PD-BAS-689

R Love -

September 10, 1984

NOTICE OF MEETING

TO: See Distribution

FROM: Mr. Norman Cohen, AFR/PD

MEETING: Mozmbique Private Sector Rehabilitation PAAD [656-0201]

FILE

	ISSUES		ECPR
DATE:	9/11/84	DATE:	9/13/84
TIME:	2:00 p.m.	TIME:	2:00 p.m.
PLACE:	NS 6941	PLACE:	NS 6941

AGENDA

Attached is a copy of the FY 84 Mozambique Private Sector Rehabilitation PAAD. Please bring your issues to the issues meeting. Because of the late start in developing this program and the need to obligate funds before the end of this FY, we have had to schedule both meetings within a tight timeframe.

Attachments:
PAAD

Distribution:

AA/AFR, (Acting) M. L. Edelman 6936
DAA/AFR, A. R. Love 6936
DAA/AFR/ESA, P. Birnbaum 6944
GC/AFR, T. Bork 6891
AAA/AFR/PRE, H. I. Munson* 6671
PRE/SDB/OBR, D. Colbert-Blake 661 SA-14
AFR/DP, H. Johnson (3) 3913
AFR/SA, R. Carlson 3921
AFR/RA, W. Naylor 4533
AFR/RA, M. Easton 4533
S&T/PO, G. Eaton (6) 308C SA-18
BIFAD/S, J. Oweis 5318
M/SER/CM/ROD, S. Heishman 731 SA-14
M/SER/COM/ALI, P. J. Hagan 645 SA-14
PPC/PDPR/SDP, L. Hamilton (6) 3894
STATE: AF/EPS: JHall 5242A

AFR/PD, N. Cohen
AFR/PD, L. Hausman
AFR/PD/IPS, G. Rublee
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AFR/TR/EHR, C. Perry
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AFR/TR/HN, C. Gurney
AFR/TR/POP, L. Eicher
AFR/TR/SDP, M. Ward
AF/S: SStanfield 4238

Project Committee Members
AFR/PD/SAP:KNurick
AFR/DP:DWilson
GC/AFR:TBork/MAKleinjan
AAA/AFR/PRE:H. Munson

AFR/SA:MFeldstein
AFR/TR/:BWhittle
SER/COM:SBulkin

Why come to Admin?

AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO. 656-0201
2. COUNTRY Mozambique
3. CATEGORY Commodity Financing - Standard Procedures
4. DATE September 10, 1984

5. TO: Mark Edleman
Acting Assistant Administrator For Africa

6. OYB CHANGE NO.

7. FROM: Jim Dempsey, PDO, REDSO/ESA

8. OYB INCREASE $10,300,000
TO BE TAKEN FROM: ESF Funds FY 1984

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 10,300,000

10. APPROPRIATION

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

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

13. ESTIMATED DELIVERY PERIOD: 1/85 - 9/85

14. TRANSACTION ELIGIBILITY DATE: Date of Authorization

15. COMMODITIES FINANCED

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	$1,665,000
U.S. only:		U.S.:	
Limited F.W.:	7,665,000	Industrialized Countries:	2,635,000
Free World:	3,635,000	Local:	None
Cash:	N/A	Other:	941: $6,000,000

18. SUMMARY DESCRIPTION

The purpose of the 3 year program is two fold: (1) to increase food production in the Maputo market area by selling currently unavailable production inputs to family, cooperative and commercial farms; and (2) to assist in meeting the critical need for managerial and technical skills in support of the private sector.

The program seeks to resuscitate the private sector via two discrete components: a commodity import program to stimulate private agricultural production and technical assistance and training component emphasizing private sector rehabilitation. The importation of commodities will include 1) spare parts to repair economically viable equipment; 2) new equipment to replace that which is beyond repair or to expand current production capabilities; and 3) agricultural inputs to enhance food production and rural income. The provision of technical assistance and training will 1) strengthen institutions supportive of economically viable private enterprises, 2) support the GPRM's policies of returning factors of production to the private sector, 3) encourage private investment, and 4) assist in the rehabilitation of private enterprise. The import program will be implemented in the first year.

19. CLEARANCES	DATE
REG/DP	
REG/GC	
AA/PPC	
M/FM	
M/SER/COM	
AA/PRE	

20. ACTION

☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE DATE

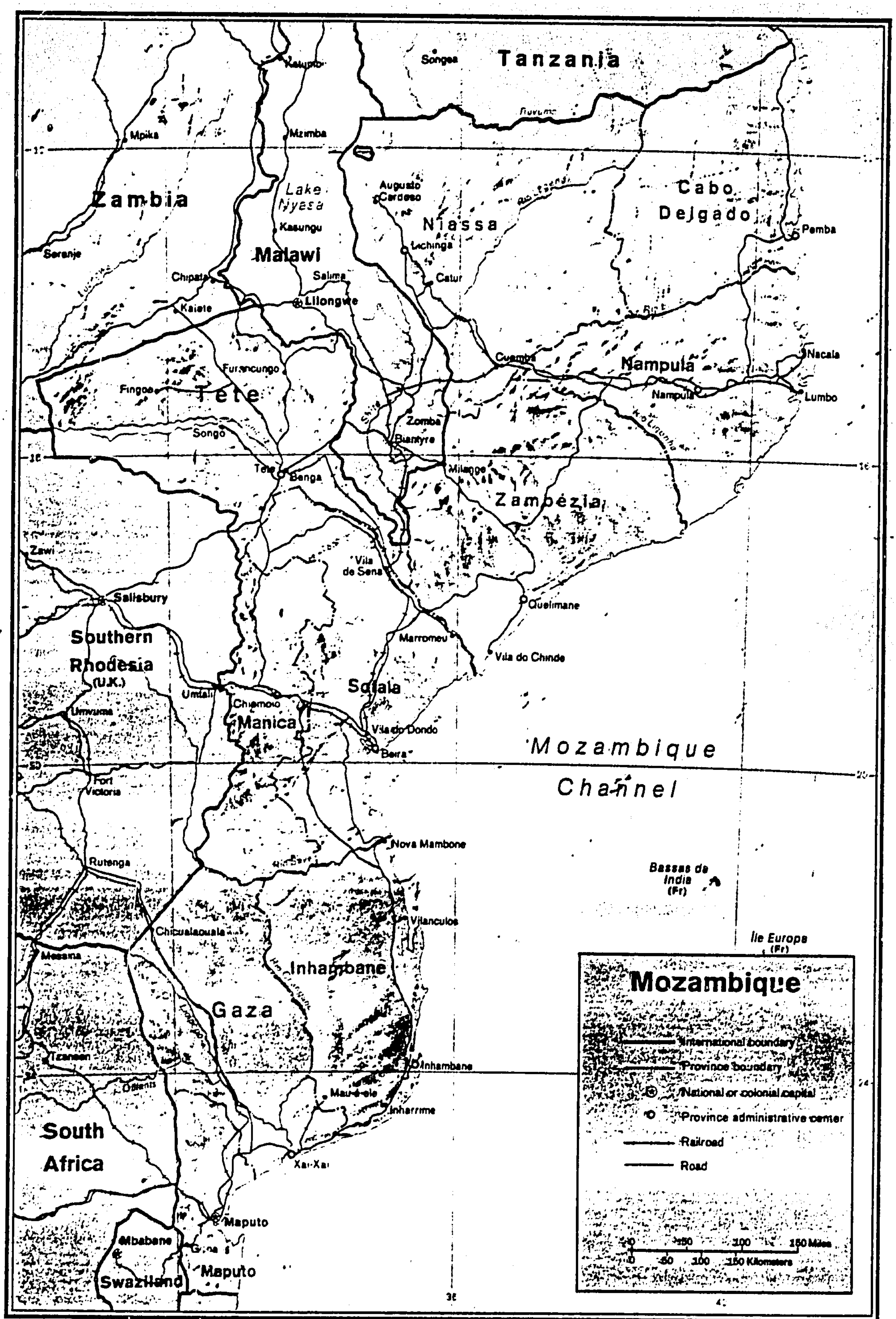
Acting Assistant Administrator for Africa
TITLE

CLASSIFICATION:

Table of Contents

MOZAMBIQUE
PRIVATE SECTOR REHABILITATION
(656-0201)

ANNEXES



Tanzania
Songea
Mpika
Mzimba
Zambia
Lake Nyasa
Augusto Cardoso
Cabo Delgado
Niassa
Pemba
Kasungu
Serenje
Malawi
Lichinga
Salima
Catur
Chipata
Lilongwe
Katete
Cuamba
Nampula
Nacala
Furancungo
Fingoe
Tete
Nampula
Lumbo
Zomba
Songo
Blantyre
Tete
Benga
Milange
Zambézia
Zawi
Vila de Sena
Salisbury
Quelimane
Southern Rhodesia (U.K.)
Marromeu
Vila do Chinde
Umtali
Sofala
Chimoio
Manica
Vila do Dondo
Beira
Mozambique Channel
Fort Victoria
Nova Mambone
Rutenga
Bassas da India (Fr)
Vilanculos
Chicualacuala
Île Europa (Fr)
Messina
Inhambane
Gaza
Mozambique
International boundary
Province boundary
National or colonial capital
Province administrative center
Railroad
Road
Tzaneen
Inhambane
Mau-é-ele
Inharrime
South Africa
Xai-Xai
Maputo
Mbabane
Maputo
Swaziland
0 50 100 150 Miles
0 50 100 150 Kilometers

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EXECUTIVE SUMMARY

A. The Grant: This paper recommends that the U.S. Government grant the Government of the People's Republic of Mozambique (GPRM) $ 10.3 million, from Economic Support Funds for a $8.3 million agricultural commodity support program and a $2.0 million technical assistance and training component. The latter activity will be implemented with the Government of Portugal which will contribute the equivalent of $400,000 over the life of the program. The agricultural commodity import program will be implemented in the first year of the three-year life of the program.

B. Implementing Agencies: The Secretary of State for International Cooperation in conjunction with the Governor of the Bank of Mozambique will coordinate the overall program. For the technical assistance program, a general three-year program plan and a detailed first year workplan will be set out during the first quarter after obligation. Implementing agents will be identified at that time. For the agricultural import program, the Ministry of Agriculture will be the implementing unit. Procurement and importation will be effected by private sector equipment agencies and several semiautonomous units within the Ministry of External Trade. In-country distribution will be coordinated by the MOA.

C. Project Description: The goal of the program is to increase the productive capacity of the Mozambique economy by supporting and revitalizing the private sector, as a source of employment, food and foreign exchange. The GPRM has recognized that increased production in food, consumer goods and export products is facilitated by a healthy, vigorous private sector. After eight disastrous years of promoting state enterprise at the expense of the private entreprenuer, the Fourth Congress of Frelimo, the state party, recognized the importance of the private sector in the development of the country and ordered government support for it.

In light of the current food deficit situation, the GPRM's highest development priority is increased food production for areas impacted by the drought and for Maputo and other cities. The GPRM's strategy has been to provide the private sector with the means of production needed to accelerate and sustain increased production. The purpose of the program is two-fold:

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-- to increase food production in the Maputo market area by selling currently unavailable production inputs to family, cooperative and commercial farms; and

-- to assist in meeting the critical need for managerial and technical skills in support of the private seotor.

Since independence in 1975, few producer imports reached the private sector; new plant and equipment were consigned to state enterprises; spares were imported in reduced amounts as foreign exchange reserves diminished. As a consequence, much of the agricultural equipment, accessories, and trucks (to transfer produce) in the private sector has reached the end of its effective life span. Agriculture and related manufacturing industries are operating at fractions of their installed capacity due to lack of raw materials (mostly imported), outmoded technology, lack of spare parts, and lack of both skilled workers and professional management.

The program seeks to resuscitate the private sector via two discrete components: a commodity import component to stimulate private agricultural production and a technical assistance and training component emphasizing private sector rehabilitation. The importation of commodities will include 1) spare parts to repair economically viable equipment; 2) new equipment to replace that which is beyond repair or to expand current production capabilities; and 3) agricultural inputs to enhance food production and rural income. The provision of technical assistance will 1) strengthen institutions supportive of economically viable private enterprise, particularly in commercial agriculture; 2) support the GPRM's policies of returning factors of production to the private sector; 3) encourage private investment in the small, but growing private entrepreneurial sector, and 4) assist in the rehabilitation of private enterprise by bringing them back into production and efficient operation.

D. Findings: The review of the macro-economic situation, clearly justifies the provision of foreign exchange to meet the country's severe shortage of vital agricultural inputs. Further, the use of the funds to purchase agricultural imputs for the private sector farmers will increase food production and save the foreign exchange needed to import food. The technical assistance and training component addresses the critical need for qualified manpower to support private sector development. The Initial Environmental Examination had a negative determination for the technical component and a categorical exclusion for the commodity import component.

E. Project Waivers: Attached as Annex D are the justifications for waivers for:

1. code 941 procurement for the Program,
2. negotiated vehicle procurement from 935 sources,
3. negotiated procurement for tractors and tractor equipment, and
4. procurement of spare parts for tractors and tractor implements in the U.K.
5. Code 935 procurement of technical assistance and training

F. Major Conditions Precedent and Covenants: In the Agricultural Sector Import Program Agreement, the GPRM will covenant that the commodities imported under the agreement will be sold exclusively within the Mozambique private sector, primarily to commercial and family farmers. For the technical assistance grant, a general program plan and a detailed yearly workplan will be required as a condition precedent to disbursement of funds for each year's activities.

G. Project Design Team Members:

1. Commodity Component

-- Jim Dempsey - Project Development Officer, REDSO/ESA

-- Don Fiester - Senior Agricultural Officer, REDSO/ESA

-- Allan Silva - Project Development Officer, Southern Africa Region

-- Art Laemmerzahl - Regional Supply Officer, REDSO/ESA

-- Gary Bisson - Regional Legal Advisor, Southern Africa Region

2. Technical Component

-- Karen Nurick - Project Development Officer, AID/AFR/PD

MOZAMBIQUE PRIVATE SECTOR SUPPORT PROGRAM

I. ECONOMIC AND AGRICULTURAL SITUATION

A. General Background

Mozambique became independent on June 25, 1975, after a ten year war waged by the national liberation movement, Frelimo. Since that time the Frelimo leader, Samora Machel, has been president. At its Third Congress in February 1977 Frelimo was transformed from a liberation movement into a Marxist-Leninist vanguard party dedicated to the creation of a socialist state in Mozambique. The government, then, established the machinery for a centrally planned economy. The Frelimo guerrilla forces were converted into a regular army during 1980.

Frelimo is the sole legal political party and the supreme political authority is the Permanent Political Committee of the party's Central Committee. All important government officials are also members of Frelimo. A structure of local, district, municipal and provincial assemblies was established in 1977 and elections were held in September-December of that year. At the apex of this political structure is the People's Assembly which is appointed by Frelimo and has little effective political power.

Opposition to the government is found in the guerilla group, the Mozambique National Resistance (variously referred to as RFM, MNR, or MRM), which has posed a progressively more serious threat to national security. Initially MNR activities were fairly limited and confined to attacks on villages and government installations in the regions adjacent to the Rhodesian border. Following independence in Zimbabwe, however, South Africa provided the MNR with financial, logistic and training support and has used it to destabilize the Frelimo government. MNR targets have included economic installations, particularly transport links, the Cabora Bassa power lines and the Beira-Mutare oil pipeline, but also communal villages established by Frelimo. The MNR lacks a coherent political strategy but has obtained a measure of local support in rural areas by a mixture of terrorism and playing on genuine grievances against the government, especially shortages of food and consumer items. The Nkomati Accord, signed in March of 1984 between the Republic of South Africa and Mozambique, has ended the Republic's official support for the MNR and opened the way for increased cooperation between the two countries. However, MNR guerrilla activities continue at a level of resistance
equal to or even greater than before. The MNR still holds no

territory, remaining a hit and run force.

In foreign policy, while officially adopting a position of non-alignment, Frelimo has established close relations with the Eastern bloc countries notably East Germany and the USSR, which provided most support during the war for independence.

