of the present evaluation team is that it would have been virtually impossible to implement such a program, given the context of the country, and that such a program could have run into monumental administrative costs. The team believes that the low market-determined prices for yellow maize constitute the most cost-effective safety net for low-income consumers in urban areas.

One criticism which has been voiced concerning Cornell's work relates to the amount of time—over two years—between data collection and publication of research results. Given the need for the research as a tool for guiding food aid policy, the lack of timely availability of research findings has diminished their usefulness to USAID and to the GRM.

3.4.3 Michigan State University

MSU's technical assistance activities have been highly relevant to Title III food aid imports and to the goal of supporting eventual food self-reliance for Mozambique. Besides its field level research into agricultural marketing and food security issues, MSU has helped the Ministry of Agriculture's Department of Agricultural Economics (DEA) establish the Agricultural Market Information System, which tracks prices of important agricultural commodities on a frequent periodic basis. It works in 10 provinces and 25 markets at a retail and wholesale level and at a producer level in a few representative food-surplus farming districts. It has produced an impressive list of working papers and other publications, most of which are available in Portuguese as well as in English. These publications are made available free-of-charge to those interested in reading them. They are reprinted in sufficient quantity to reach a broad audience. The in-country team composed of international staff, MSU graduate students and local professional, technical and clerical staff is back-stopped and guided by frequent visits from MSU staff. The chief MSU researcher is planning to work directly with the project in Mozambique for a year, starting in mid-1995. At least one journal article has come out of research efforts of the team. Some local professional staff members have been sent to MSU for short courses and degree-level training.

Most of what is currently known about agricultural marketing in Mozambique is related in one way or another to research in which MSU has participated, in collaboration with the MOA. Its expertise is being called on by other donors, including the World Bank. At a seminar held at the World Bank for about 20 professionals from the NGO and donor community, attended by one of the evaluation team members, the MSU/DEA research team presented its findings on preferences for yellow and white maize. The evaluation team acknowledges the valuable assistance the MSU team provided during field work, by providing publications, by introducing team members to businessmen, traders, and public officials, and by providing price and market data needed to answer questions arising in both the Title III and PSSP evaluations.

MSU's research has connected closely with the issues important to USAID/Maputo for both the Title III and PSSP policy agendas, and the research team has been responsive to needs of the Mission as they arose. An example is their paper on "Pricing and Distribution of Yellow Maize Food Aid" (MOA/MSU January 20, 1993). It should be noted that MSU has done similar work in other southern African countries. A recent paper on the relationship between patterns of land tenure and food security in Mozambique ties together two issues high on the Mission's agenda and central to its strategy for improving incomes of rural people. Some of MSU's on-going research addresses gender issues which are also important to the Mission. MSU can be expected to provide the Mission and the Mozambican Government and people with important insights into the relationship between Title III and other U.S. commodity imports and increased reliance on domestic production to supply the country's food needs. MSU's research in Nampula province will also be useful to the implementation and evaluation of the emergency cashew rehabilitation project in an area where cash income from cashews can again fulfill a central role in smallholders' food security.

4. RECOMMENDATIONS

Recommendations for the Title III Program can be grouped into three headings: a) overall recommendations, b) recommendations on policy reforms, and c) recommendations on program management.

4.1 Overall Recommendations

The PL-480 Title III Program in Mozambique has provided and continues to provide significant benefits to the Mozambican people and to the country's economy. The importation of yellow maize through the Title III program has played a critical role in assuring basic food security of the urban populations of Maputo and Beira, and, to a smaller extent, of rural populations. As an instrument of policy change, Title III, with its supportive technical component, has been an effective tool in making significant changes in the food safety net for urban areas and in laying groundwork for the expansion of internal food production needed for self-reliance within the country.

With the shift to a market-based economy and the end of hostilities in the countryside, Mozambique is now on the threshold of being able to provide its own food security through internal production, supplemented where necessary by imports paid for through generation of foreign exchange from agricultural and other exports. In this light, the evaluation team recommends that USAID begin planning for a phased draw-down of the Title III program over the next five to six years. The management of this draw-down is critical. Too rapid a reduction of the Title III program could lead to food shortages and resultant economic and political instability. This instability could retard by a number of years Mozambique's movement to self-reliance in food. On the other hand, too large a Title III program could limit expansion of local food production and hinder eventual achievement of food self-reliance.

Given the critical management requirement of this phase-out of Title III, it is imperative that USAID establish and maintain close coordination with other donors, the GRM, and grain traders to assess properly the food need situation and the appropriate level of Title III assistance.

