PD BAX 411

AID 1120-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO. 656-0202 1

2. COUNTRY MOZAMBIQUE

3. CATEGORY COMMODITY FINANCING - STANDARD PROCEDURES

4. DATE

5. TO: JOHN W. KOEHRING
DIRECTOR, REDSO/ESA

6. OYB CHANGE NO.

7. FROM: JIM DEMPSEY
PROJECT DEV. OFFICER REDSO/ESA

8. OYB INCREASE $11,000,000
TO BE TAKEN FROM: ESF

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 11,000,000

10. APPROPRIATION - ALLOTMENT

11. TYPE FUNDING: [ ] LOAN [X] GRANT

12. LOCAL CURRENCY ARRANGEMENT: [ ] INFORMAL [X] FORMAL [ ] NONE

13. ESTIMATED DELIVERY PERIOD: 12/85 - 12/86

14. TRANSACTION ELIGIBILITY DATE: DATE OF AUTHORIZATION

15. COMMODITIES FINANCED
Trucks, tractors, agricultural implements and equipment, tractor and track spare parts, seeds; hand tools, fertilizers, irrigation equipment, galvanized sheets, oil and raw material for the manufacture of agricultural inputs and other farm equipment and inputs.

16. PERMITTED SOURCE

U.S. only:	3,800,000
Limited F.W.:	5,500,000
Free World:	1,700,000
Cash:	

17. ESTIMATED SOURCE

U.S.:	$3,800,000
Industrialized Countries:	$1,700,000
Local:	-0-
Other:	Code 941 - $5,500,000

18. SUMMARY DESCRIPTION

(SEE ATTACHED CONTINUATION SHEET)

19. CLEARANCES

		DATE
DD:	Art Fell	draft
RLA:	Paul Scott	draft
PROJ:	Jim Graham	8/8/85
AGRI:	Robert Armstrong	draft
CMO:	Art Laemmerzahl	7 Aug 85
ECON:	Hadley Smith	8 Aug 85

20. ACTION

[X] APPROVED [ ] DISAPPROVED

JWKoehring

AUTHORIZED'S SIGNATURE

AUG - 8 1985

DATE

DIRECTOR, REDSO/ESA

TITLE

CLASSIFICATION:

Continuation Sheet:

MOZAMBIQUE PRIVATE SECTOR REHABILITATION PAAD, 656-0202

16. SUMMARY DESCRIPTION:

The purpose of the Program is to increase food production and improve its distribution by selling currently unavailable inputs to private sector farmers and traders. The primary 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. 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, to a limited extent, cooperatives. Some raw materials will be purchased for local manufactures of agricultural inputs. A few commodities will be given to the GPRM to support private sector development. A technical assistance and training component to help in private sector development is planned but is not included for authorization in the PAAD.

Conditions Precedent and Covenants for the program are presented in Section VII, Negotiating Status and Conditions. Contained in Annex D of the PAAD are waivers for:

1. tractor and tractor drawn implements from Code 941 sources ($2,000,000);

2. tractor and truck spare parts from Code 935 sources ($500,000);

3. seeds from Code 935 sources ($700,000);

4. irrigation equipment from Code 941 sources ($500,000)

Waivers already approved by AID/Washington include:

1. selected agricultural inputs from Code 941 sources; ($3,000,000);

2. heavy trucks from Code 935 sources ($500,000);

3. shipping waiver for Code 941 vessels, for agricultural vehicles, tools, and implements.

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MOZAMBIQUE

PRIVATE SECTOR REHABILITATION II
(656-0202)

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1985 MOZAMBIQUE PRIVATE SECTOR REHABILITATION II

EXECUTIVE SUMMARY

A. The Grant

This paper recommends that the U.S. Government grant the Government of the People's Republic of Mozambique (GPRM) $11.0 million, from Economic Support Funds, for a Commodity Import Program (CIP) as part of the Private Sector Rehabilitation II Program (PSR II). A $2.0 million technical assistance and training component is planned, but is not included in this PAAD. Once developed and approved, it will be added to this program through an amendment to the PAAD. The CIP, which will import primarily agricultural inputs, will be implemented over an 18 month period. However, it is expected that most procurement will be made in the first 9 months. The terminal date for disbursing authorization will be 12 months after the signing of the grant agreement.

B. Implementing Agencies

The Government of the People's Republic of Mozambique (GPRM) will coordinate the overall program while the Ministry of Agriculture will be the implementing unit for the CIP. Procurement and importation will be effected by parastatal importers, private sector equipment agencies and several semiautonomous units within the Ministry of External Trade. In-country distribution will be coordinated by the MOA.

C. Program Description

The purpose of this program is twofold:

(1) to increase food production and improve its distribution by selling currently unavailable inputs to private sector farmers and traders; and

(2) to assist Mozambique meet critical needs in training and advisory services required for private sector development and increased food production.

Two discrete but complementary program components are planned to achieve the purposes. First, there is the Commodity Import Program (CIP) of $11.0 million. The CIP will provide foreign exchange for the importation of presently unavailable agricultural inputs for private sector farmers.

The second component will be a technical assistance and training activity of $2,000,000 which will assist both the private sector directly and the GPRM. The training and advisory assistance to the government will strengthen its capacity to support the private sector and to establish policies that promote market forces and incentives. Again, the TA and training component is planned but is not included for authorization in this PAAD.

D. Findings

The review of the macro-economic situation clearly justifies the provision of a grant to finance vital agricultural inputs. Further, the use of the funds to purchase agricultural inputs for the private sector farmers will increase food production and save the foreign exchange needed to import food. The planned technical assistance and training component will address the critical need for qualified manpower to support private sector development. For the Initial Environmental Examination, a categorical exclusion for both components has been approved (Annex C).

E. Program Waivers

Attached as Annex H are waivers to permit:

1) code 935 procurement of truck and tractor spare parts ($500,000)

2) code 935 procurement of seeds ($700,000)

3) code 935 procurement of heavy trucks ($500,000)

4) code 941 procurement of irrigation equipment ($500,000)

5) code 941 procurement of tractors and tractor implements ($2,000,000)

6) code 941 procurement of selected agricultural inputs ($3,000,000)

7) the use of code 941 carriers for agricultural vehicles, tools and implements.

Also, under Regulation 1, Section 201.23(e), which covers special importer/supplier relationships, Mabor Tire, a local firm, will purchase tire raw material in the U.S. from its part owner, General Tire.

F. Major Conditions Precedent and Covenants

In the Commodity Import Program Agreement, the GPRM will covenant that the commodities imported under the agreement will be sold exclusively to or otherwise distributed to the Mozambique private sector, including both commercial and small farmers and cooperatives.

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The GPRM agrees that unless otherwise agreed by A.I.D. in writing, it will, in consultation with A.I.D., set a local sale price for AID-financed tractors, tractor implements, and trucks which reflects the true capital costs of the items and generates a fair return to capital.