Relations with the West improved markedly following President Machel's close involvement in the negotiations leading to the Lancaster House settlement of the Rhodesian war. There was another marked improvement in relations with the West following the Fourth Congress in April 1983 and the Nkomati Accord. In accordance with the position of non-alignment, there are no foreign military base or naval bases in the country. Mozambique is a member of the Southern African Development Coordination Council, which aims to reduce economic dependence of its members on South Africa.

The population, almost entirely of African descent, is estimated at 13.4 million, increasing at an annual rate of 2.6 percent. While the average density is only 17 persons per square kilometer, the population is heavily concentrated in the coastal provinces, near port cities and in fertile valleys. Substantial rural-urban migration is reported to have occurred in recent years, particularly to the capital city of Maputo. Ten major ethnic clusters have been identified. However, none represents a homogeneous entity, and rural social organization has generally been based on small clusters of families, sometimes comprising only a very small village. This ethnic heterogeneity and social fragmentation makes the process of building a Mozambican national identity difficult. At the same time, it reduces the potential for ethnic-based tensions, and tribal conflict is not strong. The government has also made efforts to de-emphasize ethnic differences in the population.

The Portuguese colonial heritage was such that it left the indigenous Mozambique people with little education, practical skills, manufacturing capacity or business experience. The local people, under the Portuguese, were overwhelmingly farm laborers and subsistence farmers. Large commercial farms were Portuguese operated. Illiteracy among the Africans was estimated at ninety percent in 1974 and of the 3,800 university students that year, only forty were Black. Rural health care was nonexistent and life expectancy was only 44 years. Africans were forbidden to engage in commercial activity and formal land ownership was limited to European settlers, although virtually all African families were permitted to use land for private use in subsistence food production.

At independence Frelimo inherited an economy ravaged by a drawn out war and depleted of skilled manpower. Of the 250,000 Portuguese in the country in 1973, who filled virtually all administrative and technical jobs, around ninety percent left the country as independence approached, deserting and in some cases sabotaging the factories, farms and shops they left behind. The situation was exacerbated in the following years by the effect of the Rhodesian war - the loss of earnings from transit traffic and the direct effects of strikes by the Rhodesian Air Force up to 1979. Problems have been further exacerbated by widespread flooding in the south of the country in 1977 and 1984, and the recurrent droughts since 1979.

The government's reaction to these problems was to nationalize education, health care, agriculture and industry, and to attempt to create a planned economy. These efforts were not successful in preventing a breakdown of the economy, with output falling by as much as 40 to 60 percent in many sectors. Furthermore, following nationalization of abandoned property in February 1978, private business confidence was shattered. The present ownership and control by the State of most productive enterprises was less the result of ideology than it was the result of practical necessity due to the departure of most owners and nearly all managers. Thus, the highly skewed colonial economy geared to benefit Portugal provided little development of African skills and is a principal cause of Mozambique's present difficulties.

B. <u>The Agricultural Sector</u>

Agriculture is the mainstay of the Mozambican economy, accounting for about 80 percent of the labor force, the vast majority of whom are engaged in subsistence farming. The major crops are cashew nuts, maize, cassava, sugar, cotton, tea, rice, fruit and vegetables. The state and cooperative sector accounts for about 40 percent of marketed production, family farms for about 50 percent, and other private farms for about 10 percent.

At present there are four major production subsectors which coexist in the country's agricultural system. First, and by far the largest, is the small family-owned farms which practice mixed farming: maize, beans, sweet potatoes, groundnuts, cassava, cashew nuts and some animal production.

A step up in size from this group is the private farmer who has at least one employee and is commercial in his operation. The range of farm size and level of production among these farmers is quite broad. A two to three hectare vegetable farm operated by a family with one employee and a 150 hectare irrigated operation with a hundred employees are defined as <u>privado</u> by

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the government. Many 20 - 50 hectare farms still remain and are operated by settlers in this category. Mechanization is common on farms larger than 20 hectares. Since most of the larger commercial farms are irrigated, vegetable production is usual with grain production on the upland, non-irrigated section of the farm.

The third category is the state farms, formed after independence from former Portuguese owned operations. They usually grow a single food crop or export commodity, but will grow a range of other crops (largely corn and rice) for on-farm consumption and local marketing. The production of food on these farms has not been up to plan due to the poor management and technical skills of the operators.

The final production units are the privately managed cooperative farms which have only recently been established. These farms are small to medium sized communal production units. Members work part time splitting their work between the cooperative and the family farm. From the earnings of the cooperative, members are paid for their work at the cooperative. Most cooperatives produce a range of vegetables in the dry season and produce corn and beans in the wet season.

The state farm sector has received the bulk of the agricultural investment resources since 1977. Production and yields have been poor so far, usually resulting from poor management. In certain areas the government has recognized the non-economic viability of state farms and has begun to break them up into new privately managed enterprises.

Table 1

Mozambique: Commercial Production of Major Crops 1977-83 (In thousands of tons)

	1977	1978	1979	1980	1981	1982	1983
Cashews	102.0	74.0	80.0	85.0	90.0	57.0	18.0
Sugar	n.a	n.a	n.a	170.2	177.2	125.8	73.7
Cotton	52.9	72.4	36.8	64.8	73.5	60.4	23.0
Tea	73.8	67.6	86.0	90.1	99.2	109.7	51.1
Copra	48.0	60.0	52.2	37.1	54.3	36.6	30.7
Citrus Fruits	37.9	36.4	39.0	32.0	36.0	29.1	18.0
Maize	42.0	70.0	65.9	65.0	83.5	89.0	55.3
Rice	60.0	44.0	56.2	44.0	35.1	31.5	23.7

Source: Ministry of Agriculture

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Since independence, agricultural production has failed to keep pace with population growth and actually declined in absolute terms in 1982 and even more sharply in 1983 (Table 1). Both maize and rice production were in 1983 at two-thirds of their 1981 levels. In 1979 a heavy cyclone affected the northern provinces, and in January 1984 another cyclone caused extensive damage in the South. Since 1981 prolonged droughts have caused widespread problems in the south and central portion of the country: rainfall in the 1982/83 season was at levels between one fourth and two thirds of the previous 30-year average. Estimated losses in production from this drought alone amounted to about US $80 million. The government estimates that 3.0 million people are affected by the drought, while the UN puts the figure at 4.5 million, of whom it says 1.7 million are "seriously affected".

Although climatic conditions for 1983/34 cereal crops were less harsh than in 1982/83, a combination of seed shortages, debilitation and migration of the rural population due to famine, and security problems continues to make the outlook poor for food crops in the central and southern regions. Northern provinces have received favorable rainfall in 1983/84 and can expect higher cereal output, but they are unlikely to produce any significant surplus. The country remains highly dependent on food imports, which increased from $82 million in 1978 to $142 million in 1983. Thus, large-scale international assistance will be required well into 1985, estimated at over 700,000 tons of cereal equivalent, of which about one third is for rural famine relief.

From 1975 to 1981 agricultural export earnings increased but have declined since. Mozambique has been, at times, the leading world supplier of cashew nuts, accounting for as much as 45 percent of total world production. In the late 1960s and early 1970s, the local shelling and processing industry expanded, and by the mid-1970s less than one third of cashew exports were in the form of unshelled nuts. While the volume of all agricultural exports fell in 1983, cashew exports fell to approximately 20 percent of the 1981 level, reflecting drought-induced losses in production, diseases affecting cashew trees (a recurring problem every 3-4 years), and the marketing and distribution problems in the rural areas. The value of tea exports rose more than fivefold between 1975 and 1982 but declined sharply in 1983. Cotton and sugar exports have fluctuated sharply in value in the same period, increasing slightly in 1983 despite small declines in export volume. The GPRM expects that agricultural exports in 1984 will increase somewhat, but much depends on the efforts to decentralize the multipurpose farm enterprises into smaller, more manageable units, and to reestablish the private, commercial farmer.

Livestock production and animal husbandry are not major traditional agricultural activities. Owing to tsetse fly infestation endemic in 70 percent of the country, cattle are found only in the south, and large losses have occurred there since 1981 following the droughts. Goats, sheep, pigs and poultry are raised throughout the country, mainly for family consumption. Some commercial poultry farms and a few dairy cattle cooperatives also exist. There appears to be a marked decline in the number of animals in Mozambique because of the drought and general food shortages.

Producer prices for most agricultural commodities are set by the government, but they are increased from time to time with the aim of encouraging production. Further increases are planned and experiments in lifting all controls are being conducted. However, the effects of the drought and cyclones in the past three years, the security situation, and especially the lack of basic consumer goods to serve as incentives to rural production, are such that the authorities believe that other supply-side measures are more important incentives than high prices in the short run.

C. Manufacturing and Other Sectors

At the time of independence, the manufacturing sector was small and characterized by agro-processing and small plant size; it accounted for about ten percent of the GDP and employed approximately 100,000 workers. Manufacturing declined significantly in the two years immediately after independence. Factories damaged in the final pre-independence fighting were not immediately repaired, and the exodus of expatriates not only reduced the domestic market for certain consumer goods but also meant the loss of almost all skilled and semiskilled workers as well as managerial personnel. The authorities have tried to deal with the problem of management deficiencies, in part through the recruitment of foreign technicians, who would train Mozambican workers. There has been some success in this area, but generally only in the larger operations. Small and medium size industry, many in agricultural processing and consumer good production, have not received assistance.

Notwithstanding these difficulties, it is estimated that industrial capacity has increased sine 1976; new plants have been commissioned in the food processing industry, in the textile industry, and in ship repairing. In 1979 a tire factory began production, replacing most imports and exporting some of its output, and a bus assembly plant has also begun operations. The utilization of industrial capacity has been low, owing in part to shortages of imported materials and poor management. For example Texmoc textile mill in Nampula produced only 800,000 sq meters of cloth last year, less than 5% of installed capacity.

Mozambique is rich in minerals, although the mining sector has not been well developed. Coal reserves are substantial. The existence of very large gas reserves, estimated at 40 trillion cu. feet, place Mozambique in the top ten countries in the world. Recently, the GPRM has begun to explore for oil and the possibility of large deposits appears good. Exploitation of oil and gas is years off. In spite of importing most of its domestic energy requirements, primarily as petroleum products, the country is a net exporter of energy. This results because, in the absence of an extensive national grid, the electricity from the Cabora Bassa hydropower dam is exported to South Africa (1500 mw per annum) which receives 10 percent of its national requirement from Mozambique. The potential for expansion of hydropower production is enormous.

The largest investment in the Mozambican economy is in transportation which primarily provides transit trade facilities for neighboring countries. The ports and rail service have been the large foreign exchange earner for Mozambique in the past. Internal disturbances and changing conditions in the neighboring countries have cut use of the facilities substantially. Before independence this sector provided two thirds of the country's foreign exchange. Presently it is providing only about 25 percent and in real terms earnings have dropped to 20 percent of previous levels. There is tremendous potential for immediate increases in earning in this area.

D. Manpower Constraints

Prior to independence, Portuguese settlers occupied almost every position requiring any skill. Colonial policy encouraged the immigration of workers from Portugal while native-born Mozambicans were denied access to training opportunities in essential skill areas. As a result, after independence with the mass exodus of the Portuguese, Mozambique was left without manpower to keep the necessary productive and service industries operating.

The lack of trained human resources is one of the most serious constraints to economic recovery in Mozambique. Skills training is required at almost all levels of the economy, but especially at the managerial and technical levels. Despite the efforts of the GPRM to fill the skills void and alleviate the high rates of illiteracy inherited from colonial times, the shortage of trained Mozambican personnel is likely to persist decades.

Recognizing this situtation, the GPRM has taken measures to recruit foreign nationals to staff public and private sector enterprises, key to the recovery process. These expatriates require payment in foreign exchange, however, a commodity in very short supply. To a large extent, the GPRM has relied on international donors to cover part or all of the foreign exchange costs of technical assistance. The GPRM finances local costs including housing, food, in-country transportation, and subsistence allowances for local currency purchases. In addition, the GPRM has contracted directly with a large numbers of expatriate consultants and has financed all costs from its own revenues. The Portuguese estimate that more than 1000 Portuguese nationals have been contracted directly by the GPRM.

E. <u>Current Economic Position</u>

1. Gross Domestic Product

According to rough estimates by the government, GDP grew on average, at about 2-3 percent per annum in real terms from 1975 to 1980.[1] Agriculture grew more rapidly (at about 4 percent) than the other major sectors, with manufacturing and mining production increasing by about 3 percent per year. All services, including transport, communications, construction, and commerce, declined in the immediate post-independence years but recovered to some extent in 1977-80.

[1]Mozambique's national accounts are based on the "Global Social Product" concept, akin to the material product concept used in many centrally planned economies, which does not include "non material" services. It is composed of value added in the production of goods and of material services, such as construction, freight transport, and others. The authorities' estimates of GDP shown in Table I have been arrived at from the uses of resources side, and independently of the global social product calculations. The methodology of estimation of private consumption suggest that it, and hence GDP, may be on the low side.

From 1980 onward the security problem and consecutive droughts have been largely responsible for a general economic downturn. While the main economic indicators are largely approximations, it appears that output in all sectors, other than construction declined in real terms from 1980 to 1983. The decline was severe in industry and services, particularly commerce and transport. As a consequence, between 1975 an 1983 the relative importance of agriculture increased while the contribution of services to GDP declined.

Estimates of GDP show an absence of growth from 1980 to 1983, in nominal terms, implying a pronounced decline in real terms and in real per capita GDP (Table 2). It is estimated by various sources that there was an 8-16 percent decline in the GDP in 1983. In 1983 exports dropped 40 percent; rail traffic fell by 30 percent. The foreign exchange squeeze was so bad that fuel imports fell from 641,000 tons to 105,000 tons, in just one year.

In 1980-83, public consumption rose, paced by increases in defense security, health and education; while private consumption appears to have stagnated in nominal terms and declined in real terms. The resource gap rose from 18 percent of estimated GDP in 1980 to 22 percent in 1983. The adverse developments described previously implies that there has been considerable unused capacity in recent years; to that extent, estimates of GDP would significantly underestimate the economy's current productive capacity.

Table 2

Mozambique: Gross Domestic Product and Use of Resources, 1980-83
(In billions of meticais)

	1980	1981	1982	1983
Private consumption[1]	65.4	64.1	69.8	65.7
Public consumption	14.1	17.3	19.4	21.3
Gross investment	15.7	17.4	18.5	12.8
Total resources	95.2	98.8	107.7	99.8
Net imports of goods and nonfactor services[2]	-14.2	-14.3	-18.4	-17.8
Gross domestic product[3]	81.0	84.5	89.3	82.0

1 Estimated
2 From the balance of payments (Table 3)
3 Since there is no price index available to establsh a base year, it is likely that the GDP may be seriously exaggerated.

2. Balance of Payments and External Debt

Mozambique's balance of payments has shown an overall deficit every year at least since 1960, except for 1972. In most years before independence these deficits were relatively small, but during the past six years they have been more substantial. In 1982 the loss of reserves amounted to US $118 million (Table 3). In 1983 the loss of reserves was substantially less, $22 million, as imports and debt service payments were cut back because of lack of foreign exchange. The current account deficit doubled from $272 million in 1978 to $576 million in 1982 before falling back to $442 million in 1983. In relation to GDP this deficit rose from 16.9 percent in 1980 to 24.4 percent in 1982 and was 21.7 percent in 1983.

The current account deficit is attributable almost wholly to merchandise trade. Exports rose significantly in value from $162 million in 1978 to $281 million in 1981, but declined in 1982 and dropped sharply in 1983 below the 1978 level. Imports grew from $471 billion in 1978 to $752 million in 1982, before declining in 1983 to $573. In some years receipts from transportation and income from Mozambicans working abroad have been as large as merchandise exports, but they have not been large enough to generate a significant surplus in this account.

Official grants have risen gradually to $90 million in 1983. Net capital inflows increased substantially from 1978 to 1981, but have dropped back slightly since then. Capital receipts exceeded $565 million in 1981 and 1982, but amortization accounted for about half of receipts in these years. In 1983 capital inflows dropped substantially, while payments in respect of amortization were cut back from $318 million in 1982 to $100 million, and payment arrears were accumulated.

Table 3.