As the Title III food aid program is wound down over the next few years, USAID may want to give consideration to other support to the GRM on foreign exchange and balance of payments. Medium to long-term improvements in these problem areas will entail expansion of exports, particularly of agricultural products, and overall growth of the Mozambican economy. USAID should support activities in these areas.

4.2 Policy Reforms

USAID should press the GRM to continue past movement towards import parity pricing of commercial food aid. Given low current FAS prices for U.S. maize, now would be the appropriate time to move immediately to FAS pricing, which would put U.S. maize at around $100/mt, in line with the US$135 per ton negotiated by Canada for its wheat food aid.

Commercial wheat is normally 20 to 30 percent higher in price than maize. The price should be set in dollars, not meticals, to prevent price erosion in dollar terms caused by devaluation of the metical. Joint action with other donors of food commodities is imperative. Because the Canadians are farthest along in their negotiations on appropriate food aid prices and already coordinate closely with the Australians, they might be asked to coordinate dialogue among donors, calling and chairing meetings on this subject so that a joint donor position can be put to the Government.

In light of the changes that have taken place in Mozambique since the 1991 signing of the original Program Agreement, USAID may want to restructure the Title III policy agenda to better reflect present emphases and directions. The food safety net concept was intended to cover the needs of the majority of the absolute poor in the urban population. Greater emphasis now needs to be put on the two goals of increased agriculture production and productivity, and increased efficiency of the market through expanded competition. Maintenance of the food safety net and expansion of the means to increase availability of affordable food on the market is a credible and achievable policy agenda in support of food security objectives.

There are two new policy areas that should be considered by USAID for future amendments to the Title III program. The first is to review the financial structure of the program, particularly the financial terms required of consignees for bank guarantees, and the second is to find ways to assure that counterpart funds flow into the special account. The second area deals with issues related to the necessity of separating the port from the railroad function of CFM and of privatizing ports piecemeal at the earliest possible date. Together with other donors and international financial institutions, USAID should promote division of the railroad and port functions and the establishment of separate, privately operated port authorities for the individual ports. USAID is encouraged to hire a maritime consultant to provide it guidance in selection of critical policy objectives necessary to implement this proposal.

4.3 Program Management

Recommendations on program management can be divided between management issues related to USAID and issues related to the GRM.

4.3.1 USAID Management Recommendations

There are five general recommendations on USAID management. There need to be:

- Better understanding by USAID/Washington of issues related to the delivery schedule;
- Improvements in the information system concerning arrival of Title III shipments;
- Greater coordination regarding commercial food aid;

- Examination of alternate delivery systems for Title III commodities; and

- Offers of technical assistance to the GRM.

The USDA-OP/TRANS system seems to be operating in disregard of the impact the scheduling issues have on the effectiveness of the Title III program in Mozambique. The transactions it enters into are outside the direct influence and jurisdiction of USAID/Maputo. On the other hand, an effort similar to that made on the quality of grain (section 3.3.2) could be undertaken by the Mission to sensitize the system to the negative impact of the present poorly coordinated grain arrivals. This evaluation may serve to raise these issues to an appropriate level of awareness, but assistance of a qualified maritime consultant may be required to resolve them.

Greater coordination at both a formal and informal level between donors, the Government, and traders could provide significant benefit to all parties. The MOA/MSU report (MOA/MSU 1993) suggests the establishment of something similar to the "Food Aid Charter" put into effect in the Sahel. Although this approach may be too elaborate for the local situation, it is worth an examination.

Once donors have agreed upon a common policy with respect to commodity pricing, WFP could play an important role in coordinating donor commercial imports with emergency imports and domestic production. At present WFP provides close coordination of emergency food aid into Mozambique. In some countries with problems similar to those of Mozambique, WFP as a matter of practice coordinates both emergency and commercial food aid, if so requested by the Government and other donors. Given the potential political issues involved in Mozambique, however, the next best course of action may be the expansion of informal coordination among the principal commercial and emergency food aid donors such as the EU, France, Japan, Canada, Australia and WFP. This coordination could be used to schedule shipments and quantities of commercial food aid. In addition, donors holding grain reserves either inside or outside the country could help, through coordinated action, to stabilize the maize market during times of shortages. The possibility of their taking on additional grain from other donors in times of excess supply might also be investigated.