G. CIP Design Team Members

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

-- Robert Armstrong - Senior Agricultural Officer, REDSO/ESA

-- Alan Silva - Acting AAO, Mozambique

-- Judy Shane - Commodity Management Officer, USAID/Mozambique

-- Gary Bisson - Regional Legal Advisor, Southern Africa

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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 (RENAMO), which has posed a progressively more serious threat to national security. Initially, RENAMO 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 RENAMO with financial, logistic and training support and used it to destabilize the Frelimo government. RENAMO 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. RENAMO 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 (RSA) and Mozambique has ended the Republic's official support for RENAMO and opened the way for increased cooperation between the two countries. However, RENAMO guerrilla activities continue at a level of resistance equal to or even greater than before. At the time of the writing of this paper, more than a year after the signing of the Accord, questions about the commitment of the RSA to the spirit of Nkomati exist.

In foreign policy, while officially adopting a position of non-alignment, Frelimo has established close relations with the Socialist bloc countries, notably East Germany, Cuba and the USSR, which provided much support during the war for independence. Relations with the West improved markedly, however, after 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 a year later. In accordance with the position of non-alignment, there are no foreign military 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 (primarily in Zambezi and Nampula), near port cities and in fertile valleys. Substantial rural to urban migration is reported to have occurred in recent years, particularly to the capital city of Maputo. It is estimated that 16% of the population lives in urban areas.

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, living together in small villages. This ethnic heterogeneity and social fragmentation makes the process of building a Mozambican national identity difficult. However, at the same time, it reduces the potential for ethnic-based tensions. Tribal conflict is not strong. The government has also made efforts to de-emphasize ethnic differences in the population.

The Portuguese colonial heritage, extending from the 16th century to 1975, 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 and largely developed to meet Portugal's needs. The transportation system, although excellent, was designed not for Mozambique's needs, but rather to transfer goods to the RSA and Rhodesia.

Illiteracy for Africans was estimated at over ninety percent in 1974, and of the 3,800 university students that year, only forty were Black. 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. Traditional land tenure existed.

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 worsened in the following years by the effect of the Rhodesian war, which resulted in the loss of earnings from transit traffic and damages from 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.

All of these factors and the economic policies and actions that established a socialist state led to a breakdown of the economy, with output falling by as much as 40 to 60 percent in many sectors. Furthermore, following nationalization of rented or 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, and with little development of African skills, is a principal cause of Mozambique's present difficulties.

B. Agricultural Sector

1. Current Situation

Any discussion of the agricultural sector must be caveated due to the lack of reliable statistics and data. Analysis must, thus, proceed from common impressions and conjecture by various sources. Although at the time of the writing of the PAAD, agricultural data was just becoming available, it appears that the 1984-1985 crop season is close to normal. However, the overwhelming view is that security has become a more serious problem over the past twelve months and is seriously impinging on agricultural production. Infrastructure and public services have deteriorated; access to the rural areas is now limited. Many technical and production programs in agriculture have ceased completely, or have removed personnel to the safer urban areas.

A further problem is that many agricultural areas are still showing the effects of four to five years of prolonged drought. 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. The country remains highly dependent on food imports, which increased from $82 million in 1978 to $142 million in 1983. The food deficit has been offset somewhat by large donor food importations that have impacted favorably on food availability. Expected food deficits for 1984/85 are estimated in the area of 142,000 MT of corn, 9,000 MT of wheat and 48,000 MT of rice. Self-sufficiency in food grains is not a short-term possibility. Historically, even before independence, the country imported well over 100,000 MT of basic grains annually. While prospects for the balance of 1985 are that production might be improving, it is still too early to be certain.

In summary, the drastic reductions in production are attributable to the drought and the flood conditions in recent years, but even more to the alarming destabilization and sabotage activities launched throughout the country by the RENAMO. In addition, the great scarcity of foreign exchange plays a crucial role in the downward trend in agricultural production which is highly dependent on imported inputs.

2. Structure of Agriculture

Four subsectors in agriculture exist and contribute to the country's production of food and cash crops. First, and by far the largest, is made up of small family-owned farms which practice mixed farming by growing maize, beans, sweet potatoes, groundnuts, cassava, cashew nuts and raising some animals. This family sector produces practically all of the cassava crop (the most important food in Mozambique), the bulk of cereal crops and most of the exportable cashew nuts. The family sector accounts for nearly 90 percent of the total cultivated area of about 2 million hectares, and normally assures the livelihood of approximately 80 percent of the population. Given favorable weather, the family sector produces sufficient food crops (except wheat and rice) for its subsistence and a substantial surplus. FAO estimates that about 50 percent of the marketed production is still supplied by the family sector.

Little is known about the structure, organization, economics and production techniques of this most important sector. The absence of information about equilibrium of soil, water, technology and cultivation impedes the development of the family farmer.

The state farm subsector occupies an area about 140,000 hectares or some 6 percent of the total cultivated land and employs an estimated 150,000 workers. The state farms produce over 35 percent of the total marketed agricultural production, and receive more than 90 percent of Government investment in agriculture. The production of industrial or specialized crops such as sugar, tea, citrus, sisal, wheat, rice and coffee take place primarily on state farms.

The commercial farm subsector was, during colonial times, the most important producer of marketed crops, but it has shrunk in size and has received few production inputs in recent years. Today, the commercial farmers cultivate an estimated 50,000 hectares of highly productive land. These farmers do remarkebly well, in spite of the lack of inputs, and their share in the total marketed production of foodcrops is currently about 10 percent.

The cooperative subsector cultivates an approximately 12,000 hectares and contributes between one and two percent of the total marketed production of foodcrops. During the last two years, however, the share of marketed surplus supplied by the cooperative sector has decreased.

3. Agricultural Production

Since independence, agriculture 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, the second and third most important food crops, were in 1983 at two-thirds of their 1981 production 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 years of drought amounted to about US $80 million. The UN estimates that 4.5 million people are affected by the drought, of whom it says 1.7 million are "seriously affected."

The main staple food of Mozambique is cassava, which is produced chiefly in the provinces of Nampula, Zambezi and Cabo Delgado, but is widely cultivated in the family sector practically everywhere in the country. The production of cassava averaged 712,000 MT for the years 1979 to 1981. Production data for the last two years is not available, but drought and disease have seriously affected yields. Cassava is not marketed in any great quantities.

Table 1

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

	1977	1978	1979	1980	1981	1982	1983
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

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. 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 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 during 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 rationalize the state sector through decentralization of the bigger, multipurpose farm enterprises into smaller, more manageable units, and especially on the efforts 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.

4. Marketing Systems

During colonial times the rural marketing system consisted of some 6000 rural traders known as cantineiros, usually of Portuguese origin. The cantineiros acted as collectors of surplus produce from small farmers and were, at the same time, the main distributors of agricultural inputs and consumer goods for the family sector.