Mozambique: Overall Balance of Payments, 1978-83
(In million of U.S. dollars)

	1978	1979	1980	1981	1982	1983
Trade-balance	-308.4	-257.4	-439.5	-440.5	-523.2	-441.2
Exports, f.o.b.	162.1	253.6	280.6	280.6	229.0	131.4
Imports, f.o.b.	-470.5	-511.2	-720.1	-721.1	-752.1	-572.6
Services (net) 1/	36.8	0.9	16.4	24.3	53.0	-1.0
Current account	-271.6	-256.5	-423.1	-464.8	-576.1	-442.2
Grants 2/	53.8	66.0	55.9	57.4	79.4	89.6
Capital account 3/	120.7	162.9	350.6	409.1	395.3	342.9
Errors and ommissions	-14.6	-10.4	-15.7	-24.0	-16.2	-12.4
Reserve movements (increase -)	111.6	37.9	32.4	22.3	117.6	22.1

Source: Bank of Mozambique

1/ Excluding interest paid to countries with centrally planned economies

2/ Mainly official grants but includes small amounts of private donations

3/ Including interest paid to countries with centrally planned economies

At the end of 1983, Mozambique's external debt (excluding debt to countries with centrally planned economies and that arising from military outlays) amounted to $1.35 billion, of which $285 million represented arrears. The 1984 debt service ratio, including debt service to centrally planned economies, is 131 percent of projected exports of goods and services. Table 4 shows Mozambique's external debt. The bulk of it is bilateral public debt of which about half (excluding debt to countries with centrally planned economies) is direct government debt and half is government guaranteed. About 14 percent of total bilateral debt is due to private creditors; 55 percent of the bilateral debt is owed to OECD member countries and 29 percent to OPEC member countries. The debt service profile (including debt service due to countries with centrally planned economies) is unfavorable: some US $404 million of principal and interest (excluding arrears) falls due in 1984, bringing the debt service ratio to 131 percent, with the annual burden declining to $243 million by 1987 and to $226 million over the three years 1988 to 1990.

Since earlier this year when the GPRM feel far behind in its debt payments, it has, for all practical purposes been in bankruptcy. A team from the Paris Club visited Maputo, but no debt rescheduling has been offered. In the meantime, most credit lines are frozen.

3. Prices, Wages and the Parallel Market

In 1980 a National Prices and Wages Commission was set up under the Ministry of Finance with the aim of establishing new guidelines for prices and wages. At present, there are "fixed", "conditioned", and free prices. "Fixed" prices apply to certain goods specified by the Council of Ministers, including oil, electricity, cement, and some basic food products. Other goods are controlled by the National Prices and Wages Commission or at the ministerial or provincial level. "Conditioned" prices are set by the enterprise within guidelines or parameters established by each Ministry; examples of goods in this category are clothing, shoes, transportation, telecommunications and salt. The remainder of the prices are free. The Commission has estimated that between 1974 and 1983 the official price of nearly 90 percent of goods traded has doubled. There are no comprehensive statistics on consumer prices or other indices of inflation.

In the immediate post-independence period, large wage increases -- sometimes more than 300 percent -- were granted. Subsequently, as the authorities sought to restore labor discipline and to increase productivity, wages were subjected to controls. Average wages rose by an estimated 10 percent a year between 1980 and 1982 and by 7 percent in 1983. For this year all public sector appointments, promotions, and salary increases are to be subject to Ministry of Finance approval, which does, in effect, apply a freeze on salaries and recruitment.

Given the extent of price and wage controls and the severe shortages of foreign exchange for imported consumer items, it is not surprising that a substantial parallel market exists in Mozambique. There are no estimates on the volume of goods exchanged on the parallel market, but the present ratio of the unofficial value of the metical to the official rate is 30:1. This startling difference in value is reflected in reports that a barter system is now being used for some exchanges. Although it is illegal for citizens to hold foreign exchange, it is tolerated by the government and foreign currency, mostly Rand exchanges, are common. In Maputo, the government itself runs a store where goods are available to anyone who is able to pay in foreign exchange.

4. Public Sector Finances and National Budget

The fiscal system of independent Mozambique had to be constructed virtually from the ground up. As in other sectors of the economy, the mass exodus of the settlers created an extremely difficult situation for the new Government in the area of fiscal management and notably in tax administration. The country lacked the skilled people to apply tax regulation and to control finances. A major reform of the tax system was enacted in March 1978, replacing the entire tax structure with one founded largely on a simpler system with only three major taxes. As a result of these reforms, Mozambique's tax revenues rose markedly after 1978, from Mt. 9.7 billion in 1979 to Mt. 16.0 billion in 1983. Tax revenue accounted for 65 percent of total state revenue. Total current revenue increased in 1979-83 at an average annual rate of 17/7 percent.

Overall fiscal developments in 1979-83 are shown in Table 5. The data indicate an overall deficit in each of these five years, equivalent, on average, to 27 percent of total expenditures. In 1980-83 the overall fiscal deficit was equivalent, on average, to 9.7 percent of estimated GDP. The deficit peaked in 1981 at Mt. 10.5 billion (12.4 percent of GDP) but was trimmed back in 1982 as a result of increased revenue and was reduced markedly in 1983 to Mt.5.8 billion (7.1 percent of GDP). The substantial fiscal improvement in 1983 occurred largely because of controls on current expenditure growth and a sharp paring down of investment expenditure.

Foreign resources financed, on average, half of the overall deficit, but their contribution has increased over the period, from one third in 1979 to 86 percent in 1983. Correspondingly, domestic bank and nonbank sources have made a progressively declining contribution.

Defense and security has been the largest single component of current expenditure, accounting for over 35 percent of the total. A detailed breakdown of other current expenditure is available only for 1983. In that year defense expenditure represented 39 percent of current outlays, followed by education an health at 28 percent. The remaining 33 percent was divided among central administration (15 percent), local administration (12 percent), and miscellaneous current expenditure, including interest (6 percent). Of 1983 current expenditure other than defense or miscellaneous, wages and salaries accounted for three fifths.

Table 5

Mozambique: Summary of State Budget, 1979-83 1/
(In billions of meticais)

	1979	1980	1981	1982	1983 Prel.
Total revenue	13.5	17.4	20.8	24.0	25.7
Direct taxes	3.0	3.8	4.2	6.3	6.7
Indirect taxes	6.7	8.3	8.6	9.1	9.3
Grant and other nontax revenue	3.8	5.3	8.0	8.6	9.7
Total expenditure	-19.5	-24.0	-31.3	-33.8	-31.5
Current expenditure	-10.7	-14.1	-17.3	-19.5	-21.3
Investment expenditure	-8.8	-9.9	-14.0	-14.3	-10.2
Overall balance	-6.0	-6.6	-10.5	-9.8	-5.8
Financing	6.0	6.6	10.5	9.8	5.8
Foreign	2.0	2.4	4.5	5.2	5.0
Domestic 2/	4.0	4.2	6.0	4.6	0.8
Bank financing 2/	(0.1)	(1.2)	(3.0)	(2.2)	(...)
Nonbank financing	(3.9)	(3.0)	(3.0)	(2.4)	(...)
Memorandum items:					
Overall deficit as percent GDP	...	8.1	12.4	11.0	7.1
GDP (billions of meticais)	...	81.0	84.5	89.3	82.0

Source: Data provided by the Mozambican Government

1/ Includes Central Government and provincial governments; on a cash basis

2/ Some additional bank financing of the budget results indirectly from the unsecured bank loans extended to some state enterprise pending incorporation of some of their expenditures in the state budget, while transfers from state enterprises are included in nontax revenue.

II. PROGRAM JUSTIFICATION

A. Current Economic and Political Initiatives

The GPRM economic policies were originally set out in the Third Congress of Frelimo in 1977. The restructuring of the economy away from its supporting colonial position and from the role of a service economy for neighboring states were fundamental objectives. Under state direction, a new socialist society depending upon communal agriculture and proposing to develop heavy industry was planned.

As the Government became aware of its current economic crisis, it became increasingly clear that its economic strategy was not succeeding and a new direction was necessary. A fundamentally new approach was approved in the Fourth Congress in April 1983. The new Economic and Social Directives emphasized the role of the family and commercial producers in agriculture and the importance of a steady availability of basic consumer goods to serve as incentives for the farmers to produce. In industry, priorities have been redefined to give importance to the local production of basic farm inputs and incentive goods, with investment to be concentrated in small and medium scale industries and projects. Few, if any new investment projects are to be undertaken, and the bulk of available resources will be devoted to the rehabilitation and maintenance of existing facilities.

In internal commerce, much greater latitude is to be given to the private sector in retail trade, particularly in the all important reconstruction of small rural shops. Concerning labor policy, the directives call for the introduction of merit pay incentives, increased productivity, and the elimination of overstaffing, especially in public administration. In public finance, containment of expenditure for wages and for imports, along with improvements in the efficiency of state enterprises, has been stressed. In the external sector, the contribution to be made by foreign capital in the form of joint ventures is recognized and welcomed.

The implementation of this fundamental change in economic and social direction is taking time, but some important first steps have been implemented. The GPRM is breaking up the state farms and is transferring the land and some of the equipment over to cooperatives and private commercial farmers who have demonstrated capability to manage such operations. Use of almost 2500 ha. of land and 15 tractors assigned to state farms have recently been transferred on to the private sector. If production is high, the farmer will be offered additional land. Successful cooperatives have also expanded by taking more of the state farm lands.

Another major initiative is that the government has significantly raised producer prices and in Zambezia Province it has allowed market prices to prevail. This "experiment" is scheduled to be expanded to Maputo Province in the near future. The GPRM recognized disastrous experience with People's Stores replacing the private commercial network has been abandoned, and small private merchants are now being encouraged. Similarly, the GPRM has opened transportation of goods to private interests.

Also in line with the Directives of the Fourth Congress is the increased autonomy given to managers of state enterprises. It appears that the most important measure of success for these enterprises and for state-intervened firms is to continue effective operations without financial losses.

To encourage foreign investment and participation in the Mozambique economy, the GPRM has set out a new, liberal investment code. The Government now permits industries and farms exporting goods to retain a portion of their foreign exchange earnings. The exact percent permitted to be held abroad is negotiated on a case by case basis, but the provision is made to include the repatriation of profit for foreign business. The government is also planning to allow farmers who produce substantial food surpluses to convert a percentage of their income to foreign exchange. The formula for this has not been settled, but the principal is that increased production will cut food imports and save foreign exchange.

Finally and perhaps most significantly for U.S. relations with Mozambique, the GPRM's previous preference for cooperation with countries with centrally planned economies has been tempered and it is now opening stronger channels of communications and cooperation with Western countries. In line with this move, the GPRM has applied for membership in the IMF and World Bank.

Thus, after facing years of neglect and hostility by the government, the surviving private sector, both agricultural and industrial, believes the government now genuinely desires to rehabilitate the private productive capacity of the economy, particularly in agriculture and related areas. The reaction seems to be one of optimism now even if they are dismayed at the price the country has had to pay.

B. Program Assistance Justification

First, the justification for the proposed program rests on the need for the U.S. to show a positive response to the GPRM private sector initiatives. Program funds will help the private sector farmers and firms who are affected by the change in policy to produce and operate successfully. Further, the technical component of the program will provide advisors to assist in the data collection and analysis needed to decide on future economic reforms and structural changes.

Assistance will place special emphasis on the commercial farms that are expanding or coming back into production as a result of the GPRM's new directions. However, commodity support will be given to the full range of private sector producers, that is family farmers, commercial farms and cooperatives. Because of a lack of information and analysis on the agricultural sector, the most effective channel for increasing food production is not clear. Thus, a program was selected that provides a balance of benefits among the three types of private sector producers. No assistance will be given to state farms.

Because of the lack of foreign exchange and the low priority of private sector agricultural production since independence, few inputs have gone to support the private farmer. This program provides foreign exchange to import essential commodities to increase farm production. The government and people of Mozambique desperately need help to increase food production. The provision of inputs to help resolve their immediate food crisis will also start the private farmer and the country in general on the road to agricultural development.

In the private sector, in general, the skills required for business management, entrepreneurial development and commercial agricultural production have not been strengthened since before independence. There is also a tremendous need for technical information and training in agriculture to complement and expand private initiatives. The technical component is designed to address these needs and will help fill the country's desperate shortage of trained manpower.

In addition to helping the Government resolve these very serious development problems, the Program is a means of demonstrating to the GPRM that the U.S. supports the private sector initiative and is confident enough in the rightness of the approach to invest in it. Mozambique-US relations will be strengthened by the project which will provide a clear sign of improved ties between the two countries.

It is important to note, however, that the Mozambique economy remains very much centrally planned and controlled. Although the GPRM has taken some exciting first steps toward establishing market forces and private production, much remains to be done. A series of difficult policy and monetary reforms will be required over the next few years to continue the process of restructuring its economy. The U.S. Government judgements about the pace, nature and effectiveness of the changes will be important in the decision related to future levels of U.S. support.

It is clear that, for the present, very serious problems still exist in the economy and that the implementation and impact of this project will be constrained by these problems. Justification of the Private Sector Support Program rests on the overwhelming needs of the people of Mozambique and the initial positive steps of the GPRM in restructuring their policies and economy. The Embassy and the AID Mission (REDSO/ESA) accept that much needs to be changed, but also judge that significant development activities can proceed in the present policy environment.

In many ways this project represents the opening of a policy dialogue between Mozambique and the U.S. The serious policy constraints that remain are:

1. producer price controls on nearly all agricultural commodities including food;

2. an extremely overvalued local currency that has a parallel market value of approximately one-thirtieth of its official value. (Official price: $1.00 equals 40 metacias; parallel market: $1.00 equals 1200 - 1500 metacais).

3. allocation of resources made through Government planning and;

4. an economic structure that is overwhelmingly dependent on parastatals or government-intervened business.

How to proceed in this policy dialogue to resolve these and other constraints is not clear, especially in light of the fac that Mozambique has yet to join the IMF and World Bank. At a minimum, frequent consultation and review of policy, along with the generation and analysis of economic data, is required.

For this program, the selection of opportunities for technical assistance and training will support economic and structural reforms or help in analyzing the above listed constraints. The selection of commodities to support agriculture was made with a view to minimizing the negative impact of the above problems and/or supporting the initial positive steps that have been taken.

Again, the general economic policy matrix is poor in Mozambique, and this will impact negatively on the program. However, the justification for the PSSP in the area of policy reforms is based on the initial changes. The USG is not waiting for a complete restructuring to a market economy, but will monitor the pace and success of economic policy and structural changes to foster a policy dialogue in this area.

C. Program Guidelines and Implementation Objectives

e first AID mission to Mozambique in May of 1984, and the
am that prepared this document identified a number of
ements essential in the design and implementation of the
itial program for Mozambique. These guidelines were used in
aping the nature of the program and strategy for
plementation and include:

1. the contribution of assistance to alleviate the food deficit situation occurring in the nation;

2. the support of GPRM initiatives and reforms to benefit the private sector;

3. the provision of assistance that directly alleviates the serious economic problems, the most important of which is foreign exchange shortages;

4. the requirement for technical assistance and training to help the Mozambicans overcome their severe lack of trained manpower;

5. the relatively quick disbursement of funds;

6. the targeting of assistance to secure areas to facilitate implementation and allow monitoring;

7. the high visibility of U.S. assistance;

8. the widest dispersion possible of program benefits;

9. the minimization of in-country U.S. direct hire presence to manage and monitor the program;

10. the flexibility to adjust the program elements in response to changing needs and opportunities;

11. the preference of supporting trade and cooperation with other member-states of the Southern African Development and Coordination Conference; and

12. the recognition that U.S. technicians who speak fluent Portuguese are in short supply.

The program description that follows builds on these objectives, but obviously, some of them were compromised in order to achieve a balance of the diverse and sometimes conflicting objectives.

III. PROGRAM DESCRIPTION

A. Program Goal and Purpose

The goal of the program is to increase the productive capacity of the economy by supporting and revitilizing the private sector. The GPRM has recognized that increased production in food, consumer goods and export crops is facilitated by a healthy, vigorous private sector. After eight disastrous years of promoting state enterprise at the expense of the private entrepreneur, the Fourth Congress of Frelimo ordered a change in policy to assist the private sector. In light of the current food deficit, the GPRM's highest development priority is increased food production, especially in the cities and the areas impacted by the drought. The GPRM's most recent strategy has been to provide the private sector with the means of production needed to accelerate and sustain increased productivity.