The Department of Food Security of the Ministry of Commerce does provide information on commercial food aid though its monthly reports. On the other hand, there have been no meetings of donors or other actors in the commercial food area under the auspices of the DSA since last year. Further, the Ministry of Commerce is not a neutral player in the commercial food aid area. This evaluation and most donors see need for reduction and eventual elimination of commercial food aid over the next few years as the country begins to establish the production and marketing systems needed to feed itself. On the other hand, given the need for balance of payment and budgetary support, it is not in the immediate interest of the GRM to reduce commercial food aid.

Open dissemination of information on Title III deliveries would greatly facilitate market transparency and efficiency by bringing expectations closer to reality. At the present time, as the MOA/MSU study points out, there is a situation of asymmetrical information, where a few larger trading houses with fax and telex facilities and international connections have access to ship arrival information, but the vast majority of traders are kept in the dark. Traders in the rural areas are further from information sources and thus less well informed than those in urban areas. At the same time, rural traders are more likely to purchase and market local white maize production if the threat of unforeseen large shipments of yellow maize in their markets is reduced or removed.

There are two sides to the information issue: first is getting accurate information as early as possible on ship arrivals and tonnage; second is getting that information into the hands of appropriate traders, other donors, and government. The first issue is the responsibility of USAID and Manica, the shipper's agent. Better coordination with USDA-OP/TRANS may help solve this first problem. The second issue, which is the more critical of the two, is primarily the responsibility of the GRM, which is not doing its job. In fact, the MOC may actually be hindering the open dissemination of information to the marketplace. For this reason USAID may have to become more actively involved in assisting and encouraging establishment of a more open information structure concerning ship arrivals and the tonnage they carry.

Information dissemination will require the establishment of an effective and transparent system accessible to all players having an interest in the maize market. Specifically USAID should look at suggestions such as to:

- Announce the schedule directly to the public as early as possible, ideally with MOC concurrence.

- Announce to the public any modifications to the schedule as early as possible, again ideally with MOC concurrence.

- Announce ship departures from the United States and from intermediate ports of call; announce publicly the ETA as soon as it is known.

- Make announcements at the time that least affects the markets, for example, at the end of a business day, to minimize opportunities for someone to use prior knowledge for personal gain.

In terms of delivery systems, USAID should examine alternatives that might possibly resolve some of the problems encountered in using the present system. Additional systems study by a specialized maritime consulting firm should be undertaken to analyze the overall shipping, scheduling and unloading systems to help alleviate bottlenecks such as those identified in this report. USAID should also look at impacts of the selection of consignees on the efficiency of the unloading operation. The issue of what to do with cargoes not picked up by consignees at the time ships are ready to leave also needs to be addressed.

A number of potential options were given to the evaluation team by consignees, shipping agents, USAID and other officials. The maritime consultant should look at these options in closer detail. Among the options suggested are the following:

- Shipping to Durban and storing in bulk there, while releasing maize to the Maputo and Beira markets as needed;

- Swapping excess maize with other WFP or donors capable of storing it for subsequent release as market conditions require;

- Scheduling of fewer and relatively larger shipments for distribution to a large number of consignees so that financial, transport and storage arrangements have to be made fewer times during a year;

- Releasing to other consignees the cargos of consignees who fail to pick up their delivery order, five days before the docking of a vessel;

- Releasing any cargo destined for port warehouses to any purchaser, pre-qualified or not, who is ready to take it on a cash and carry basis.

Finally, USAID should again offer technical assistance to the MOC for improving the handling and monitoring of commercial food aid shipments and to the MOF for monitoring local currency. These offers have not been accepted in the past, but as the country moves into a more democratic and market-led direction, these offers may have better reception by the GRM.

4.2.2 GRM Management Recommendations

Recommendations related to the GRM's responsibilities for the Title III Program concern three major areas: a) transparency by the MOC in selection of consignees and in providing information on Title III arrivals, b) reform of port and customs procedures, and c) payment and financing of local currency obligations by consignees and the GRM.

The evaluation team found disturbing evidence that the selection process for consignees was now neither as transparent nor as effective as it has been and should be. The GRM should abide by commitments to a transparent system for selection of consignees for Title III commodity aid, as it did after the recommendations of the Berger and Austral reports were accepted as modified by USAID and GRM.