After independence, the exodus of the cantineiros resulted in the collapse of the rural marketing network. Attempts were made to replace the cantineiros system by government operated "Peoples' Stores." The Peoples' Stores experiment has been abandoned and the GPRM is now trying to reestablish the rural trades network. However, in the isolated rural areas, traders have not returned.

The state enterprise, Agricom, was created in April of 1981, to function as collector and buyer of cereals at district level throughout the country. Where traders do not exist, Agricom has picked up much of their marketing and distribution functions. Most importantly, AGRICOM has come to assume the marketing functions for most agricultural commodities produced in the family sector and helps out with the distribution of seeds, basic agricultural implements and consumer goods.

AGRICOM, through its buying network, purchases directly from the peasantry as well as from local intermediaries both private and cooperative. AGRICOM'S physical network consists of 240 fixed buying posts, 65 mobile buying brigates and 92 warehouses.

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, on the understanding that they would train Mozambican workers to replace them. There has been some success in this area, but generally only the larger operations have been assisted. Small and medium size industries, many in agricultural processing and consumer goods production, have not received assistance.

Notwithstanding these difficulties, it is estimated that industrial capacity increased from the very low base of 1976 for a five year period through 1981. New plants were commissioned in the food processing industry, in the textile industry, and in ship repairing. In 1979 a tire factory, Mabor, began production, replacing most imports and exporting some of its output. A bus assembly plant is another new operation. In spite of these new operations, the utilization of industrial capacity was low, owing in part to shortages of imported materials and poor management. Then, starting in 1981/1982, production dropped again. Severe foreign exchange shortages made the import of raw material and spare parts impossible. Lack of management continued to be a serious problem and the rural insecurity made marketing difficult. Most recently the lack of electricity in Maputo, the main industrial area, has further hindered production. For example, Facabol, a local manufacturer of shoes and rubber products, has been operating at only five percent of capacity because of the lack of electricity. Mabor was closed for a total of nine months during 1984 because of the lack of raw materials. Texmoc textile mill in Nampula produced only 800,000 sq. m. of cloth last year, less than 5% of installed capacity.

Mozambique is rich in minerals, although there has been no great development of the mining sector. Coal reserves are substantial. The existence of very large gas reserves, estimated at 40 trillion cu. feet, places Mozambique in the top ten countries in the world for this resource. Recently, the GPRM has begun to explore for oil and the possibility of large deposits appears good. However, 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 Mozambique economy is in transportation, which primarily provides transit trade facilities for neighboring countries. The ports and rail service have been the largest 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 in management and most that required any skill or technical knowledge. Colonial policy encouraged the immigration of workers from Portugal, while native-born Mozambicans were denied access to training opportunities in essential skill areas and even basic education. As a result, after independence with the mass exodus of the Portuguese, Mozambique was left without manpower to keep its productive and service industries operating.

The lack of trained human resources is one of the most serious constraints to economic recovery in Mozambique. Skilled training is required at almost all levels of the economy, but especially at the managerial and technical levels. For a country in which 80% of the population works in agriculture, there is an appalling lack of agricultural scientists, technicians and extension/educators. Despite the efforts of the GPRM to educate and train its people, the shortage of trained Mozambican personnel continues and is likely to persist for decades.

Recognizing this situation, the GPRM has taken measures to recruit foreign nationals to work in the public sector and private enterprises which are key to the development 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 number of expatriate consultants and has financed the costs from its own revenues.

E. Current Economic Position

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.

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, with the possible exception of 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 in Table 2 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. 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 imply 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.

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[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.

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 establish a base year, it is likely that the GDP may be seriously exaggerated.

2. Balance of Payments and External Debt

Mozambique has traditionally had a balance of trade deficit with the value of exports covering only about one third of the cost of imports. This has been partly compensated by remittances from migrant miners working in South Africa. A substantial decrease in their employment from approximately 120,000 at independence to 40,000 in recent years has aggravated the balance of payments situation. A second major foreign exchange earner, the international transit of goods through Mozambique's ports and railways, has suffered from drastic reductions in cargo due to disruption of services because of RENAMO activity. Cargo tonnage has declined from 17.5 million tonnes at independence to 3.3 million in 1983. This fivefold decrease in tonnage over the past decade has resulted in a cumulative loss of foreign earnings of $280 million.

Mozambique has also been affected by a worsening in its overall terms of trade. International prices for its major agricultural exports such as cotton, sugar and tea have risen much less than the prices of its principal imports. This adverse movement in the terms of trade has been compounded by a decrease in the volume of agricultural exports due to the droughts and security problems. Cashew-nuts, tea and sugar export volumes have been approximately half the level of normal years.

In view of the overall situation, and in particular the serious deterioration in 1983, the country faces a serious foreign exchange shortage that has severely restricted its ability to import the raw materials, spare parts and other inputs necessary for the functioning of the economy. Oil imports account for approximately one quarter of Mozambique's total imports.

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 million 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 millions 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 omissions	-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 early in 1984 when the GPRM fell far behind in its debt payments, it has, for all practical purposes, been in bankruptcy. A team from the Paris Club visited Maputo and came to agreement regarding rescheduling of the 1984 and 1985 debt. The rescheduling of debt has eased the foreign exchange squeeze, but serious shortages are still a constraint to economic growth.

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, vehicles and equipment, manufactured goods, telecommunications and salt. The few remaining goods are sold at free market prices.

The Commission has estimated that between 1974 and 1983 the official price of nearly 90 percent of the 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 1984, 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.

Table 4 Mozambique: External Debt, 1983-90

(In millions of U.S. dollars)

	Debt outstanding[1]	Arrears		1984		1985		1986		1987		1988-90	
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
International organizations	63.1	0.4	0.1	2.6	1.7	3.2	1.7	3.9	1.7	3.9	1.6	11.6	3.6
Bilateral	1,287.8[2]	221.6	62.8	326.4	72.9	247.7	54.4	233.8	39.4	205.3	32.3	183.5[2]	27.4
OECD	708.0	138.0	28.6	169.6	29.4	79.5	19.6	54.6	14.1	48.7	15.6	75.7	19.6
Countries with centrally planned economies	--	68.1	9.7	63.4	17.1	69.0	15.8	68.3	10.7	46.0	7.3	--	--
OPEC	369.2	15.3	3.4	68.7	13.4	68.7	7.5	68.7	3.6	68.7	3.7	68.7	2.0
Others	210.6	0.1	21.2	24.8	13.1	30.5	11.4	42.2	9.0	41.8	5.7	38.2	5.8
Total	1,350.8[2]	222.0	62.9	329.1	74.6	250.9	56.1	237.7	41.1	209.2	33.9	195.1[2]	31.1
Multilateral	63.1	0.4	0.1	2.6	1.7	3.2	1.7	3.9	1.7	3.9	1.6	11.6	3.6
Bilateral	1,287.8[2]	221.6	62.8	326.4	72.9	247.7	54.4	233.8	39.4	205.3	32.3	185.5[2]	27.4
Official	1,102.6[2]	132.2	49.6	259.9	66.1	237.6	52.7	230.1	38.7	204.2	32.0	182.6[2]	27.0
Government	487.9[2]	83.4	13.3	132.5	32.9	140.4	25.9	141.0	18.7	118.7	13.2	82.8[2]	6.2
Guaranteed	614.7	48.8	36.3	127.5	33.2	97.2	26.8	89.2	20.0	85.5	18.7	99.8	16.8
Private	185.2	89.3	13.2	66.5	6.9	10.1	1.7	3.9	0.7	1.1	0.3	0.9	0.5
Medium-term	104.2	55.7	13.1	19.2	4.1	10.1	1.7	3.9	0.7	1.1	0.3	0.9	0.5
Short-term	53.1	5.7	0.1	47.3	2.7	--	--	--	--	--	--	--	--
Overdrafts	27.9	27.9	--	--	--	--	--	--	--	--	--	--	--