The purpose of the program is two-fold:

-- to increase food production in the Maputo market area by selling currently unavailable inputs to family, cooperative, and commercial farms; and

-- to assist in meeting the critical need for managerial and technical skills in support of the private sector.

Since independence in 1975, few producer imports reached the private sector; new plant and equipment were consigned to state enterprises; spares were imported in reduced amounts as foreign exchange reserves diminished. As a consequence, much of the agricultural equipment, accessories, and trucks (to transport produce) in the private sector has reached the end of its effective life span. Agriculture and related manufacturing industries (food processing and consumer goods production) are operating at fractions of their installed capacity due to lack of raw materials (mostly imported), outmoded technology, shortages of spare parts, and lack of both skilled workers and professional management.

The program seeks to resuscitate the private sector via two discrete sub-projects: a commodity import program to stimulate private agricultural production and a technical component to assist private sector rehabililation. The importation of commodities will include 1) spare parts to repair economically viable equipment; 2) new equipment to replace that which is beyond repair or to expand current production capabilities; and 3) agricultural inputs to enhance production and rural income. The provision of technical assistance will 1) strengthen institutions supportive of economically viable private enterprises, particularly in commercial agriculture; 2) support the GPRM's policies of returning factors of production to the private sector; 3) encourage private investment in the small, but growing private entrepreneurial sector, and 4) assist in the rehabilitation of private enterprise by bringing them back into production and efficient operation.

In order to achieve the program purpose, a few assumptions are necessary. First, it is assumed that the security situation will not worsen in the areas where U.S. assistance will be concentrated. Second, GPRM ministries will continue with the policy dictates mandated by the Fourth Party Congress, specifically to continue to undertake policy reforms that re-establish market forces and to target the GPRM and donor assistance to the Mozambican private sector. Third, the GPRM will continue its policy of divestiture of state enterprises (state farms and industries).

B. Program Components

1. Agricultural Input Supply

The commodity support component addresses the shortage of vital agricultural commodities caused, in part, by the lack of foreign exchange. To meet the immediate crisis, a quick disbursement program has been designed. Food production will be increased through the provision of imported inputs for private sector farmers who produce food surpluses in areas which have traditionally supplied Maputo and other food deficit areas in the South. The design team found that the provision of a single input, such as fertilizers, tractors or hand tools would not be sufficient to increase food production substantially. The supply of inputs is so inadequate in Mozambique that to generate substantial food surpluses nearly a full range of inputs is required. Thus, the proposed agricultural commodity import program, to a large extent, will concentrate on limited geographical areas but provide a wide range of imputs. Although many different inputs will be purchased, the consolidation of these items into approximately 10 procurement actions will simplify the program and ease the implementation burden on AID staff.

For distribution, private sector firms were the first choice, but their numbers were few. Only for tractors and irrigation equipment did private distributors exist. For the distribution of all other items, a government entity had to be used.

Two regions were selected to concentrate the support: the Green Zones, a densely populated small-holder area outside of Maputo, and the Chokwe District on the Limpopo River approximately 100 miles north of the capital. The Chokwe support will primarily benefit the private farmers on 32,000 hectares of irrigated land bordering the Limpopo River and centered around the town of Chokwe. Both areas have regional authorities; the Green Zones Office (Gabinete Das Zonas Verdes) and the Chokwe Coordination Unit (Orgao Coordenador De Chokwe). Although different in structure, both are effective in input supply and distribution and at mobilizing local and government support for agricultural development. In a country without a national extension service, both of the two regional authorities are developing agricultural monitors and field agents to provide technical assistance to family farmers, and to some extent, commercial operations.

The Green Zones of Maputo consist of nearly 11,000 hectares of farm land of which approximately 1500 is irrigated, primarily by hand with watering cans. There are approximately 225,000 inhabitants (50,000 families) crammed into this areas. Nearly all families have at least a small vegetable plot in the cool season and a larger rain-fed stand of corn and possibly beans in the hot season. In good years, these family farmers can produce surpluses for the Maputo market. There are also approximately 165 farms large enough to be classified as commercial producers. Their surpluses, primarily in vegetables, also go into the Maputo market. Finally, the area includes approximately 150 cooperatives and farmer association. There are no state farms in the Green Zones of Maputo.

Chokwe is quite different in nature. It is largely an irrigated area, less densely populated and does produce substantial surpluses in vegetables and grain. Production levels have dropped sharply in recent years, primarily resulting from the failure of state farms. There are approximately 125,000 residents (25,000 families) in the area. After independence and the fleeing of the Portuguese, the state took over most of the abandoned land and developed large state farms with Eastern bloc help. The experience of these farms has been dismal with production in many cases running below the cost of inputs. Consequently, the government has broken up these farms and is transferring the land and some equipment to family farmers, cooperatives and larger commercial operators. The area has 32,000 ha. in furrow irrigation of which 10,000 ha. is now in family farms, 7,500 ha. in commercial operations, 2,000 in cooperatives and 12,000 ha. in state farms. AID commodity assistance to Chokwe is to help the private sector reestablish itself in the area and to increase its agricultural production.

In order to allocate program funds to the most effective uses and given the fact that additional funds may be available, the design team has put together a priority listing of commodity support. First there are three activities which form the core of the commodity import program. This $ 5,500,000 procurement is what the design team believes should be minimum U.S. support. The program includes:

1. Private sector tractor repair in the Maputo market area - $ 735,000,

2. Chokwe and Maputo Green Zones basic inputs supply - $ 4,765,000,

The most cost effective way of getting tractors operating again on the commercial farms is the repair of existing units. The first activity in the core program will provide the tractor parts to repair machines in the southern part of the country which feeds the Maputo market. The commodities for this activity will be channeled through two private sector distributors. Many of the repairs will be in Chokwe and the Green Zones. The other component of the core program is commodity supply to these two areas which will receive input packages and new equipment including tractors, pumps and some trucks for large commercial operations and for private commercial truckers. A detailed list of commodities to be purchased for the two areas appears in annex A. In total, the funding requirement for the core program is $ 5,500,000.

The second priority is a $ 1,650,000 fertilizer program for the South of the country (Maputo Province and the Limpopo Valley). A supply of fertilizer, valued at $ 400,000, is already included in the core program. This fertilizer purchase is an incremental amount over the core amount. The total purchase is large enough that a boatload could be purchased and shipped from the U.S. economically. In the areas outside of Chokwe and the Green Zones, Boror, the state enterprise for seed, chemical and fertilizer distribution, will be charged with the responsibility of distributing the fertilizers. Generally in the south, Boror is doing an adequate job.

The next priority is the purchase of peanut, cowpea and maize seeds for the Southern Provinces of Maputo, Gaza and Inhambane. Presently there is an extreme shortage of peanut seeds for this season (September - November planting). To ensure that adequate supplies of top quality seed are available next year for the three crops, a purchase of $ 1,150,000 is planned (200 tons of corn, 600 tons of peanuts and 200 tons of cowpeas). The distributor would be Boror. Although the seed purchase will benefit the Maputo market, the main beneficiaries will be the rural population which depends on these crops for their protein source. The potentially great nutritional impact of the seed purchase makes it worthy of inclusion in the program.

The design team recommends that AID provide funding for the purchase of commodities in the above listed three priorities. Together the procurements provide a balanced program that is implementable, helps in the production of food in the coming season and finally gives the family farmer the ability to again begin growing high protein foods.

The final priority would be the purchase of additional tractors, implements, pumps and seeds for Chibuto, Masinger and Canisado Districts, all of which are along the Limpopo River. Although no detailed assessment of the commercial farmers in this area has been conducted, it is known that there are 150-200 large commercial farmers in the three districts that are in desparate need of imputs. A program could be developed quickly for the area. In order to make it implementable, it would concentrate on a relatively small number of commercial farmers and provide only the basic inputs to expand. The idea would be to expand production by increasing the land under cultivation. The inputs would include only tractors, tractor equipment, pumps and seeds. Without a regional authority such as the Coordinating Unit in Chokwe, only the distribution of a few inputs to a limited number of farmers is feasible. It is estimated that easily divisible incremental amounts of up to $4.0 million could be distributed and used effectively.

A summary of procurement by priority and commodity, is as follows:

ITEMS	PROPOSED ALLOCATION	
Priority 1 - Core Program		
1. Tractors	750,000	
2. Trucks	900,000	
3. Tractor Spare Parts	735,000	
4. Tractor Implements and Other Equipment	780,000	
5. Pumps and Irrigation Equipment	400,000	
6. Oxen Implements	90,000	
7. Hand Tools	520,000	
8. Fertilizer	400,000	
9. Seeds	600,000	
10. Miscellaneous	325,000	
Subtotal		$5,500,000
Priority 2		
Additional Fertilizer	1,650,000	
Subtotal		$7,150,000
Priority 3 - Recommended Level		
Peanut, cowpea and maize	1,150,000	
Total		$8,300,000
Priority 4		
- Tractors, Pumps and Seeds for the Limpopo Valley Commercial Farmer	Up to	$4,000,000

Although substantial increases in food availability, especially in vegetables, are expected from the provision of inputs, no specific targets are established, as production and availability data are lacking. Because of the CIP nature of this component, a lack of specificity in increased production is acceptable. However, as an element in program evaluation, an end-user report will be prepared to determine who actually received and used the imported items, how the private sector benefitted by these inputs and to what extent this stimulated their production.

2. Technical Assistance and Training

The purpose of the technical assistance and training component is to assist in meeting the critical need for managerial and technical skills in support of the private sector. Direct technical assistance will be given to private farmers and to firms or government-intervened industries trying to return to the private sector. Additionally an important step in rehabilitating the private sector is to establish the necessary policy framework and administrative and support systems in the public sector which will promote the growth of private sector enterprises. Thus, resources under this program will support public sector institutions key to the development of private sector enterprises.

At the end of the program, resources will have provided assistance designed to: 1) strengthen the capacity in the public sector to plan and implement economically sound activities and to support the rehabilitation of the private sector; 2) strengthen support systems for the rehabilitation of agriculture and industries; 3) rehabilitate government-intervened industries to enable them to be returned to the private sector; 4) improve national capacity to train skilled labor.

AID will provide $2.0 million in FY 84 funds to cover training and technical assistance costs. Part of the AID grant will finance Portuguese technical assistance, most likely recruited through a Portuguese management consulting firm. The rest of the funds will finance U.S. technical assistance, recruited either through direct AID contracts with U.S. firms, or direct host country contracts, or through joint ventures or subcontracts with Portuguese firms. The exact proportion of Portuguese/U.S. T.A. financed under the program will depend upon the GPRM's list of priority activities and the specific expertise required to carry out these activities.

Due to the extremely difficult Portuguese financial and economic situation, their contribution will have to be limited. The GOP has agreed to provide about $400,000 for the life of the program to cover part of the salaries of Portuguese consultants, participant training in Portugal, and Portuguese equipment and supplies needed to support the T.A. and training activities. Of their total contribution, they will provide $100,000 in CY 84 for initial program costs. The remaining $300,000 will be provided over the next two years of program implementation.

The Institute for Economic Cooperation (ICE), the economic assistance agency of the Government of Portugal (GOP), will be responsible for coordinating the participation of Portuguese firms in project implementation. As in its other programs in Mozambique, ICE will contract with a private firm or firms to identify qualified consultants and place Mozambicans in appropriate training institutions. ICE's operations are discussed in more detail in annex H.

The GPRM will provide local currency and in-kind support, for technical assistance and participants in training. These resources include: housing and food for technical consultants, office space and equipment, salaries of local counterpart staff, and transportation for participants receiving training in Portugal.

The first step in implementation of this component will be preparation and submission by the GPRM of a general workplan for the life of the program. The plan will set priorities, and include eligibility criteria along the lines discussed elow. AID and ICE will review and approve the plan and criteria prior to funding of specific activities. The next step in implementation will involve preparation by the GPRM of detailed activity workplans including implementation procedures, scopes of work, and feasibility studies, as appropriate.

a. Illustrative List of Eligibility Criteria

As guidance to the GPRM in preparing its workplan for this component, the following criteria for the selection of T.A. and training are included below. The final list of criteria, to be approved by AID, should be in general agreement with these criteria.

Assistance under the program should be designed to address one or more of the following areas:

1. improved farming techniques, espcially in food production;

2. farmers receiving inputs under the commodity component;

3. rehabilitation of private enterprise, especially in food production and other agricultural commodities;

4. economically viable enterprises in the private sector;

5. collection and analysis of economic data needed for decisions on economic policy and structural reform;

6. enterprises producing for export or import substitution;

7. strengthened institutional capacity necessary to support the rehabilitation of private sector enterprises.

The program will provide both long and short-term consultants of three main types: senior analysts to advise the GPRM at the planning and policy level and to conduct surveys, when appropriate; mid-level operational consultants to establish in-country training programs in a range of technical fields and to strengthen the capacity of public and private sector institutions; and well qualified technicians to serve as on-the-job trainers in a variety of industries.

Most of the training will be in-country and on-the-job, but some funds will be set aside for short-term training outside of Mozambique. It is expected that some of this training will be offered by ICE at appropriate Portuguese facilities. These are mostly public sector institutions that charge nominal fees. The GOP will cover matriculation fees and provides students with an adequate subsistence allowance.

b. Illustrative List of Activities

Some of the areas illustrative of the activities for support under the project and listed by objective are as follows:

--<u>Increased capacity in the public sector to plan and implement economically sound activities and to support the rehabilitation of the private sector.</u>

Possible recipients of this support include key policy-making ministries and agencies of the public sector like the Central Bank, Ministry of Public Works, Ministry of Economic Affairs, Ministry of Finance. T.A. and training resources will focus on establishing planning, budgeting and project appraisal capacities to support and implement programs in the private sector.

Another potential activity for this type of support involves assistance in strengthening the GPRM's capacity in development banking. T.A. and training are required in project appraisal, investment banking, and accounting. Training courses may be arranged in-country or participants may be sent for short-term courses outside the country.

--<u>Strengthened support systems for the rehabilitation of industries essential to export or to production of essential products for the internal market.</u>

Priority will be given to food production, agricultural production of export crops like cashews, cotton, sugar, edible oils, and to the production of agricultural inputs such as hoes, bags, seeds, and simple farm implements. Consultants may be required to work in the Chokwe area with commercial farmers to increase production through better use of inputs and improved agricultural techniques. Extension specialists could be used to work with Green Zones field agents to improve vegetable and other crop production. Specific assistance in water use efficiency for irrigation is a high priority.

Another area of support could be in the creation of community industries through small to medium scale enterprises in the private sector. A proposal has been developed by the GPRM Ministry of Industries and can be assisted by Portuguese tradesmen, carpenters or other skilled workers. The first planning phase in the GPRM's program, proposes that priorities be set and a training plan be developed for the training of Mozambican trainers in about six of the most needed skills. About one full year of consultant and tradesmen services will be required. This activity could be implemented in collaboration with the UNIDO office in Maputo which has already begun work on a plan for developing the program.

--<u>Rehabilitation of private firms in the areas of construction, transportation infrastructure such as railroads, ports, and utilities such as electric power, water supply</u>.

A possible recipient of this type of assistance will be the Planning Department of the Public Works Ministry. This Ministry is overburdened with construction work requests since very little private capacity remained after the Portuguese managers and technicians left Mozambique. Ministry leadership hopes to recuperate this capacity in the private sector and eventually develop independent construction companies.

To accomplish this, a planning and construction management company would be contracted to provide consultants over a two-year period. These consultants would work on building managerial and technical skills to take over the operations of these companies.

Other areas of support may include training programs to meet the critical need for Mozambican manpower in the maintenance and repair of transportation infrastructure. These technicians would later staff public and private sector agencies directly involved in transportation, utilities or agencies supportive of these activities.

c. Illustrative Budget

A detailed budget for this component will be prepared when the GPRM's workplan and specific activities have been approved for financing. The following is presented for illustrative purposes only.