If there is reluctance or delay in returning to this previous system, then USAID should require that the GRM initiate a system whereby every trader who request, access to Title III shipments of yellow maize and is qualified with either cash in hand or appropriate bank guarantees has equal access to the Title III program maize. In addition, the GRM should be encouraged to establish and support an open system of information dissemination to the marketplace on ship arrivals and tonnage. If there is excess demand for a given shipment, an impartial system such as a lottery could be established to allocate lots among the prospective consignees. The important point is that the process must be open and transparent. Details of the system should be negotiated between USAID and the GRM.

The potential for personal gain in the present selection process is so great that USAID and the GRM may want to initiate an independent investigation to assure that U.S. and GRM resources are being properly managed.

The GRM should also undertake a full examination and reform of the port procedures and customs regulations. Establishment of separate autonomous port authorities for the major ports in the country should be a part of this examination. The USAID-supported maritime consultant could work with the GRM in looking at port and customs procedures and regulations to improve efficiency and reduce losses. Revision in GRM management of the unloading process, for example, could reduce leakages of the Title III maize caused by pilferage at the docks. Millers, for example, report major reductions in port losses since they have put their own security forces in charge of unloading and transport of wheat. A similar private security force should be set up for maize imports and funded out of a per-ton surcharge on the maize. A contract could be negotiated administratively with a private sector security firm similar to that now providing security to the U.S. Embassy. Likewise, USAID should insist that those consignees wishing to be allowed to provide personnel to load their own maize be allowed to do so rather than using port-supplied stevedores.

Payment and financing of local currency requirements should be reexamined. Consignees, through bank guarantees, have been disciplined in paying the Ministry of Finance the local currency cost of the Title III commodities they receive at the port. The terms of the bank guarantees, however, are often difficult for consignees to meet. This difficulty in meeting bank terms has impeded potential consignees from obtaining deliveries of Title III maize if they have not completely sold existing deliveries they may have. Since the GRM's terms for payment into the special account have been relaxed, the GRM should consider encouraging banks also to relax conditions on bank guarantees to match more closely the terms the Government follows to pay local currency into the special account.

The evaluation team found that the GRM is over a year in arrears in depositing local currency into the project's special account. These back deposits should be made immediately. Given the problem of lateness since 1993 of GRM deposits into the special account, USAID should examine with the GRM alternate procedures for depositing local currency into the account. A possibility to be considered would be direct deposit by consignees of local currency into the special account under the same terms now given the GRM for these deposits.

ANNEX A: TERMS OF REFERENCE

The evaluation team will review USAID/Mozambique program and strategy documents and meet with USAID staff, contractors, GRM official, and other donor agency representatives, in order to objectively assess the impact, progress, focus and scope of the PL-480 Title III Program. The assessment will center on the following issues:

1. What has been the impact of the Title III Program on:

   - Improving the food security of vulnerable groups by phasing out the physical allocation of food (ration system);

   - Strengthening competitive markets and improving potential for long-term increases in productivity by announcing agricultural producer prices early in the planting season; allowing the market to determine consumer prices for domestically produced maize, beans and rice; establishing a more liberal pricing framework for market forces to play a central role in determining prices for edible oil, yellow maize and sugar; the GRM developing a framework to a) adjust the price to importers of yellow maize to be equivalent to import parity price; b) sell donated maize at the equivalent to import parity price; and c) initiate the purchase of locally produced agricultural commodities;

   - The ability of policy makers within the GRM to continue to implementing policy changes stipulated in the program;

   - GRM budget and Mozambique's economic situation; and

   - Improving public sector management of food assistance programs though the use of systems analysis, promotion of private sector participation and competition in commercial food programs, and increased financial discipline in commercial food programs?

2. Has the Title III Program been able to effectively address policy constraints to private sector agricultural production and marketing? Have the policy reforms chosen been necessary and sufficient?

   - Based on the impact analysis, has implementation of the policy reforms progressed to where the Mission should be turning attention to other policy areas? Or, do the Title III-targeted reforms need additional or continuing attention?

   - If the policies targeted under the Title III Program have been sufficiently successful to allow attention to turn to a new phase, which policy areas should USAID pursue next?

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- What are the expected impacts of any such proposed changes in the policy agenda?

3. Has the Title III Program continued to promote an expansion of the private sector's participation in reestablishing competitive markets for agricultural products in Mozambique? Has liberalizing the cereal markets, including price reforms, been an effective way for the program to contribute to the rejuvenation of production and marketing capacities.

4. Within the programming limits of the alternate funding sources (e.g., DFA), is a Title III Program the optimal disbursement mode to achieve program objectives and impact? For future programming cycles, are there other modes of disbursement which might be more appropriate to achieve desired impact?