Source: Bank of Mozambique.

1/ At December 31, 1983.
2/ Excluding countries with centrally planned economies.

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 up to 40:1. This startling difference in value is reflected in reports that a barter system is now being used for many exchanges. Most laborers will not work for meticais wages alone and demand partial payment in food or consumer goods. 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.

At the official exchange rate and with the inflated money supply, there is substantial excess liquidity within the economy. Most consumers have funds to make purchases, but complain that there are no consumer or production goods to buy. Consumers pay cash for nearly all commodities.

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 a 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 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.

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 perce					
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.

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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 and 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.

II. PROGRAM BACKGROUND

A. Current Economic and Political Initiatives

In 1977, the Third Party Congress of Frelimo defined new policies to accelerate the social and economic development and growth of the newly independent People's Republic of Mozambique. It sought to restructure and reorient the economy away from the fundamentally extractive nature (imposed under the colonial period) and from its heavy reliance on service activities to neighboring states. Under centrally-planned state direction, a new socialist economic structure, emphasizing communal agriculture and heavy industry, was ordained.

The succeeding five years saw declining rates of productivity, sharp and continual declines in foreign exchange reserves, mounting food deficits, and the increasing absence of basic consumer goods. The increasingly disruptive activities of the anti-government insurgents and the worst drought of the century in central and southern Mozambique contributed to the economic slide. The policy direction of the Third Party Congress, however, aggravated the situation and hastened economic collapse.

With the deepening of the current economic crisis, the GPRM became aware of the pressing need to reassess its economic strategy and to forge a new direction. The Fourth Party Congress, in April, 1983, acknowledged the failings of previous policies and promulgated new economic and social directives. These pragmatically emphasized the role of the private sector --- family farmers and commercial concerns --- and the market incentive system in increasing agricultural production. It also recognized the importance of a steady availability of consumer goods to induce the creation and marketing of surplus production.

Priorities were oriented away from heavy industry to enterprises geared to the local production of farm inputs, incentive goods, and building materials. While few, if any, new public investments were to be undertaken, the available financing was to be focussed on small- and medium-scale projects and enterprises. Resources were to be devoted to the rehabilitation and maintenance of existing facilities, especially those with underutilized capacity.

The Congress decreed that, in retail trade, the state's role should be diminished with direct intervention only to ensure supply in those insecure areas not served by private entrepreneurs. In such areas, as the GPRM was attempting to induce private traders, priority was to be given to the reconstruction of small rural retail shops. Although this policy is bold, little has been done to encourage the reestablishment of private traders.

The rethinking of the Party's economic philosophy also brought changes in labor and public finance policy. The Congress called for the introduction of merit pay incentives, increased worker productivity, and the elimination of overstaffing, especially in the government and parastatals. In addition, measures were introduced to limit wage expenditures, reduce imports (through local substitution), and improve efficiency of the state enterprises.

In a dramatic turn-about, economic cooperation was encouraged with countries which did not have centrally planned economies. The Party recognized the contribution that foreign capital (essentially, joint ventures) could make and welcomed collaboration by international financial, monetary, and development institutions.

The transformation from an economy based on state-run enterprises, controlled prices, and central planning to a more mixed economic system cannot be achieved overnight. The implementation of such sweeping economic and social changes requires a gradual process, aimed at minimizing transitional dislocations. In its first steps, the GPRM is breaking up a number of state farms and is transferring land and equipment to cooperatives, family farmers, and private commercial producers who have management capability. In 1984, in an area targetted by our program (Chokwe), almost 2,500 hectares of state farm land and 15 tractors (assigned to those farms) were transferred to private farmers. In 1985, another 2,000 hectares in Xai-Xai (another target area) has been ceded to private commercial producers and cooperatives. The GPRM has assured the private sector that higher productivity would result in the concession of more land for the next agricultural growing season.

In the area of pricing, during the past year, the GPRM has significantly increased regulated producer prices. In Zambezi Province, it is undertaking a pilot project in agricultural price decontrol, allowing market prices to prevail. This experiment, which has been hailed as a success by the Minister of Agriculture, has spurred agricultural production in that key central province, resulting in the ready availability of food in the marketplace and the curtailing of speculation in food stuffs.

In keeping with the Fourth Party Congress's tenet of de-centralization, increased autonomy has been conceded to managers of state enterprises or state-intervened firms (companies abandoned at independence in which the state was obligated to assume control). Managers are now required to operate efficiently and to make a profit.

To encourage foreign investment and international participation in the Mozambican economy, the GPRM has published a new, liberal investment code. A foreign investment promotion unit has just recently been created, reporting directly to the Vice-Minister of Finance. In a positive gesture to the U.S. private investor, the GPRM has signed an OPIC agreement and welcomed a privat investment and finance mission of American businessmen in April, 1985.

To exploit its bountiful natural resources, the GPRM has granted petroleum exploration rights to Western oil companies. Additionally, fisheries joint ventures have been arranged with Japanese and Spanish firms; South African trawlers have been allotted fishing and seafood quotas. A joint venture agreement for the construction and financing of an ammonia plant as well as the long term sale of its products will be negotiated in the near future (wit the assistance of a U.S. consulting firm).

Recently, the GPRM announced a foreign exchange policy, whereby export enterprises could retain a portion (5-20 percent) of their earnings in convertible currencies to "maintain the productive cycle." By this measure, firms may purchase imported raw materials and spares, invest in new equipment, or allow owners a realistic return on investment. While exact percentages permitted to be held abroad is a matter for individual negotiation, the GPRM has consented to the repatriation of profits and assets for foreign businesses.