(In U.S. $ 000)

	A.I.D. (FX)	G.O.P. Fx	G.O.P. Lc	G.P.R.M. Fx	G.P.R.M. Lc	TOTAL
Tech. Ass't						
U.S.	1,000					1,000
Portuguese	750	300				1,050
In-country support					xx	
PSC for CIP	150					150
Training						
In-country			50		xx	50
Portuguese		50			xx	50
Other	50					50
Observational visits	50					50
TOTAL	2,000	400			xx	2,400

D. Coordination with Other Donors

The proposed AID commodity import program is bringing in many of the same types of goods as other donors. FAO has a series of seed import projects; an IFAD loan of $20 million is also importing seeds, hand tools, oxen implements and tractors. The Swedish government finances a commodity import program of $10-12 million per year which, among other things, is bringing in hand tools. It is also providing a substantial number of

trucks to AGRICOM, the state entity for agricultural marketing. Although the nature of donations and loans from the Eastern bloc countries is not public information, it is apparent that a large number of tractors and trucks, primarily for state farms and other public entities, have been provided. Finally, a great many small donations of commodities have been provided as part of the relief efforts. The Maputo Green Zones have been the beneficiary of some of these donations.

The selection of farm inputs and beneficiaries in the commodity component was made to ensure that there was no duplication of efforts with other donors. First, the U.S. is the only donor who has come forward with the offers of assistance to the Mozambique commercial farmer. The tractor repair activity provides assistance almost exclusively for this group. Similarly, the tractor implement and irrigation purchases in the Maputo Green Zones and Chokwe are also primarily for this group. Other inputs needed for commercial farming are also provided for the commercial operator in the two areas.

The scattering of inputs by other donors makes coordination and complementarity difficult and in some cases leaves the farmer with only a part of what is needed to increase his or her production. The design team's selection of two areas to concentrate assistance addresses the later problem. To ensure that there is no duplication of efforts, the Planning Section of the Ministry of Agriculture in conjunction with the Chokwe and Green Zones Offices will be charged with the responsibility of directing other donor commodity support, which is usually provided for the country in general, to other section of Mozambique. This will be fairly simple for Chokwe which has not received much donor assistance for its private farmers (none for commercial farmers), but the Maputo Green Zones because of their proximity to the capital, are areas often targeted for assistance. A list of donor activities for the Maputo Green Zones appears in Annex G. Although some programs provide the same type of commodities as identified in this program, most are relatively small. Where relatively large program exist, as in the case of an Italian/UNICEF program for $4.0 million, they focus on assistance to the cooperatives.

The AID program will ensure that adequate commodities are provided in the target areas to commercial farmers and family producer not covered by other programs. Further some of the assistance, such as extension worker transportation, storage facilities, wind mills and irrigation equipment will complement the inputs provided by AID.

Under the management of SIDA, the Swedish aid organization, the Nordic countries have an agricultural assistance program that, starting this year, will focus on family farm food production. Yearly support will be approximately $12 million. Technical assistance and training that improve the practices of the family farmers and help them use their imputs more effectively will complement the AID project.

On the technical assistance side the coordination of activities with other donors will be arranged during the planning phase discussed previously. It can be noted now, however, that the U.S. interest in business rehabilitation as part of this component place, is an area where few donors are now working.

IV. IMPLEMENTATION

A. Commodity Import Program

1. Responsibilities

As is the case in a standard CIP, AID will be the financing agent with procurement done directly by the host government or local private sector distributors. Overall allocation for the program within the GPRM will be made by the Central Planning Committe (CNP) working in conjunction with the Ministry of Agriculture. The MOA will coordinate all distribution of the commodities to the field. A general list of commodities to be imported has been worked out with the Ministry of Agriculture. A table showing the technique to be used for each individual procurement is attached as Annex F.

Parts imported by the private sector will be effected by negotiated procurement, all other commodities by either formal or informal competitive procurment. Where applicable because of the complexity of the equipment to be imported, competition will be limited to firms being able to demonstrate that they have an effective distribution and service network. The Regional Supply Officer will work with both the Ministry of Agriculture and the specialized import parastatals in developing IFB's and RFP's incorporating the requirements of A.I.D. Regulation One.

Financing arrangements will depend on the source: a bank letter of commitment to a U.S. bank and letters of credit will be requested for all offshore procurment. The Bank of Mozambique will act as authorized applicant. Direct letters of commitment will be requested for American suppliers.

An exception might be made, and a direct letter of commitment used in cases where the supplier is located in the same country where there is a USAID controller. This would involve an amendment to the Financing Request and a request for an allotment from FM/BFD.

In asmuch as this program is essentially a commodity import program, the RSO will be called upon to assist in preparing bid documents during the early stages of implementation and will be heavily involved until a permanent AID representative is assigned. Quarterly visits thereafter will be required.

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2. Applicable AID Regulations

The procedures of AID Regulation One will be used in all transactions. In particular, Section 201.22 of AID Regulation One applies to formal competitive procurement by the private sector. In certain cases, a waiver authorizing competitive negotiated procurement by the public sector will be requested on the grounds that the number of potential suppliers is small enough to permit adequate solicitation without the use of formal competitive bidding. It is envisaged that the "special supplier-importer relationships" described in Section 201.23e will apply to certain private sector imports.

Special provisions also apply to certain of the commodities to be financed under this program, in particular fertilizers (U.S. source only - standard specifications), seeds (special certification) and vehicles (U.S. source only). A waiver is being sought for vehicle procurement and the justification appears in Annex D.

A waiver request to make ships of code 941 eligible for AID financing will be prepared. Although Mozambique has a small merchant fleet, it does not offer transatlantic service. A single shipment of fertilizer should meet cargo preference requirements for the entire grant.

All items listed in the A.I.D. Commodity Eligibility Listing - 1983 Edition will be eligible for financing under the program. Foreign exchange costs for transportation, marine insurance, and banking charges on letters of credit will, of course, be eligible for financing.

All tenders and pro formas issued under this program will specify that insurance will be placed only with companies paying claims in U.S. Dollars or other freely convertible foreign exchange. The minimum value of transactions under this grant will be set at $10,000. Should there be any serious difficulty in holding to this amount, it will be subject to negotiation on an ad hoc basis.

The Government of Mozambique will be given 18 months from the date of signing the agreement to complete disbursement of the grant. Additionally, the Government of Mozambique will be allowed up to 12 months after signing the agreement to request disbursement authorizations.

This paper includes in annex D a waiver request to allow procurement in code 941 countries. This authority would allow procurement of the great majority of required inputs in either the U.S. or developing countries such as Swaziland, Brazil, Kenya, India, and Zimbabwe. It should be noted that Mozambique is presently a Code 935 country. A request from the field has gone in to have it reclassified as a 941 source.

In a few instances, notably spare parts, waivers will be required to allow procurement from certain code 935 countries in Europe as well as the RSA. Justification for waiver requests are included in annex D.

3. Import Procedures

Private sector distributors may import directly and the procedures are relatively simple. However, public sector imports are complicated by the fact that in almost every case the importing parastatal is one entity and the distribution network another. The import is affected by an import-export parastatal such as Intermecano (trucks, tractors, etc). Interquimica (seeds, fertilizers, pesticides and fertilizers), Equipesca (fishing equipment), Hidromoc (irrigation equipment), etc. These organizations charge five to six percent of the CIF Value (before payment of duties) of the import before turning them over to the distributors. Distributors include Boror Commercial (fertilizers, seeds, pesticides, sprayers), Mecanagro (tractors), and so on. Some donor PVO's run their own parallel importing and distribution networks. Some Mozambican regional authorities, such as the Green Zones, and Provincial Agricultural agencies also effect distribution in their own geographic areas of responsibilities.

To simplify commodity distribution, the Maputo Green Zones Office and the Chokwe Coordinating Unit will be used for the distribution of most program commodities. Both of these offices are under the control of the MOA which will be coordinating all commodity distribution.

4. Port Clearances and Inland Transportation

Since the program emphasizes inputs to the Maputo Green Zones and the Chokwe District, the port of Maputo, as well as the roads between Maputo and Durban, Nelspruit and Swaziland are the most likely entry points. There is at present no congestion at the port of Maputo, and the southern road and rail links are functioning close to normal. Imports from Zimbabwe are somewhat more difficult, since the normal route would be by way of the road to Beira which is less convenient to the target area. Service on the direct Maputo-Harare rail link is infrequent.

Import licenses are granted either as a part of the annual plan, or as a result of donor financing. In the latter case, import licenses are virtually automatic. (The Ministry of

Commerce, which issues the licenses receives a copy of all assistance agreements with foreign governments). The Central Bank's role is to put its stamp of approval (based on the foreign donor's financing arrangements) on the import license. This license together with shipping documents and the commercial invoice, are required for clearance. Port clearance, according to importers, is usually effected within ten days. Clearance at the border posts is provisional. Final clearance is granted following customs examination when the goods arrive in Maputo (or Beira, as the case may be).

5. Commodity Arrival and Disposition

Once cleared, goods are inspected by the importer or distributor, and any claims for loss or damage instituted. The placing of claims is in fact the responsibility of the importer, but in practice is usually done by the distributor, with the importer merely signing the claim documents.

No major problems are foreseen in the disposition of the commodities to be financed. Commodities imported by the private sector will be distributed through the dealer network and be retailed by them. Of course, it is quite possible than certain slow moving spare parts will be on hand for more than 12 months, but this is likely to constitute a minimal percentage of the total. Some inputs for the agricultural sector will also be distributed through the relevant dealer networks, but most will be handled by the regional authorities of the MOA in the Maputo Green Zones and Chokwe.

Although shortages may exist in the number of trucks available for hauling agricultural commodities to market, there is apparently adequate excess capacity for backhauling AID financed commodities to the farming areas. Given the extreme shortage in Mozambique of the commodities being financed, no major difficulties are foreseen in the ultimate disposition of these commodities within 12 months.

6. Implementation Schedule

Following the signing of the agreement, an implementation letter will be sent enclosing Commodity Procurement Instructions and sample Financing Requests. With no prior experience in Mozambique it is difficult to tell how long it will take before the Financing Requests and Conditions Precedent will be returned. At any event, an early October TDY by the REDSO/RSO will be called for in order to provide any clarification the Government may require of these documents, as well as to assist the private importers/distributors to prepare the IFB's and related advertising. At the same time, the RSO will prepare the publicity required by section 201.23(b) of AID Regulation One. Presuming that the CP's will have been met and the FR's returned by mid-October, a brief TDY by the RLA may be necessary to approve these documents. At this point the IFB's may be released by the public sector, and the requests for pro formas or purchase orders by the private sector. Given advertising requirements, orders could be placed by mid-December.

The arrival of the first shipment of commodities financed under this agreement (less sophisticated items such as seeds and hand tools, from nearby sources) could arrive by late January. The last shipments under this program will probably not arrive until July or August of next year. Occasional TDY's by the RSO will be required during the year for some of the more important bid openings and to review the progress of implementation. An Implementation Schedule follows:

Commodity Component
Implementation Schedule

Date	Action/Activity	Responsible Office
September 10-20	-Program Review and Approval	-AID/AFR
September 20	-Authorization	-AID/AFR
September 27	-Proags Signed	-AID, GOP and. GPRM
September 27	-Implementation Letter to GPRM	-REDSO/ESA
October 15	-CPs met	-GPRM
October 15-31	-Preparations of Financing Requests	-GPRM
	-Bank Letters of Commitments	-GPRM, AID and Bank of Mozambique
	-IFB and Pro Forma requests	-Import Agents and & RSO
Late November	-PSC hired	-AID/REDSO

Date	Action/Activity	Responsible Office
November 1 - December 31	-Advertising, Negotiations and and Awards	-Procurement Entities (annex F) Suppliers and AID
December 14 - February, 1985	-Order for Commodities	-Importers and Suppliers
January	-Plan for Local Currency Use Completed	-GPRM and AID
January 15 - mid June	-Arrival of Goods -Clearance -Distribution	-Suppliers -Procurement Entities -MOA and Private Distributors
February 1	-First Quarterly Report & Program Meeting	-MOA, Private Distributor and AID
May 1	-CIP Appraisal-Second Quarterly Report	-AID, MOA and Private Distributor
July	-Last of Imported Goods Distributed	-MOA and Private Distributors
July Distributors	-Third Quarterly Report & Program Meeting	-AID, MOA and Private
October Private	-Fourth CIP Quarterly Report & Program Meeting	-AID, MOA and Distributors
January 1985	-Review and Analysis of CIP	-GPRM and AID

B. Technical Assistance and Training Component

1. Responsibilities

The AID officer scheduled to be assigned to Maputo will have chief responsibility for coordinating the activities of the component with the GPRM and ICE. Within the GPRM the yearly workplans and scopes of work and other requirements for specific activities will be submitted to AID through the Bank of Mozambique which will act as the coordinating unit for the Program. When the workplan, including eligibility criteria and specific activities to be funded, has been approved, AID will work with the agencies responsible for implementing each activity. These agencies may include private firms, government-intervened industries, ministries, or other public sector institutions. Both AID and the implementing agency will coordinate activities with the Bank of Mozambique.

ICE will be responsible for coordinating with AID the GPRM the participation of Portuguese firms when the GPRM has decided to use them to provide technical assistance under the program. ICE will also provide administrative and logistic support for Mozambican participants in Portuguese training institutions, and oversight and monitoring of program activities, mostly through their resident representative in Maputo.

Until such time as an AID officer is assigned to Maputo, REDSO/ESA working with the Embassy, will assume project implementation responsibility. Throughout the life of the program, REDSO/ESA and other regional staff will provide support services to the program. In AID/Washington, AFR/PD/SAP will provide program backstopping and implementation support.

2. Procedures

The process by which AID and the GPRM come to agreement on specific technical assistance and training activities starts with the AID eligibility criteria discussed previously in the component description. Based on these criteria, the GPRM will present to AID a life-of-program plan which identifies the general areas of support, priority type of assistance, general terms and arrangements. As a condition precedent to disbursement of funds for activities, the Bank of Mozambique will, in coordination with the implementing agencies, submit for AID approval a detailed yearly workplan identifying specific activities, requirements to implement the activity (scopes of work, feasibility studies, budgets, etc.) and a schedule for activity implementation.

Part of the AID grant will finance partial costs of Portuguese T.A. and training and part of the grant will finance U.S. technical assistance. Depending upon the nature of each position to be filled and the most likely source of available expertise, the Bank of Mozambique and AID will agree either on U.S. or Portuguese recruitment. The Program will maintain flexibility on the split between U.S. and Portuguese T.A. depending upon specific activities to be supported.

In the case of Portuguese T.A., the GPRM will contract either directly with Portuguese firms or through ICE in accordance with AID's host country competitive contracting regulations. Precise contracting arrangements and the contracts themselves must be approved by AID prior to disbursement. For the Portuguese advisors, base salaries will be financed from the GOP contribution while AID funds will top off these salaries to provide sufficient incentives for well qualified technical personnel to work in Mozambique.

For procurement of U.S. technical services, AID will contract directly through a frim or firms to provide consulting services. Support from the REDSO contracting officer will be required to prepare RFTPs and contracts.

3. Waivers

A waiver for the procurement of T.A. and training from U.S. Geographic Code 000 (U.S. only) to 935 (Free World) will be required to allow for procurement in Portugal and other Portuguese-speaking countries.

4. Implementation Plan

The following provides a schedule of major implementation actions for the technical component.

ACTION/ACTIVITY	
Authorization signed for FY 84 program	9/19
Bilateral Grant Agreements with the GPRM negotiated and signed	9/26
Arrival of AID Representative in Maputo	11/15
General plan and detailed first year work plan complete	12/15
Technical assistance contracts signed	2/85
First advisors recruited and arrive	5/85
First evaluation	1/86
Second evaluation	12/87
PACD	9/87

V. LOCAL CURRENCY GENERATIONS

A. Procedures and Use of Funds

All items financed by the Program will be sold to private or cooperative farms with the proceeds accuring to the Government of Mozambique. This local currency will be placed in a special account for allocation to agricultural development activities, especially those that have a high impact on the project's target farmers. Funds will be released from the special account for expenditures mutually agreed upon by AID and the GPRM.