Specific Tasks for PL-480 Title III Evaluation:

1. Assess the current status of the Title III Program policy reform agenda and the extent to which the agenda (as amended) has been adhered to; where compliance has been undocumented or incomplete, or otherwise less than satisfactory, discuss reasons and recommend action to address these gaps.

2. Review and critique the evolving policy dialogue process though which USAID pursues the reform agenda. Policy dialogue in this context includes direct dialogue with ministerial officials, inter-ministerial coordination, technical assistance, and coordination with other donor agencies on policy objectives and strategies.

3. Discuss the Title III policy reform agenda and progress in the context of the ongoing Government of Mozambique-World Bank-IMF Policy Framework Papers (PFPs) and related policy and strategy statements of Government; where has USAID support made a difference? Has it missed opportunities?

4. Review the relationship between the PSSP policy agenda and the policy agenda pursued under PL-480 commercialized food aid programs during the same years; identify where these have reinforced each other or where these may have suggested conflicting priorities, and recommend ways to better integrate the objectives of these two programs.

5. In light of Title III Program objectives, DFA requirements, and USAID's FY 90-92 Country Program Strategic Plan and FY 93-95 Transition Program, discuss levels and extent of Title III Program impact, identify areas where expected impact has been constrained and suggest reasons why; to do this, utilize available information from the Mission's October 1991 and 1992 Assessment of Program Impact, from the Mission's database and ongoing monitoring activities, from research activities assisted by Michigan State University, Louis Berger International, and Cornell University, and from short site visits if feasible. In particular, discuss impact of policy reforms on agricultural

production and income of smallholders and on the marketing networks (inputs, consumer goods, and produce) serving them.

6. Assess type and level of USAID implementation and impact monitoring activities; recommend adjustment in monitoring activities to permit the USAID to better assess program impact given these constraints (and where appropriate discuss implications for USAID staffing).

7. Assess type and level of GRM implementation and monitoring of the program (particularly the Ministry of Commerce) as stated in the Responsibilities of the Cooperation Country in the agreement. Where compliance has been undocumented or incomplete, or otherwise less than satisfactory, discuss reasons and recommend action to address these gaps.

8. Review recent developments and previous documentation (i.e., Austral Consultoria e Projectos, Lda., July 1992) on foreign exchange management and banking sector operations in support of import transactions; in light of these, and given program's focus to enhance private commercialization of food stuff requirements, discuss the availability of foreign exchange for importers.

9. Assess the Title III Program's approach to technical and related assistance in support of the policy reform agenda (MSU, Louis Berger International, and Cornell). Identify strengths and weaknesses of these efforts, estimate the contribution these are actually likely to make toward improved knowledge for policy formulation and improved and institutionalized Mozambican capacity for policy analysis. Recommend adjustments if appropriate given short timeframe of these efforts; more important, recommend directions and types of future assistance which could be more effective.

10. Assess the USAID Mission's management of the program and its impact on achievement of program objectives.

11. Has the Title III Program stabilized maize market supplies? Has it fostered an efficient and competitive maize market by ensuring access to small-scale and entry-level wholesalers in order to increase competition and thereby improve market efficiency and lower cost to consumers?

12. Assess the impact that other programs such as emergency food aid has had on the efficiency and competitiveness of wholesalers to sell yellow maize in the Maputo and Beira commercial markets. If these programs have impacted negatively, provide recommendations for improving market competitiveness.

13. Has the Title III Program promoted an expansion of low-cost neighborhood milling capacity through small hammer mills?

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14. Has the Title III program supported the streamlining and transparency of procedures for trader, transporter, and other market agents licensing where such licensing requirements cannot be wholly abandoned?

15. Has the Title III Program continued efforts to broaden and deepen knowledge of market operations and to get this information into the public domain?

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ANNEX B: LIST OF PERSONS CONTACTED

U. S. GOVERNMENT

USAID/Mozambique

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Cheryl McCarthy	Program Supervisory Officer
Richard Newberg	Agricultural Supervisory Officer
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Food and Agricultural Organization

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Margarida David e Silva	Program Officer

Louis Berger International

George Estes	Project Director, Louis Berger ADB Rural Development Project, Nampula

United Nation Development Program

Joana Merlin-Scholtes	Deputy Resident Representative

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World Food Program

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V. Laxmidas	Director

Farmer

Antonietta Tembo	Family Farmer near Xai-Xai

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João Pedro da Costa	Financial Director
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Luis Cesar Napoleão	Commercial Director

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