In a related innovative move, the Ministry of Agriculture is considering a plan which would enable farmers producing substantial surpluses to convert a percentage of their income to foreign exchange to purchase imported capital equipment and/or consumer goods and services. The GPRM has, thus, recognized the linkage between increased production and the commensurate reduction in foreign exchange needed to meet Mozambique's food deficit. Although a formula remains to be established, the private farmer will share in the savings accruing to the national foreign exchange reserves.

On the international scene, the GPRM's previous preference for almost exclusive cooperation with nations with centrally-planned economies has been tempered. Newer channels of communication and collaboration have been developed with Western nations. In 1983, Mozambique adopted the Berlin Clause, thereby qualifying for European Economic Community assistance under the Lome Convention. Also in 1984, Mozambique gained admission to the International Monetary Fund and the World Bank. It has been closely cooperating with those international institutions in securing emergency lines of credit (about $40 million from the World Bank) and in exploring economic adjustment measures (with the IMF).

In the area of international finance, after having defaulted on debt payments in early 1984, Mozambique worked closely with the Paris Club to reschedule public sector loans. Western countries, encouraged by Mozambique's cooperation with the IMF and Paris Club, rescheduled $465 million of arrearages and payments. During 1985, a London Club meeting will be held to reschedule the private debt. The nature and extent of socialist bloc debt adjustments have yet to be made public.

After eight years of financial neglect and political hostility, the surviving private sector --- in agriculture, commerce, and industry --- is now receiving increased support from the GPRM, particularly in agriculture and related sectors. Concrete GPRM investment and policy pronouncements have convinced many private businessmen that the GPRM genuinely desires to support, encourage, and rehabilitate the private productive capacities of the Mozambican economy.

B. Program Guidelines and Implementation Objectives

Discussions with the Acting AAO/Mozambique, the Embassy and REDSO/ESA identified a number of elements essential in the design and implementation of the program. These parameters were used as guides in planning the nature of the program and strategy for implementation. They include:

1. contribution of assistance to increased food production in Mozambique;

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

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

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

5. relatively quick disbursement of funds;

6. direct assistance for those affected by the drought;

7. high visibility of U.S. aid;

8. widest dispersion practical of program benefits;

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

10. ease of program implementation;

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

The program description that follows builds on these guidelines, 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, Purpose and Justification

The goal of the AID program is to support Mozambique's opening to the West and to stimulate private sector rehabilitation and growth, especially in food production. The purpose of this particular program is twofold:

(1) to increase food production and improve its distribution by selling currently unavailable inputs to private sector farmers and traders; and

(2) to assist Mozambique meet critical needs in training and advisory services required for private sector development and increased food production.

The primary 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 and training to help the GPRM to support the private sector and strengthen its data collection and analysis capability. Training will also be provided directly to the private sector, primarily in agribusiness.

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, to a limited extent, cooperatives. Because of a lack of information and analyses 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 various 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 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-U.S. 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 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 judgments 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 for the 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 AID accept that much needs to be changed, but also judge that significant development activities can proceed in the present policy environment. The USG is not waiting for a complete restructuring to a market economy before assisting, but will monitor the pace and nature of economic policy reform.

B. Program Components

1. Summary

Two discrete but complementary program components are planned. First, there is the Commodity Import Program (CIP) of $11.0 million. A technical assistance and training component of $2,000,000 is the second part of the program. The CIP will finance agricultural inputs and, where appropriate, raw material to produce inputs locally. Nearly all goods will be sold to the private sector farmers. No assistance will go to the state farms. Commercial and family farmers in the Maputo market area, which includes the Limpopo River valley, will be the primary beneficiaries. However, since many family farmers affected by the drought are ready to return to farming and need basic inputs desperately, the program will provide financing for seeds and hand tools for farmers in the drought affected areas of Inhambane and Northern Gaza provinces.

Technical assistance and training is expected to be given to both the private sector directly and to the government. Th government subactivities are designed to strengthen its capacity to support the private sector. A description of the technical assistance and training activities are planned to be added to the PAAD as an amendment.

2. Commodity Import Program

The most serious problem for the private sector is that few, if any, production resources, such as equipment, spare parts and raw material, have been available. From independence (1975) until the Fourth FRELIMO Party Congress (April, 1983), the GPRM allocated nearly all of its investment resources (including substantial socialist block assistance) to state farms rather than to commercial or family farms. As a consequence, much of the

agricultural equipment and trucks (to transport produce) in the private sector are out of service or at the end of their effective life span. Further, there are shortages of basic tools and seeds for all private sector farmers. Similarly, private agriculture related industries (food processing and agricultural input production) are operating at fractions of their installed capacity due to lack of imported raw materials, shortages of spare parts and loss of both skilled workers and professional management. Finally, in the family farm sector in the five provinces affected by drought, the basic requirements for subsistence agriculture, hand tools and seeds, are not just in short supply but nearly totally absent. Although the food shortages caused by the drought are in no sense over, many peasants are ready to return to farming and need basic inputs desperately. The disruptions in the rural economy caused by the drought itself, security problems and the country's difficult financial position make the financing and provision of these inputs difficult.

The commodity import portion of the grant will finance inputs for sale to family and commercial farmers who have traditionally grown surpluses for the Maputo and other local market areas in the South of the country. It will also provide funds for basic inputs in the drought affected areas of Inhambane and Northern Gaza Provinces. In addition to these regional programs, procurements for commodity or program support not tied to a specific region will also be given. This includes the procurement of raw material for the local private sector production of tires, rubber boots and irrigation pipe. Spare parts for tractors and agriculturally related trucks will also be procured as well as fuel for the AID-financed equipment. Finally, galvanized metal sheets for local construction will be purchased. For this general procurement, priority allocation of the products or goods will be given to the target regions.

For the provision of agricultural inputs in the target regions, it was found that no single commodity, such as fertilizers, tractors or hand tools, would be sufficient to increase food production substantially. The supply of inputs is so inadequate that nearly a full range of inputs is required. Consequently, for both the family sector and the commercial farmer, a wide range of inputs, appropriate for the scale of production, will be financed. Although many different inputs will be purchased, the consolidation of these items into a limited number of procurement transactions will simplify the program and ease the burden of implementation. Following a similar plan, procurements have proceeded in a timely manner for last year's program.

For distribution and sale of the inputs, private sector firms or traders were the first choice. However, in Mozambique today there are few private entities. Two dealers, operating as private firms, will handle the purchase, distribution and sale of tractor parts to commercial farmers. Some of the truck spare parts may also be sold by the private dealers. Depending on the bids, it is also possible that the procurement of tractors will be in the private sector as well. In the target areas where private traders exist, local distribution and sale of items such as hand tools, some seeds and tin sheeting will be handled by those traders. In areas where traders do not operate and for larger items, government institutions--such as Agricom, Boror and the MOA, itself--will effect distribution and sale. For the drought affected areas, the channels will be same as those which have commercially distributed food as part of the relief effort. Again, it should be noted that to the extent possible, private sector channels will be used.