One area that offers much opportunity is the rehabilitation and the construction of markets and packing sheds. This type of activity which would complement the private sector objectives of the Program, will use local currency for the purchase of labor and locally made cement. For many dry-land private farmers, the clearing of bush is a major constraint to expanding land under cultivation. There is land available but the required labor for clearing it is great. Work teams with or without mechanized equipment could be paid to assist in the task. Similarly rural road repair and construction could be financed by the local currency generations.

Some of the funds will be held in the special account for use later to match with future AID or other donor programs that bring in foreign exchange goods. For example training courses could be financed with local currency to instruct farmers on the use of new equipment or additional inputs, such as fertilizer. Training of extension workers and monitors is another possibility. In conjunction with the importation of irrigation equipment by AID, another donor or by the private secor directly, local currency could be used for the labor needed to rehabilitate or construct the irrigation systems. Labor costs for clearing and leveling of land for irrigation on private sector farms would be a priority use in this regard.

B. Pricing of Commodities

In an economy such as that of Mozambique, in which there is a large parallel market and the local currency is over-valued, the question of the pricing of imported commodities is a serious issue. Using the official exchange rate (approximately 42 metacais to the dollar) to set the price based on foreign cost will underestimate the real cost of the imported commodity. However, using the shadow exchange rate (of up to 1600 metacais to the dollar) would be excessive in setting the price of imported commodities and would represent a de facto and unwelcomed recognition by the GPRM of an alternate exchange rate for some commodities. As U.S. assistance would be directed to family and private farmers, it would discriminate negatively against such sectors and discourage purchase of such imports by them. Since farmers' income is constrained by fixed producer prices, it is impossible for many to pay for inputs at some higher shadow price. Some portion, however, of the farm produce is sold on the parallel market, but no measure of the amount or price structure is available. Thus, even fixing a fair shadow price for the AID financed commodities may be impossible.

As other inputs are priced at the official exchange rate and as most prices of agricultural inputs are regulated by the GPRM, the pricing of U.S. assisted commodities for this program will be in accordance with GPRM current policies. For inputs, the price to the consumer will be the imported cost (CIF) converted at the official rate, plus a government fixed mark-up for the agent or distributor. All required taxes will be paid by the consumer.

Although for this program, price controls are accepted as inevitable, the pricing and incentive question must be a critical issue in future program negotiations and policy dialogue in general. The proper price incentives along with monetary reform are prerequisites to self-sustaining economic growth. U.S. assistance programs can only be short term measures to overcome hardship if the right policy matrix is not put in place.

VI. MONITORING, REPORTS AND EVALUATION

A. Commodity Import

Primary responsibility for program monitoring and management will rest with the AID officer who is to be assigned to Maputo in early FY 1985. Service assistance and support will be provided by REDSO/ESA. The Regional Supply Advisor will have substantial work in the first three months of the Program. His responsibilities will include final identification of commodities and amounts to be procured, assistance to import entities in the timely issuance of bid documents, and the establishment of payment procedures. The AID officer will be responsible for monitoring the importation, customs clearance, and distribution process and checking commodity end use. A personal services contract will be signed to assist in monitoring commodity import and distribution, and to survery end-use. The AID officer will also represent the US in the programming of local currency funds generated by the sale of commodities. For the technical cooperation component, the AID officer in Maputo will collaborate with Portuguese and Mozambique officials in the identification of areas in which technical assistance will be programmed, detailing implementation orders for technical services and ensuring the effectiveness of U.S. consultant services being provided.

In addition to the shipping and financial reports required by the standard implementation letter, the Ministry of Agriculture will provide quarterly status reports indicating the progress in distribution of each type of imported commodity from the date of tendering to the date of delivery to end-users. For the commodities distributed in the <u>zonas verdes</u> and Chokwe, the regional authorities keep records on the names of the farmers who bought the imported imputs. The PSC, working with local authorities, will use these records to do a spot check on end use. For the repair of tractors and accessories and the sale of new tractors, the Ministry will provide from the private sector distributors a prospective monthly work plan and a summary of work done during the last month. Each distributor will give receipt and inspection reports, records of claims entered and quarterly sales records identifying area and type of end user. The latter is important because of our intentions 1) to avoid sales to state farms and 2) to minimize sales to farms specializing in export crops. These reports should also help identify and eliminate bottlenecks in distribution. Finally, the reports will show such activities as periodic maintenance visits, technical assistance classes conducted, and other servicing activities provided for the two target areas for the benefit of private sector users.

The Ministry quarterly reports will form the basis of a joint project review to be chaired by the GPRM's project coordinator; the review committee will include the AID officer, officials of GPRM implementing enti ies, and private sector importers. The review will monitor program progress, discuss points contained in the quarterly reports, and recommend action for the next quarter's activities.

The reports of the PSC will highlight project impacts on increased productivity and availability of foodstuffs to Maputo and problems encountered in the implementation of this project. The PSC will work with the AID officer to resolve implementation problems. The PSC reports will also indicate those importation and/or distribution activities foreseen in the next quarter and the planning being undertaken to engage effectively the needed resources to impact or distribute commodities in timely manners.

The second quarter report will form the basis of an appraisal of the import program. It will review procedures and progress in procurement, importation and distribution as well as evaluate the effectiveness in distributing the commodity to the private sector end-users, in terms of receipt by a family or private farmer, utilization of the commodity, and possible impacts on availability of surplus produce. The conclusions drawn here will be used in the design of a possible follow-on CIP.

For the technical cooperation component and after setting out the initial plan, quarterly meetings will be held between the AID officer in Maputo, the GPRM coordinator and a representative of the Instituto de Cooperacao Economica (ICE - Portuguese aid entity.) These meetings will identify areas of mutual cooperation, develop a detailed workplan in each area for the following quarter, and report on progress and problems identified in the previous quarter. As sub-project elements develop, officers from REDSO/ESA or representatives of the Private Enterpirse Bureau (AID/W) may be invited to such reviews.

It is anticipated that an evaluation will be scheduled after completion of CIP activities probably during the sixteenth month of the program. The evaluation will review the impact of the commodity import component and evaluate the technical assistance activities. On a sample basis, private and family farmers will be surveyed to determine the impact of the imputs on their productivity and increased availability of produce for the Maputo market. Such evaluation and survey will be planned and executed by the Personal Services Contractor; $150,000 has been reserved in TA funds for monitoring and evaluation purposes. The evaluation will also review the technical component by analysing effectiveness of consultant or trainees in complying with scopes of work, study plans, and objectives of the technical assistance, and evaluate the effectiveness of the Portuguese assistance in providing for the needs of the program The evaluation team will make recommendations for needed adjustments in project implementation. Evaluation participants will include the AID officer in Maputo, the resources officer and other relevant officers from REDSO/ESA, representatives of the ICE, and GPRM coordinators.

Nine months before the end of the three-year life of program, a second evaluation will examine progress toward reaching the objectives of the program and make recommendations for continued AID assistance in this area.

VII. NEGOTIATING STATUS AND CONDITIONS

A. Negotiating Status

The Minister of Agriculture, the Governor of the Central Bank, and the Secretary of State for International Cooperation have all agreed to the program activity. The program funds will be obligated by two grant agreements: an agreement for technical cooperation with the participation of Portugal and a commodity support agreement.

The bilateral technical cooperation agreement with Mozambique has been accepted by GPRM. A seperate agreement or memorandum of understanding with the GOP is planned as the formal commitment document for Portuguese participation. GOP official at the Instituto de Cooperacao Economica (ICE) have settled on the details of the program with both the U.S. and the GPRM. The GOP contribution over the life of the program will be $400,000.

For commodity import, staff from the Ministry of Agriculture and other relevant GPRM agencies have participated in the selection of commodities and are in agreement with the priorities and approach of the program. Given the urgent need for the commodities financed under the grant for the rehabilitation of private sector agriculture, the team believes that the GPRM will be able to sign the Project Agreement within the short time frame which is available.

The draft Commodity Support Agreement has been prepared and translated into Portuguese for GPRM review. The technical

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cooperation agreement is being drafted. Upon notice of authorization from AID/W, REDSO/ESA will negotiate and sign the agreement with the assistance of the Embassy in Maputo. An ICE representative is expected to sign for his government.

B. Conditions and Covenants

Only the standard condition precedents will be included in the Agricultural Sector Import Program Agreement. However, the GPRM will covenant that the commodities imported under the agreement will be sold exclusively within the Mozambique private sector, primarily to commercial and family farmers.

For the technical assistance grant, a general program plan and detailed yearly workplan will be required as a condition precedent to disbursement of funds for each year's activities. Also, the Grant Agreement will include a covenant stating that when appropriate, the GPRM will provide qualified counterpart personnel to work with advisors funded under the program.

MOZAMBIQUE FY 1984

COMMODITY SUPPORT PROGRAM

Annex A

	GREEN BELT	CHOKWE	TOTAL UNITS	ESTIMATED TOTAL PRICE	
1. TRACTORS AND IMPLEMENTS					
A. Repair of tractors and implements				$735,000	735,000
B. New tractors 65 HP diesel-3 point Hitch	35	35	70 units	$756,000	
C. Implements					
1) Plows	50	35	85 units	$140,250	
2) Disc Harrows - 2 gang	30	35	85 units	$153,000	
3) Seeders 2-3 raw	50	35	85 units	$195,500	
4) Cultivators and tool bar	30	35	85 units	$255,000	
5) Land planes	-	10	10 units	$ 30,000	
6) Ditch diggers	1	1	1 unit	$ 8,000	1,537,750
2. WATER PUMPS AND IRRIGATION PIPE					
A. Diesel engine and pump 60 HP	10	15	25 units	$200,000	
B. Electric motor and pump 15 HP	5	-	5 units	$ 32,500	
C. Pipe 3"&6"x20 aluminum	4-5	715	1120 units	$132,000	
D. Sprinklers and stand pipes (3')	300(est)	-	300 units	$ 23,520	
E. Elbows and end plugs	150(est)	150(est)	300 units	$ 2,100	
F. Diesel motor (14 HP) and pump	10 units	-	10 units	$ 5,000	
G. 3/4" plastic hose 100' lengths brass couplings	-	-	500 units	$ 5,000	400,120

3. ANIMAL TRACTION IMPLEMENTS

Plows	-	500	500 units	$ 22,800	
Harrows	-	500	500 units	$ 37,200	
Cultivators	-	500	500 units	$ 33,600	93,600

4. SEEDS - VEGETABLES

Onion	650 Kg	165 Kg	815 Kg	$ 14,750	
Tomatoes	550 Kg	90 Kg	640 Kg	$ 21,500	
Squash	1000 Kg	-	1000 Kg	$ 11,520	
Kale (Portuguese-Tronchuda)	500 Kg	-	500 Kg	$ 4,830	
Kale (Common)	500 Kg	-	500 Kg	$ 4,830	
Lettuce	500 Kg	-	500 Kg	$ 1,200	
Green Beans	500 Kg	-	500 Kg	$ 900	
Carrots	235 Kg	-	235 Kg	$ 5,820	
Bell Peppers	100 Kg	-	100 Kg	$ 2,400	
String Beans	150 Kg	-	80 Kg	$ 2,700	
Turnips	30 Kg	-	100 Kg	$ 360	
Beets	100 Kg	-	50 Kg	$ 2,800	
Radish	50 Kg	-	50 Kg	$ 600	
Cabbage	200 Kg	-	200 Kg	$ 1,932	
Beans (Nhemba)	200,000 Kg	-	200,000 Kg	$ 200,000	
Butter Beans	130,000 Kg	3 tons	130,000 Kg	$ 130,000	
Various	-	-	3 tons	$ 190,000	596,142

5. HAND TOOLS

Hoes	20,000	8,000	28,000	$ 112,000	
Axes (hand)	5,000	4,000	9,000	$ 63,000	
Cutlasses	10,000	4,000	14,000	$ 140,000	
Shovels	10,000	4,000	14,000	$ 40,000	
Rakes	10,000	-	10,000	$ 40,000	
Spading forks	-	4,000	4,000	$ 32,000	
Sickles	-	4,000	4,000	$ 12,000	
Hammers	1,000	2,000	3,000	$ 24,000	
Prunning Knives	500	4,000	4,500	$ 18,000	
Files	-	4,000	4,000	$ 16,000	
Tape Measures (20 Mt)	500	1,000	1,500	$ 22,500	519,500

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6. **FERTILIZERS**					
Urea	600	-	600 tons	$ 75,000	
Triple super Phosphate	600	275	300 tons	$ 75,000	
NPK (15-30-15)	600	800	1400 tons	$ 245,000	
Ammunium Sulfate	100	-	100 tons	$ 12,500	407,500
7. **SPRAYERS**					
60 HP. Sprayers (400 gal. tank)	5	15 units	20 units	$ 200,000	
Backpack (4 gal.)	100	300 units	400 units	$ 40,000	
Power take off-200 gal. tank	-	15	15 units	$ 15,000	255,000
8. **TRUCKS**					
8 ton	5	10	15 units	$ 600,000	
2.5 ton	5	10	15 units	$ 300,000	900,000
9. **OTHER**					
A. Corn Shellers (1 ton/Hr)	50 units	-	50	$ 50,000	
B. Seed Cleaner	50 units	-	50	$ 20,000	70,000
			Sub Total		5,514,612
PRIORITY 2:					
Urea			2500 tons	$ 562,500	
TSP			1500 tons	$ 525,000	
NPK (15-30-15)			3500 tons	$ 962,500	- 407,500
					1,642,500
PRIORITY 3:					
Corn Seeds			200 tons	$ 200,000	
Peanut Seeds			600 tons	$ 720,000	
Cowpeas			200 tons	$ 200,000	
					1,120,000
			Grand Total		8,277,112

Table I. Mozambique: Structure of General Government Budget Revenue and Expenditure, 1979-83 1/

(In billions of meticais)

	1979	1980	1981	1982	1983 Prel.
Total revenue	13.5	17.4	20.8	24.0	25.7
Tax receipts	9.7	12.1	12.8	15.4	16.0
Direct taxes	3.0	3.8	4.2	6.3	6.7
Company tax	(2.0)	(2.7)	(3.0)	(4.7)	(5.0)
Personal tax	(1.0)	(1.1)	(1.2)	(1.6)	(1.7)
Indirect taxes	6.7	8.3	8.6	9.1	9.3
Consumption tax	(4.0)	(4.8)	(5.3)	(5.9)	(5.9)
Customs duties	(2.0)	(2.8)	(2.5)	(2.1)	(2.4)
Various taxes	(0.6)	(0.6)	(0.7)	(1.1)	(1.0)
Other receipts	3.8	5.3	8.0	8.6	9.7
Grants 2/	1.7	2.1	2.0	2.5	3.1
Transfers from state enterprises	0.1	0.6	3.2	3.0	3.0
Transfers from central bank 3/	0.5	0.5	0.5	0.5	0.5
Rents from state-owned land and real estate 4/	0.6	1.1	1.2	1.3	1.4
Miscellaneous fees	0.9	1.0	1.1	1.3	1.7
Total expenditure	19.5	24.0	31.3	33.8	31.5
Current expenditure 5/	10.7	14.1	17.3	19.5	21.3
Of which: defense and security	(3.8)	(4.4)	(5.7)	(6.9)	(8.3)
education and health	(...)	(...)	(...)	(...)	(5.9)
Capital expenditure	8.8	9.9	14.0	14.3	10.2
Agriculture	1.1	2.3	4.2	4.8	2.6
Industry and energy	0.6	1.2	3.3	3.5	2.8
Transport and communications	0.2	0.2	0.3	0.5	1.0
Construction	5.5	3.3	3.3	2.4	2.0
Education and health	0.2	0.6	0.5	[illegible]	0.2
Other	1.2	2.4	2.4	2.6	1.7

Sources: Data provided by the Mozambican authorities.

1/ Includes Central Government and provincial and district governments; all figures are on a cash basis.

2/ Estimated; includes actual food aid, most of which is grants, and an estimated Mt. 1 billion per year in other grants.

3/ Profits of the Bank of Mozambique, excluding proceeds of state-owned gold sales, which are considered a financing item.

4/ According to the Constitution, all land is state property.

5/ Includes for 1982 and 1983 an unknown small amount of amortization payments on external debt, which should be included in financing. Until 1981, grace periods on debt contracted were such that the entirety of debt service [illegible]

Table II. Mozambique: Balance of Payments with Countries Having Centrally Planned Economies, 1978-83

(In billions of meticais)

	1978	1979	1980	1981	1982	1983
Trade balance	-1.55	-2.24	-2.33	-1.54	-5.33	-3.46
Exports, f.o.b.	0.19	0.77	0.89	2.04	1.15	0.92
Imports, f.o.b.	-1.74	-3.01	-3.22	-3.58	-6.48	-4.38
Services (net) 1/	-0.19	-0.33	-0.37	-0.34	-0.68	-0.47
Current account	-1.74	-2.57	-2.70	-1.88	-6.01	-3.93
Grants	--	--	--	0.30	0.30	0.62
Capital account 2/	1.74	2.57	2.70	1.58	5.71	3.31

Source: Bank of Mozambique.

1/ Excluding interest.
2/ Including interest.

Table III. Mozambique: Balance of Payments Excluding Transactions with Centrally Planned Economies, 1978-83

(In billions of meticais)

	1978	1979	1980	1981	1982	1983
Trade balance	-8.59	-6.19	-11.91	-14.03	-14.43	-14.27
Exports, f.o.b.	5.14	7.53	8.20	7.88	7.50	4.38
Imports, f.o.b.	-13.37	-13.72	-20.11	-21.91	-21.93	-18.65
Services (net)	1.40	0.37	0.90	-0.52	-1.32	0.43
Receipts	5.29	4.27	5.41	6.05	6.24	6.43
Transportation	2.68	2.20	3.00	2.90	3.15	2.67
Workers' remittances	1.06	1.52	1.73	2.28	2.33	2.89
Other	1.55	0.55	0.68	0.87	0.76	0.87
Expenditures	-3.89	-3.90	-4.51	-6.57	-7.56	-6.00
Freight and insurance	-1.53	-1.52	-2.23	-2.43	-2.44	-2.07
Other transportation	...	...	-0.83	-0.97	-1.07	-1.32
Workers' remittances	...	...	-0.82	-1.04	-0.89	-0.80
Interest	...	...	-0.20	-1.27	-2.28	-1.02
Short-term	...	...	...	...	...	(-0.20)
Long-term	...	...	...	...	...	(-0.82)
Other	...	...	-0.43	-0.86	-0.88	-0.79
Current account	-7.19	-5.82	-11.01	-14.55	-15.75	-13.84
Grants 1/	1.77	2.16	1.81	1.73	2.70	2.98
Capital account	2.23	2.76	8.66	12.88	9.22	10.47
Receipts	...	...	13.16	23.81	21.66	14.82
Short-term	...	...	...	...	...	4.04
Medium- and long-term	...	...	...	...	...	10.78
Amortization	...	...	-4.50	-10.93	-12.44	-4.35
Short-term	...	...	...	...	...	(-2.49)
Long-term	...	...	...	...	...	(-1.86)
Errors and omissions	-0.48	-0.34	-0.51	-0.85	-0.61	-0.50
Reserve movements (increase -)	3.67	1.24	1.05	0.79	4.44	0.89

Source: Bank of Mozambique.

1/ Mainly official grants but includes small amounts of private donations.

Table IV. Mozambique: Commodity Composition of Exports, 1978-84

(In thousands of metric tons and millions of meticais)

	1978		1979		1980		1981		1982		1983		1984 1/	
	Q	V	Q	V	Q	V	Q	V	Q	V	Q	V	Q	V
Shrimp	3.3	532.2	3.8	753.1	5.0	1,029.3	7.6	1,852.0	5.9	1,454.3	4.8	1,253.5	6.1	1,919.3
Petroleum products	--	798.7	--	1,111.2	--	2,055.0	--	1,848.0	--	1,420.9	--	876.0	--	1,000.0
Cotton	12.8	434.8	16.1	760.7	5.7	266.5	15.0	881.0	13.7	652.9	13.2	684.2	4.0	224.0
Cashew nuts	18.4	1,437.8	17.1	1,445.5	15.6	2,101.6	12.2	1,890.0	16.7	1,646.2	5.8	647.1	6.0	804.0
Tea	13.5	407.5	23.3	680.1	30.0	938.0	16.0	502.0	25.1	969.8	13.3	591.2	9.0	432.0
Sugar	24.6	182.0	118.7	951.7	63.8	797.0	63.1	888.0	28.5	331.8	25.0	346.4	28.0	383.6
Cement	185.0	210.9	121.8	146.7	99.6	130.2	63.3	109.0	68.4	120.9	--	--	...	...
Copra	34.4	416.6	29.1	580.8	19.4	297.3	12.2	173.0	12.2	111.4	6.0	86.8	...	...
Citrus	11.8	40.0	16.3	68.2	14.0	83.8	16.5	170.0	11.6	100.0	8.0	79.7	...	...
Tantalum pentoxide	48.2	44.1	103.0	205.7	44.0	163.7	27.7	140.0	12.3	34.0	39.8	69.4	...	...
Sisal	11.3	137.3	14.0	197.4	7.0	129.1	5.8	103.0	5.7	100.1	2.5	37.9	...	...
Timber	30.9	152.8	25.4	206.4	20.7	186.6	23.6	260.0	11.4	123.7	1.6	24.4	7.0	86.8
Coal	38.8	41.3	152.2	157.7	98.5	121.7	236.4	344.0	108.4	157.9	17.3	22.4	...	...
Molasses	52.3	64.8	64.9	175.9	42.5	114.9	49.4	151.0	33.1	64.4	10.5	16.0	...	...
CNSL 2/	7.9	181.0	6.3	267.7	2.0	60.3	4.8	65.0	7.1	32.9	3.0	14.8	...	...
Copra oil	1.9	40.5	3.1	84.3	3.6	88.1	4.8	94.6	2.5	44.7	--	--	...	...
Clinker	18.1	11.2	34.7	29.4	26.0	21.2	27.6	27.0	32.6	35.6	--	--	...	...
Other	--	300.8	--	488.3	--	512.7	--	428.4	--	1,253.2	--	536.8 3/	--	...
Total		5,344.3		8,310.8		9,097.0		9,926.0		8,655.3		5,286.6		5,746.1

Source: Bank of Mozambique.

1/ Projection.
2/ Cashew nut shell liquid.
3/ Includes cement and clinker.

APPENDIX B

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Table V. Mozambique: Commodity Composition of Imports, 1978-83

(In millions of meticais)

	1978	1979	1980	1981	1982	1983
Consumer goods	4,907.4	4,798.3	6,590.6	6,303.5	6,325.1	7,300.0
Food	2,716.7	2,589.7	3,499.5	4,043.6	4,369.5	5,700.0
Others	2,190.7	2,208.6	3,091.1	2,259.9	1,992.6	1,600.0
Raw materials	7,055.3	8,009.0	12,552.7	12,975.6	14,292.2	8,589.3
Chemicals	1,774.2	1,836.4	2,054.0	2,545.9	2,955.4	1,443.0
Metal products	1,116.7	525.7	1,507.1	1,851.7	1,119.8	1,264.1
Crude oil	2,840.2	1,470.2	7,105.3	5,906.0	8,043.9	3,692.5
Electricity	--	--	30.0	189.0	296.0	360.0
Others	1,324.2	2,076.7	1,856.3	2,483.0	1,877.0	1,829.7
Spare parts	1,976.8	1,634.1	1,837.8	3,689.9	4,060.9	3,942.7
Equipment	3,259.0	4,133.9	4,941.1	5,348.6	6,858.5	5,740.6
Total	17,198.5	18,575.3	25,922.2	28,317.6	31,573.7	25,572.2

Source: Bank of Mozambique.

Table VI. Mozambique: Imports by Country of Origin, 1978-82

(In percent)

	1978	1979	1980	1981	1982
OECD	47.0	41.2	36.4	43.7	39.1
France	5.1	4.1	4.2	10.7	7.8
Portugal	6.8	4.7	4.5	4.6	6.1
Germany, Fed. Rep.	7.1	4.9	3.0	2.8	3.6
Italy	1.7	1.8	4.3	4.4	3.6
United Kingdom	5.1	5.4	2.6	3.5	2.7
United States	2.6	3.6	3.7	2.5	2.4
Japan	6.5	1.8	3.2	3.1	2.3
Others	12.0	14.9	11.0	12.2	11.2
Centrally planned economies	11.2	18.0	13.8	14.1	19.5
Germany, Dem. Rep.	3.7	9.5	6.5	6.4	9.6
Soviet Union	--	0.9	1.9	1.8	4.3
Others	7.5	7.5	5.4	5.8	5.5
Other countries	41.8	40.9	49.8	42.2	41.4
Total imports	100.0	100.0	100.0	100.0	100.0
In millions of meticais	17,198.5	18,575.3	25,922.3	28,317.6	31,573.7

Source: Bank of Mozambique.

Table VII. Mozambique: Exports by Country of Destination, 1978-83

(In percent)

	1978	1979	1980	1981	1982	1983
OECD	68.4	70.5	55.9	52.1	39.9	52.5
United States	23.3	23.5	23.6	17.3	15.8	14.2
Spain	1.8	1.7	4.5	8.3	7.7	13.1
Japan	6.3	6.0	4.2	7.5	5.9	6.5
Portugal	12.6	14.5	4.0	5.3	4.1	6.5
United Kingdom	7.9	6.3	4.5	2.0	1.2	4.3
Netherlands	3.7	8.4	9.2	7.4	1.2	3.1
Others	12.8	9.9	5.8	4.2	4.1	5.2
Centrally planned economies	3.7	9.3	9.8	20.6	13.3	17.5
Germany, Dem.Rep.	2.3	8.1	9.4	13.7	9.2	10.6
Soviet Union	0.7	1.1	0.3	3.3	0.1	0.3
Others	0.6	0.1	0.1	3.5	4.0	6.5
Other countries	27.9	20.2	34.3	27.4	46.8	30.1
Total exports	100.0	100.0	100.0	100.0	100.0	100.0
In millions of meticais	5,344.3	8,310.8	9,097.0	9,926.0	8,655.3	5,286.6

Source: Bank of Mozambique.

Table VIII. Mozambique: Average Exchange Rates, 1968-83

(Meticais per U.S. dollar)

1968	28.77
1969	28.65
1970	28.75
1971	27.56
1972	27.00
1973	25.85
1974	25.00
1975	27.24
1976	31.41
1977	32.22
1978	32.88
1979	32.71
1980	32.40
1981	35.35
1982	37.77
1983	40.18

Source: Bank of Mozambique.

Table IX. Producer Price Change for Selected Vegetables and Fruits May, 1983 to July, 1984

Item	Price, May 1983 Hot/Cool Season	Price, July 1984 Cool Season
Sweet Potato	N/A	20,00
Cassava	5,50	20,00
Onion (bulb)	12,00/8,00	20,00
Onion (green stem)	8,00	30,00
Tomato	20,00/7,50	25,00
Kale (Portuguese)	22,50/10,00	25,00
Cabbage	20,00/7,00	25,00
Squash	3,50	15,00
Eggplant	7,00/5,00	20,00
Bill Pepper	15,00/14,00	30,00
Carrots	17,50/12,50	30,00
Cauliflower	20,00/12,50	35,00
Lettuce	25,00/10,00	20,00
Orange	5,30	15,00
Grapefruit	3,00	15,00
Lemon	5,30	15,00
Pineapple	8,00	20,00

NB: Latest indication (as of July 28, 1984(are that the hot season prices will be decontrolled. Ninety percent (90%) of vegetable sales are estimated to take place during "Cool Season."

Annex D

WAIVERS
for

1. Code 941 Procurement for Program
2. Negotiated Vehicle Procurement from 935 Sources
3. Negotiated Procurement for Tractors and Related Equipment
4. Procurement of Spare Parts for Tractors and Tractor Implements in the U.K.
5. Code 935 for Technical Assistance and Training Procurement

ACTION MEMORANDUM FOR THE ADMINISTRATOR

PROBLEM: Your approval is requested for a blanket waiver from code 000 (U.S. only) to 941 (Selected Free World) to allow procurement of selected commodities from nearby African and Asia sources.

a)	Cooperating Country:	Mozambique
b)	Authorization Document:	Program Agreement
c)	Program:	Private Sector Rehabilitation
d)	Nature of Funding:	Grant 656-0201
e)	Description of Commodites:	Equipment, handtools, Seeds, etc. for use on private farms (See Annex A)
f)	Approximate Value:	$up to 6 million
g)	Probable Source:	Zimbabwe, Kenya, Brazil, Malawi, India (Code 941)
h)	Probable Origin:	Same

DISCUSSION: USAID is initiating an Agricultural Sector program grant for Mozambique. This will be essentially a Commodity Import Program, with procurements being effected under the rules of AID Regulation One. According to Handbook 1, Supplement B Section 5A1d, the eligible source for all grants, except those to countries on the U.N. list of relatively least developed countries, is Code 000 (The United States). Mozambique is not on the U.N. list.

JUSTIFICATION: The World Bank's Development Report for 1982 (The last year for which these data for Mozambique are shown) shows Mozambique's per capita GNP at $230.00, placing it 18th among the World's 33 poorest countries. Overall GNP has suffered a decline since then. Years of drought and civil insurgency have placed a high degree of urgency on the commodities to be financed under this program. Many of these (hand tools, animal drawn farming implements etc.) are not widely available in the U.S. but can be readily purchased in nearby East African countries. One of the goals of this program is to supply the necessary commodities to the target areas prior to the February-March 1985 planting season. This can only be done if source origin eligibility for commodities is expanded to Code 941. In other cases, involving equipment (tractors, pump sets, tractor drawn implements etc.) U.S. products are not adequately represented in Mozambique. Since these items require after sales maintenance and repair the alternative is to write individual waivers based on the unavailability (i.e. lack of adequate spares and maintenance facilities) of U.S. sourced commodities. A blanket waive would obviate this necessity, increase competition, and also support private sector manufacturers in Zimbabwe and Kenya, which is among the objectives of our programs in those countries.

A waiver of source origin requirements to permit procurement in Code 941 countries is justified by the criteria set forth for such waivers in Section 5B4 of Handbook 1B:(1). There is an emergency requirement for which non-AID funds are not available, and the requirement can be met in the time only from suppliers in a country or area not included in the authorized geographic code (2). The commodity is not available from countries or areas included in the authorized geographic code and (5) persuasive political consideration (i.e. promotion of inter-African trade).

<u>RECOMMENDATION</u>: That, based on the discussion and justification set forth, that you waive the requirement to purchase the required commodities in Code 000 (U.S. only) to permit procurement in countries included in Geographic Code 941.

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR: AFRICA

PROBLEM: Your approval is required to permit the procurement of farm to market trucks by competitive negotiated (informal) procurement rather than formal competitive procurement, to waive the source origin requirements from AID Geographic Code 000 to Geographic Code 935 (Special Free World) and to waive the source/origin requirements of Section 636; of the FAA.

a)	Cooperating Country:	Mozambique
b)	Authorization Document:	Program Agreement
c)	Program:	Private Sector Rehabilitation
d)	Nature of Funding:	Grant 656-0201
e)	Description of Commodites:	15 8 ton trucks + 10% spares 15 2 1/2 trucks + 10% spares
f)	Approximate Value:	$900,000
g)	Probable Source:	Sweden, The Netherlands, U.K., Germany or France (Code 935)
h)	Probable Origin:	Same

DISCUSSION: USAID is initiating an agricultural sector program grant for Mozambique. This will be essentially a Commodity Import Program, with procurements being effected under the rules of AID Regulation One. One of the objectives is to provide farm to market trucks to private operators to facilitate the distribution of agricultural produce to Maputo. During the visit of the program design team to Mozambique, it was determined that there are only eight makes (Scania, Volvo, Leyland, DAF, Ford, Bedford, Mercedes, Renault) that can be adequately serviced and maintained in Mozambique. It was therefore decided that it would be preferable to limit the competition for the supply of new trucks and spares to these eight suppliers, rather than run the risk of financing trucks that could not be serviced in Mozambique. The request for quotations would be released by the import-export parastatal, Intermecano, and would incorporate the requirements of AID Regulation One for negotiated procurement.