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Because of the desparate shortage of inputs, the GPRM has requested that AII try to supply the commodities in time for the start of the September/October growing season. Although the timeframe may be overly optimistic, a quick distributing program is the objective.

The proposed core $11.0 million program consists of the following procurements:

(a) Commodity Procurements for Target Regions

(i) Agricultural Inputs for Private Farmers in the Maputo Market Area

This portion of the CIP concentrates its support in three regions, all of which have a mix of larger commercial enterprises and private family farms. First, the CIP will continue to aid the farmers in Chokwe, located on the Limpopo River, 100 miles north of Maputo. It is largely an irrigated area which produces substantial surpluses in vegetables and grain. Production levels have dropped sharply in recent years, primarily resulting from the failure of state farms and drought. There are approximately 125,000 residents (25,000 families) in the area. After independence and the fleeing of many Portuguese, the state took over most of the abandoned irrigated land in Chokwe and developed large state farms with socialist bloc help. The experience on these farms has been dismal, with production in many cases running below the cost of inputs. Consequently, the government has broken up some of 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. For the area, a MOA coordinating organization exists to help increase agricultural production. This unit will, again this year, have responsibility for coordinating the distribution and sale of inputs.

The second area consists of three districts in the Xai Xai area located around the mouth of the Limpopo River. In this region, family and commercial farmers are spread out over a much larger area than in Chokwe. It is estimated that 150,000 family farmers and 50 commercial growers could possibly be assisted. As in the case of Chokwe, a wide range of inputs will be provided. The level of agricultural production in the Xai-Xai area is much more basic than in Chokwe. There is less irrigated land and much of its infrastructure is in a state of disrepair. The commercial farming subsector is relatively small. More hand tools, oxen equipment and grain, rather than vegetable seeds, will be financed.

The third area which will receive support is Maputo Province, particularly the districts of Marraquene and Manhica which are north from Maputo. For these districts, a relatively small, but well-organized, group of commercial farmers will be the principal beneficiaries; in the past, they have provided substantial agricultural surpluses to Maputo. The inputs should enable them to market more vegetables and grain to the food-deficit capital. Additionally, a substantial number of family farmers in Maputo Province will receive seeds, hand tools and other basic inputs.

A $1,880,000 million purchase of fertilizer is planned for use in the target regions, primarily on commercial farms. The total purchase is large enough that savings in transportation costs will result, since nearly an entire boatload shipment from the U.S. is possible at this level of purchase.

To ensure the timely delivery of produce from the target areas, trucks for three types of transporters are needed. First, for the commercial farmer, 1/2-5 ton trucks are used to move produce to collection points for transfer to Maputo. The size of the truck used by the farmers depends on the scale of the farm operation. Traders, who in many cases are also large farmers, need trucks to pick up vegetables and grains at family and small commercial farms that do not have transport. The preferred truck size for this group is similar to the commercial farmer and again depends upon scale of operation. For the transfer of the farm produce to Maputo, large trucks in the 6-12 ton range are used by private transporters. New trucks for all three types of operators are essential to strengthen the transport system. The need for spare parts is discussed in the next section. Included in the requirements for the regional program is financing of approximately $1,200,000 for pick-up trucks, 2-3 ton trucks and 8 ton transports. Although specific data on the transport needs for the regions is not available, the CIP will finance a balanced program by providing trucks for farmers, traders and transporters. Additionally, four 4WD vehicles will be financed for use by the MOA and Coordinating Units in the target regions.

In summary the Maputo regional program will provide:

1)	Agricultural Equipment (includes tractors and animal traction implements)	$1,397,000
2)	Transport Equipment (Trucks, bicycles, motorcycles)	$1,588,000
3)	Hand Tools	425,000
4)	Seeds	$ 648,000
5)	Fertilizer	$1,880,000
6)	Irrigation Equipment	$ 500,000
	Total	$6,438,000

(ii) Inputs for Family Farm Production in Drought Affected Areas ($760,000)

Family farmers in Inhambane and Northern Gaza Provinces have been the most seriously affected by drought. In order to survive, some of the local farmers have abandoned their homes and moved to feeding centers. Most have remained in the region of their farms and are ready to begin planting. Although the effects of the drought are far from over, the weather has returned to normal and the hope is that, during the major growing season starting in September/October, food production will be sufficient to meet subsistence needs. However, because of the disruption caused by the drought, farmers are without seeds and basic hand tools to start over again. Timely provision of these inputs is crucial to ensure that, at least, subsistence production of food is achieved. The CIP will finance $760,000 of seeds and hand tools for sale in the regions.

(b) General Commodity Procurements

(i) Spare Parts For Tractors and Trucks ($500,000)

The most cost effective way to provide tractors to commercial growers is to repair existing units owned by the farmers. An estimated 90% of the privately owned tractors are made either by Ford or Massey Ferguson. Working with the two private sector dealers who handle these makes, the design team has put together a $300,000 rehabilitation program to repair an estimated 120 tractors. Some tractors, although technically repairable, will not be rehabilitated because it is more cost effective to replace the unit. Nearly all tractors in the Chokwe area are being repaired with the assistance of the FY 1984 CIP. However, priority for the use of parts will be given to the few that still need repair in Chokwe and to those in Xai Xai and Maputo Province. The balance of the parts will be set aside for private farmers in the South of the country where the dealers have workshops and part stores. The two dealers will provide reports on the sale of the parts to AID on a quarterly basis.

The government has also identified shortages of spare parts for the trucks required to move the produce in the target areas as a critical constraint to the marketing of agricultural surplus. So in addition to new trucks, the CIP will finance truck spare parts ($200,000). Local truck dealers will receive allocations of foreign exchange to purchase the parts and will be responsible for the control, distribution and sale of them. A review of the truck makes in Maputo and Gaza Provinces and the capabilities of the local dealers will be conducted to determine which types and makes of truck will be rehabilitated. No U.S. manufactured trucks are presently operating in Mozambique, although there are some British built Fords on the road. To the extent practical, the number of different types of trucks covered by the program will be kept to a minimum, and private sector dealers will be given preference.

(ii) Raw Material For Tire and Other Agricultural Inputs ($1,300,000)

One million dollars of tire raw material (approximately 10% of the yearly imported raw material requirement) will be financed for Mabor, the local General Tire affiliate in Mozambique. General Tire is providing an advisory

team to assist in plant operation. The privately managed firm is operational and is producing top quality tires. Although the plant has good management, available spare parts and a profitable history, for 9 months in 1984, and during the first two months of 1985, it was closed because of the lack of raw materials. CIP financing of the raw material for Mabor is a high priority. The plant not only makes tires for the local market but also exports, thus earning foreign exchange.