None of the trucks now being imported or in circulation in Mozambique are of U.S. origin. Although one make of truck is available from Zimbabwe, it is not clear whether this meets componentry rules. In addition, traffic in Mozambique moves on the left and trucks with right hand drive are required. Such trucks are not produced in the U.S. in the required size range.

<u>JUSTIFICATION</u>: According to Section 3B3d of Handbook 15 the requirement to use formal competitive procurement procedures set forth in Section 201.22 of AID Regulation One may be waived in favor of the procedures in Section 201.23 when the number of potential suppliers or the nature of the product are such that adequate solicitation of the market and maximum available competition can better be obtained without the use of formal competitive bidding. This is the situation with regard to the purchase of trucks in Mozambique. According to Section 5B4 of Handbook One, Supplement B, a waiver of the authorized geographic code may be granted when the commodity is not available from countries or areas included in the authorized Geographic Code. This is the case with regard to trucks both of U.S. and other 941 source/origin.

<u>RECOMMENDATION</u>: Based on the above discussion, that you certify (1) that exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S.

foreign policy objectives and objectives of the foreign assistance program and (2) that special circumstances exist which justify waiver of the requirements of Section 636(i) of the Foreign Assistance Act of 1961, as amended. Further, that you waive the requirement to use formal competitive bidding and authorize the use of competitive negotiated procurement as discribed in Section 201.23 of AID Regulation One.

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR, AFRICA

PROBLEM: Your approval is required to permit the procurement of tractors and tractor implements by competitive negotiated (informal) procurement rather than formal competitive procurement.

a)	Cooperating Country	Mozambique
b)	Authorizing Document	Program Agreement
c)	Project	Private Sector Rehabilitation
d)	Nature of Funding	Grant 656-0201
e)	Description of Commodities	Tractors, Tractor Implements, and 10% spares
f)	Approximate value	$1,537,750
g)	Probable Source	Brazil (Code 941)
h)	Probable Origin	Brazil (Code 941)

DISCUSSION: AID is initiating an agricultural sector program grant for Mozambique. This will be essentially a Commodity Import Program, with procurements being effected under the rules of AID Regulation One. One of the objectives is to provide tractors and tractor-drawn implements to increase agricultural production in the target areas. During the visit of the program design team to Mozambique, it was determined that there are only two makes (Ford and Massey Ferguson) of tractors that can be adequately service and maintained in Mozambique. It was therefore decided that it is preferable to limit the competition for the supply of new tractors and implements to these two suppliers, rather than run the risk of financing tractors that could not be serviced in Mozambique. Both makes of tractors, as well as implements, are available from Brazil (Code 941). The Request for Quotations would be released by the import-export parastatal, Intermecano, and would incorporate the requirements of AID Regulation One for negotiated procurement.

JUSTIFICATION: According to Section 3B3d of Handbook 15, the requirement to use the formal competitive procurement procedures set forth in Section 201,22 of AID Regulation One may be waived in favor of the procedures in Section 201.23 wher the number of potential suppliers or the nature of the product are such that adequate solicitation of the market and maximum available competition can better be obtained without the use oi formal competitive bidding. This is the situation with regard to the supply of tractors in Mozambique.

RECOMMENDATON: That, based on the above discussion and justification, you waive the requirement to use formal competitive bidding and authorize the use of competitive negotiated procurement as described in Section 201.23 of AID Regulation One.

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR, AFRICA

PROBLEM: Your approval is required for a waiver to permit the financing of the spare parts orginating in the U.K. and required to rehabilitate tractors and tractor drawn implements.

a)	Cooperating Country:	Mozambique
b)	Authorization Document:	Program Agreement
c)	Program:	Private Sector Rehabilitation
d)	Nature of Funding:	Grant 656-0201
e)	Description of Commodites:	Spare parts for agricultural tractors and tractor drawn implements
f)	Approximate Value:	$735,000
g)	Probable Source:	U.K. (Code 935)
h)	Probable Origin:	Same

DISCUSSION: USAID is initiating an agricultural sector program grant for Mozambique. This will be essentially a Commodity Import Program, with procurements being effected under the rules of AID Regulation One. One of the immediate objective of the program is to rehabilitate tractors and tractor equipment already located in the target areas. These tractors are either not running or malfunctioning because of the lack of spares. The total number of tractors to benefit from this program is estimated at 270 (80 Ford, 190 Massey Ferguson)*. Virtually

*Note: Other American brands imported by Mozambique in the past include John Deere and International Harvester. However, the distributor indicates that this equipment is too old to be worth inclusion in the spare parts program.

all of this equipment has been imported from the U.K. with a small amount from Brazil. Even though some of the parts may be interchangeable with parts from the U.S., it is clear that U.S. parts account for considerably less than 50% of the total requirements.

JUSTIFICATION: According to Handbook One, Supplement B, Section 4. A waiver of the authorized geographic code may be granted when the commodity is not available from countries or areas included in the authorized geographic code. This is the case with spare parts for agricultural tractors and tractor drawn implements.

RECOMMENDATION: That, based on the above discussion and justification, you certify that exclusion of procurement from Free World countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program, and waive the source/origin requirements for spare parts from Code 000 (U.S. only) to Code 935 (Special Free World).

ANNEX F

PROCUREMENT PROCEDURES

ITEM	IMPORTER	DISTRIBUTOR	SOURCE	COMMITMENT	FINANCING	NOTES
1. Tractor Parts	Technica Industria Entreposta	Technica Industria Entreposta	935	Allocation	L/C	
2. Tractors; Implements	Intermecano	Technia Industria Entreposta	941	RFP (2 brands)	L/C	
3. Irrigation Pumps & Pipes	As awarded	As Awarded	941	IFB	L/C	
4. Seeds	Interquimica (INIA Inspects)	MOA	000*	IFB	L/Comm	
5. Fertilizers	Interquimica	MOA	000	IFB	L/Comm	MOA means both
6. Hand Tools	Tradimex	MOA	941	IFB	L/C	Gabinete das ZV de Maputo and
7. Trucks	Intermecano	MOA	935	RFP (8 brands)	L/C	Organ Coordinador de Chokwe
8. Sprayers	Intermecano	MOA	941	IFB	L/C	
9. Ox Drawn Farm Implements	Intermecano	MOA	941	IFB	L/C	

*941 source likely for bean and corn seeds

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OTHER DONOR SUPPORT TO MAPUTO GREEN ZONES

ANNEX G

ORGANIZAÇÃO	NOME DO PROJECTO	OBJECTIVOS	VALOR	DESTINO	OBSERVAÇÕES
1. Embaixada de Holanda	Tracção Animal	Equipamento de tracção	400.000 MT.	Coop. Z.Verdes	Realizado 1981
2. Embaixada de Holanda	Pulverizadores e sementes	Apoio a compra de pulverizadores:	5.500 Rds	" " "	Realizado 1981
3. Embaixada de Holanda e NOVIB	Creches	Apoio a construção de 2 Creches	20.000 Rds	Mahotas, Coop.	Realizado 1982
4. Embaixada de Holanda	Balanças	Compra de balanças Apoio a comercialização	5.200 "	Coop.Z.Verdes	Realizado 1982
5. Embaixada de Holanda	Electro-bombas	Compra de 4 electrobombas	5.200 "	" " "	Realizado 1983
6. Embaixada de Holanda	5 motorizadas	Apoio a compra de motorizadas para os supervisores.	5.500 "	" " "	Realizado 1983
7. Embaixada de Holanda	Aspersores	Apoio a irrigação	5.200 Rds	Coop.Z.Verdes	Realizado 1983
8. Caisse Central	Apoio ao G.Z.V em Hidráulica Agrícola	Drenagem do Vale de Mahotas, Laulane a Costa do Sol. Recuperação das infraestruturas de rega.	36.000.000FF	Mahotas Laulana, Costa do Sol.	Aprovado.

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O R G A N I Z A Ç Ã O	NOME DO PROJECTO	OBJECTIVOS	VALOR	DESTINO	OBSERVAÇÕES
9. CARITAS MOÇAMBICANA	Apoio à Agricultura	Compra de Equipamento	80.000 US$	Cooperativas	Realizado 81
10. CARITAS MOÇAMBICANA	Apoio à Comercialização	Compra de 2 carros	24.000 Rds	"	" 82
11. FEDERAÇÃO LUTERANA	Medicamentos para Suínos	Compra de medicamentos não existentes no país.	3.500 Rds	"	" 82
12. CARITAS CEBENO	Desenvolvimento pecuário	Apoio ao desenvolvimento pecuário	130.000 US$	"	" 82
13. W.F.D. ALEMANHA	Moinhos de vento	Compra e reparação de moinhos de vento	17.000 US$	Mahotas-Coop. Che Guevara	" 83
14. FEDERAÇÃO LUTERANA	Machambas das Uniões das Cooperativas.	Diminuir a fome em Maputo, Sector Cooperativo através da produção de cereais	20.000 US$	Cooperativas	" 83
15. TERRE DES HOMMES (Suíça)	Material para as Creches	Compra de material existentes no país para as creches	30.000 US$	Cooperativas	" 83
16 CARITAS MOÇAMBICANA	Moínhos de vento	Melhorar as condições de água nas cooperat.	5.500 Rds	"	" 83
17. CARITAS MOÇAMBICANA	Centro de Formação das Mahotas	Apoio à formação de Cooperativistas	34.000 US$	Cooperativas Mahotas	Em execução Início 83

O R G A N I Z A Ç Ã O	NOME DO PROJECTO	OBJECTIVOS	VALOR	DESTINO	OBSERVAÇÕES
18. CARITAS MOÇAMBICANA	Electrificação das Mahotas e Apoio à Agricultura	Electrificação da área das Mahotas e Compra de Equipamento para a Agricultura	184.000 US$	Mahotas a outras Cooperat.	Em execução Iniciou 84
19. NORAD	Compra de botas	Melhorar as condições das mulheres que trabalham nas pocilgas	10.000 Rds	Cooperativ	Realizado83
20. OXFAM - AMERICA	Moínhos de vento	Apoiar a irrigação nas Cooperativas	30.000 US$	Cooperativ	Realiz. 83
21. CARITAS MOÇAMBICANA	Oficina móvel	Apoiar as reparações de motores, carros, tractores e moínhos de vento	30.000 US$	Cooperativ	Aprovado. Ainda n/está em execução
22. A.A.F.M.	Apoio à Casa Agrária da Catembe	Melhoramento das técnicas culturais a introdução de actividades artesanais e complementares.	71.500 US$	Catembe	Em execução
23. NORAD	Aquisição de 10 balanças centesimais	Apoio à comercialização nas Uniões	15.000 US$	Cooperat.	Aprovado

O R G A N I Z A Ç Ã O	NOME DO PROJECTO	O B J E C T I V O S	VALOR	DESTINO	OBSERVAÇÕES
25. NORAD	Aquisição de 11 motorizadas	Apoio aos responsáveis para supervisão do controle do plano	7.600 US$	Cooperat.	Aprovado
26. UNICEF	As mulheres nas cooperativas agrícolas	Melhorar as condições de trabalho das mulheres nas cooperativas agrícolas.	270.000 US$	"	Colaboração com a O.M.M. e Cultura execução
27. CEBEMO	Construção de centros infantis	Estimular a mulher a uma melhor participação nas Cooperativas.	50.000 US$	Coop.	Em execução
28. TERRE DES HOMMES (Suíça)	4 Projectos de apoio à Catembe	Aumentada produção. Compra de equipamento e melhorar as condições de vida das crianças	70.500 US$	Coop.	Aprovada

Annex H

Portuguese Institute for Economic Cooperation (ICE)

The Institute for Economic Cooperation, ICE, was created in 1976 by the Government of Portugal as a public sector agency under the joint tutelage of the Ministers of Foreign Affairs and Finance. ICE is responsible for coordinating economic assistance to Portugal's former colonies through bilateral and multilateral channels. It has provided training, T.A., and equipment for a variety of sectors and on occasion, emergency food and medical supplies.

ICE is governed by a Board of Directors consisting of the President of ICE and two members, representatives from the Ministry of Foreign Affairs and the Ministry of Finance. The Board is responsible for all policy and budget decisions. Two councils, an adminstrative council and a consulting council for economic cooperation, serve as working committees to advise the Board on major decisions. They meet regularly and consist of representatives from several private and public sector entities involved in technical cooperation with ex-Portuguese colonies.

ICE has a staff of about 70 of which about 15 are technical professionals, the rest being mostly support staff, administrators, accountants, secretarial and other clerical personnel. The technical professsional staff of ICE is frequently supplemented, however, by receiving professionals on detail from other GOP agencies. The duration of the detail is usually short-term. ICE's staff are mostly graduates of five-year university programs (Licenciaturas, equivalent to a B.A.) in economics, law, or accounting.

In 1985 ICE plans to place resident staff in Angola, Mozambique, and Guinea Bissau. Until now ICE has worked through the GOP's embassies in the respective host countries and ICE staff from Lisbon have made frequent trips to negotiate agreements, discuss problems, refine plans of activities discussed in annual Mixed Commissions. Mixed Commissions provide a forum for host governments to present their list of requests for funding for the following year. ICE negotiates priorities with host goverments and the two parties reach an agreement on a general plan of action. In addition to these formal meetings, ICE maintains close informal ties with line ministries in client countries. Through these informal channels, requests from host governments are also considered.

The GOP approves an annual budget for ICE in October/November for the following calendar year which coincides with ICE's fiscal year. ICE's budget for a given year does not have to be

spent in that operating year. Any funds left over at the end of a year can be used by ICE in following years. This has been the case with training programs when quotas were not met in a given operating year.
A number of spaces for training are allocated for Mozambicans by ICE each year. The courses usually take place in public training centers, last from three to six months, and are mostly technical and vocational training programs. Long-term academic training is not handled by ICE but by a different GOP agency within the Ministry of Foreign Affairs.

In the case of Mozambique, the GPRM provides airfare on the nationally-owned airline to all students taking courses under ICE auspices in Portugal. Subsistence allowances and matriculation fees are paid by ICE.*

ICE also has financed in-country training, mostly on-the-job programs provided by ICE technical advisors. These courses are short in duration, usually five-six weeks, and serve as less costly means of providing practical skills training to larger numbers of Mozambican participants.

To obtain technical services, ICE will either use its own resources to identify individuals or contract with a firm to handle recruitment and logistic support. If a firm is used, the host government usually selects the firm in consultation with ICE. ICE maintains a list of firms which have established good performance records and from this list, they choose firms for specific jobs.

If the number of consultants to be placed is limited, and qualified individuals are available, ICE will review cvs, interview and directly place consultants in positions. ICE staff notes, however, that since their personnel resources are so limited in number, they could not do any large scale recruitment or recruitment involving individuals not readily available.

Payment of salary is arranged by ICE in Portuguese escudos, usually deposited in the consultant's bank account in Lisbon, and the GPRM has handled local currency payments for subsistence expenses and logistic support in-country. This arrangement has worked well in several cases when ICE carried out these functions for other donors. It also avoids costs incurred by private firms' overhead charges.

*GOP policy is to pay students 28,500 escudos/month, about $190. Matriculation fees are usually a nominal $50/student.

Availability of Portuguese to work in the former colonies has not been a problem thus far because of incentives offered by the GOP. In 1976 the GOP passed a decree law, 180, that authorizes the GOP to guarantee consultants that they will be able to return to their former positions, either in the public or private sectors, and receive any promotions they would have received had they not left the country.

In addition, the GOP offers an attractive benefit package that provides substantial incentives to Portuguese consultants and technicians working abroad. They are entitled to subsidized interest rates on home mortgages when they return after two years of serving abroad, paid leave, exemptions from Portuguese income tax, and the right to bring back with them any goods imported on a duty-free basis while working abroad.

The salary differential and the lack of employment opportunities in Portugal also provide an incentive for Portuguese professionals to serve overseas. Those fortunate enough to be employed usually receive very low salaries, making it impossible to meet living expenses on one salary alone.

Just this year the GOP approved a very soft loan of 1.0 billion escudos (about $6.7 million) for the GPRM to finance Portuguese T.A. and training. This is the largest ICE program there thus far.

ICE staff have commented that T.A. and training requests are often funded with inadequate analytical bases in all of the countries in which they work. In the case of Mozambique, they suggested that a manpower analysis be done to provide an objective basis for priority needs for training and T.A.