The private firm of Fabrica Continental de Borracha, SARL (FACABOL) will procure, under the CIP, $300,000 of raw materials for the production of rubber boots for field work and irrigation pipe and hose. As in the case of Mabor, the main constraint now faced by FACABOL is the lack of raw materials. The plant is presently operational.

Both firms will distribute goods through their normal channels, but give preference to the private farmers, especially in the target regions of the program.

The procurement of raw materials through the CIP will allow AID/Mozambique to gain experience in the industrial sector. The rehabilitation of private sector industries has been discussed as a possible area for expanded AID assistance. The proposed addition of raw materials is a cautious first step into industrial rehabilitation. Further, by providing raw materials rather than finished products, productive employment and local value-added for the economy are generated. Although the provision of raw material is only a part of what is needed for most industries, for FACABOL and MABOR the lack of such imports is the present critical constraint.

(iii) Zinc Sheeting

The GPRM has identified, as a top priority, zinc sheet for roofing and as an input for the cottage industry that makes buckets, watering cans and other tin items for rural households. A $1.0 million purchase of sheeting is planned.

(iv) Fuel for AID Financed Equipment

One of the most serious problems faced by the commercial producer is the lack of a dependable supply of diesel and gasoline to operate equipment. As in the case of so many other imported items, foreign exchange constraints have resulted in reduction of supplies. The GPRM has requested financing for fuel giving the assurance that it would be allocated to the farmers who have received AID financed equipment. The details of the allocation arrangement have not been worked out, but the MOA expects to establish a system similar to one successfully used for a Swedish aid program. Approximately 1,000,000 gallons of fuel will be imported which is sufficient to operate the vehicles and tractors imported under the 1984 and 1985 programs for a period of 24 months.

A detailed listing of the CIP procurements is presented in Annex A.

3. Technical Assistance and Training Component

A technical assistance and training component is planned for the program. However, because of the desire to move quickly to procure agricultural inputs for the growing season starting in September/October, 1985, the review, approval and authorization process is moving ahead without the TA and training component. The CIP can be implemented independently of the other component. It is expected that once the design of the TA and Training Component is completed, it will be reviewed and approved as an amendment to the CIP.

IV. IMPLEMENTATION

A. Commodity Import Program

1. FY 1984 CIP Implementation

The procurement process for the FY 1984 CIP began in mid-October and the bulk of the commodities were in country by May, 1985. Although the GPRM and local agencies were not familiar with AID procedures, procurements were made without undue delays. The negotiated procurement process was used in nearly all cases. The evaluation, award and payment documentation processes were greatly facilitated by the presence of a Commodity Management Officer on long-term TDY in Maputo, who arrived at the very beginning of the implementation process. A permanent Commodity Management Officer is now assigned to the AAO/Maputo to implement and monitor this CIP on a daily basis.

The most serious problem was caused by the frequent changes in specifications and quantities of the commodities requested by the Ministry of Agriculture. The delays resulting from these changes are not expected for the FY 1985 program because of an agreement between the Bank of Mozambique and the AID Affairs Office that the list included in this PAAD is the final one (Annex A). Other delays were caused by acute electrical outages during working hours in the commercial sector of Maputo, where most importers are located. Because of these interruptions, telex messages, essential to the negotiated procurement process, could neither be transmitted nor received. To remedy this for the FY1985 CIP, it is proposed that the Embassy's telex be used as a back-up for the transmission and receipt of messages, since that machine functions on generator power when the commercial power is off. This plan is acceptable to all parties. The AAO/Maputo will make it clear that the GPRM is the procuring entity, not the USG.

All commodity awards were made, and all financing documents issued by the end of March, 1985. Fertilizer and most seeds have been received and distributed to the target zones. The additional seeds, coming from the United States, arrived in May while tractors, implements, and trucks have cleared the port and are presently on hand waiting for a decision on pricing. The spare parts for tractors will arrive during the course of the calendar year, in partial shipments, due to production schedules for these items. The final list of all imports, by category and country of origin, is contained in Annex B.

In general, there were a number of delays resulting from a lack of familiarity with AID procedures. It is expected that, with the changes suggested above and the FY 1984 experience as a guide, procurement will be effected in a much shorter time.

The effectiveness of the distribution of the commodities has not been reviewed because, at the time of the writing, they are just now being received at the port. The AAO and PAAD team believe that, given the high priority of the agricultural inputs, the distribution will be in a timely manner. To check on commodity end-use, the AAO/Maputo has recruited a CIP Monitor who will be responsible for reviewing and reporting on distribution.

2. Responsibilities

For AID, REDSO/ESA has ultimate responsibility for the program, while the Acting AAO has field responsibility, and the Commodity Management Officer will handle day to day implementation. Technical and legal assistance will be provided by REDSO/ESA and the RLA/SA respectively. The CIP monitor will be under the direction of the Commodity Management Officer in line with the program objectives of AID and the GPRM. Funds for the CIP monitor and an overall CIP evaluation are planned to be set aside in the TA and Training Component, or can be made available from funds remaining in the 1984 program, estimated at $125,000. A detailed description of the program monitoring arrangements appears in Section VI A, Program Monitoring and Management, of this document.

The GPRM and AID will approve the list of imported commodities and designate the entities which will be the importers. They are either parastatals or private sector enterprises who traditionally import specific categories of commodities. For the GPRM, the final list of commodities will be approved by the Ministry of Agriculture, after concurrence from the Central Planning Committee and the Bank of Mozambique. The list will includes inputs and other requirements for the rehabilitation of private farms and increased production.

Negotiated procurement procedures will apply to most importations, as was the case for the first CIP. Utilizing formal tenders would not be a viable method, as it would require the advertisement in many newspapers in neighboring countries, as well as the dependence on the mail system which is extremely unreliable. Thus, negotiated procurement is the only practical way to do business, as potential suppliers are located in many countries, and the only reliable way to communicate is by telex. It should be noted that negotiated procurement is the standard procedure for nearly all GPRM purchases.

As with the first CIP, the Commodity Management Officer will work with the designated importers to finalize the terms and specifications for the RFQs and IFBs. The specifications will be suitable for the growing conditions and technology in Mozambique. Since the proposed list of commodities is similar to last year's, specifications for most items are already available, and there will be few modifications, except for the addition of raw materials for the factories. The managers of the factories have had much experience in importation of raw materials, and are expected to provide the specifications without delay.

The Bank of Mozambique is the authorized applicant for letters of commitment to a U.S. Bank for issuance of letters of credit to suppliers. When applicable, direct letters of commitment will be issued through the controller at USAID/Mbabane. For suppliers located in the United States, direct letters of commitment may be issued by M/FM/BFD, with the support of M/SER/COM/ALI.

3. Applicable AID Regulations

AID Regulation One is applicable to all transactions financed by this grant. Copies of this document are available to importers and potential suppliers from the AID Affairs Office in three languages. As with the implementation of last year's program, formal competitive procedures will be required for fertilizer from the United States. The bulk raw materials for factory production will also require the issuance of a tender in the United States. Negotiated procurement procedures will apply to the remaining transactions. For certain private sector imports, specifically spare parts for equipment already in the country needing rehabilitation, the special supplier-importer relationships will apply, and comparative bidding will not be required.

Special provisions, as contained in the AID Commodity Eligibility Listing, will apply to fertilizers and seeds. Under Regulation One, Section 201.23(e), Special Importer/Supplier Relations, the CIP will finance $1,000,000 of tire raw materials for Mabor Tire from General Tire, USA, a part owner of the local firm.

All items included in the Commodity Eligibility Listing will be eligible for financing. Related services, including delivery and insurance policies, are also eligible for financing, providing these services are from eligible sources. Transportation costs may be paid for in local currency (not financed under the grant) provided that the insurance policy for the commodities be issued in a freely-convertible currency. In addition, all banking charges related to the issuance of letters of credit are to be financed by the grant.

The minimum value of transactions will be $10,000, unless otherwise authorized by the AID Affairs Office.

4. Import Procedures

Once the IFB of RFQ evaluations are completed and consensus is obtained between the importer, a representative of the Ministry of Agriculture and the Commodity Management Officer of the AID Affairs Office/Maputo, and the awards are made for each category or group of commodities, a pro forma invoice is requested of the successful supplier, usually transmitted by telex. The importer then applies for an import license, which is obtained within twenty four hours. The pro forma and license are then submitted to the Bank of Mozambique with a request to open a letter of credit.

5. Delivery Services

Since the agricultural target zones are all within 150 miles of the Port of Maputo, commodities will be arriving by vessel to Maputo, and then transported by land or rail to the designated sites. In addition, commodities originating from neighboring countries can be delivered by rail or road.

6. Commodity Arrival and Disposition

Agricultural inputs, including trucks and tractors, are expected to be cleared rapidly by the importers, and then turned over to the designated distributor for onward transportation to the target zones. The regional authorities of the Ministry of Agriculture in the target zones receive the goods and are responsible for distribution to the farmer.

Spare parts for trucks and tractors are stocked by the authorized representatives, who are required to keep the parts separate from their other stock, and maintain records on sales to each tractor owner in the target zones.

Since the two manufacturers who will be receiving raw material are located in Maputo, port clearance and transfer to the plant will be handled expeditiously.

7. Disbursement Period

Based on previous experience, we do not anticipate any significant delay in the timely disbursement of funds under this program. Use of the L/C is expected to result in a rapid draw-down of AID funds; a period of 12 months is provided for this action. Complete disbursement of AID funds is expected within 18 months from the effective date of the agreement.

8. Implementation Schedule

Based on the experience gained during the implementation of the first CIP in Mozambique, the Bank of Mozambique and the AID Affairs Office have agreed upon a time table for implementation of the various steps in the procurement process. This is contained in Annex E. This schedule has been designed and agreed to in order to eliminate the delays that were experienced during the first program, and to ensure that procurement be implemented in a timely manner.

Date	Action/Activity
1985	
April	Final procurement list, agreed upon jointly by AID, Bank of Mozambique, and the Ministry of Agriculture, to include geographic distribution.
May	Specifications finalized by importers and submitted to AID for review.
June	Specifications reviewed by AID, draft telex requests for quotations finalized by AID and designated importers.
August	Grant agreement signed.
September	Conditions Precedent met. Requests for quotations issued by telex to potential suppliers.

Date	Action/Activity
October/ November	Evaluations of quotes made by importers, approved by Ministry of Agriculture and AID. Requests for financing documents submitted by Bank of Mozambique for letters of credit; or direct letters of commitment issued by USAID/Mbabane/Controller or AID/W.
October	CIP monitor begins works.
1986	
January	First goods arrive in-country.
May	All goods arrived in-country
July	AID Internal Appraisal
December	CIP Impact Evaluation

LOCAL CURRENCY GENERATIONS

A. Procedures and Use of Funds

Proceeds from the sale of items financed by the Program will be deposited in a special account in the Bank of Mozambique. Three and one half percent (3-1/2%) of the local currency contained in the account will accrue to a trust fund for local currency costs of operating the U.S. AID program. The remainder of the funds will be allocated 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.

The metical's lack of value makes it extremely difficult to program productive activities. Payment in meticais is a weak incentive to work and few goods are available for purchase in meticais. Thus, development projects normally require a foreign currency input. The GPRM may be required to hold the local currency generations in the special account for a longer than normal period, until productive uses can be identified and mutually agreed to by AID and the government.

Some of the funds will be held in the special account for use later to match with 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 sector 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.

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 other local inputs. For many dryland 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.

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 overvalued, the question of the pricing of imported commodities is a serious issue. Using the official exchange rate (approximately 44 meticais to the dollar) to set the price based on foreign cost will underestimate the real value of the imported commodity. However, using the shadow exchange rate (of up to 1600 meticais 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' incomes are constrained by fixed producer prices, it is impossible for many to pay for inputs at some higher shadow price.

The pricing of all commodities for this program will be in accordance with GPRM current policies as applied to the CIP. Imported goods are priced as follows. To the imported cost (CIF), converted at the official rate, are added duties, miscellaneous charges (such as bank fees and warehousing) and importers markup. To this total are added, in compound fashion, operating expenses and profit margins for wholesalers and retailers. The GPRM, in response, in part, to AID's discussion of the sales price of high value items, has added a surcharge of 25-65% on trucks, tractors and other high value items (see Annex E) over and above all other markups to determine the end user sale price. This results in a final price which includes markups of between 57 to 156 percent over the CIF price.

The surcharge for items imported by AID brings their cost closer to a rate reflecting the real value of the metical. This is a positive step taken by the GPRM toward realistic pricing of foreign exchange, and one which sets the stage for further dialogue. Pricing and incentive questions will continue to be critical issues in future program negotiations and our 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. The AAO/Mozambique will continue to discuss pricing issues throughout the program.

VI. MONITORING, REPORTS, AND EVALUATIONS

A. Program Monitoring and Management

The AID Affairs Office in Maputo will have primary responsibility for the implementation of the program and will generally maintain the management structure developed for the initial (FY1984) commodity import and technical assistance program.

The commodity import component will be managed by the Commodity Management/Executive Officer (CM/EO), with the assistance of a monitor (third country national) who will be directly hired under a personal services contract financed by the 1984 program or by the technical assistance element of the FY 1985 program. As more than three-quarters of the commodities to be imported will be similar to those procured under the FY1984 program, both the AID Affairs Office and the GPRM are prepared to fast-track the program.

Before the grant agreement is signed, the final commodities, amounts, and geographic distribution will be confirmed. Importers, working in collaboration with the Ministry of Agriculture and the manufacturers involved, will prepare the specifications and the requests for quotation.

Upon signature of the grant, RFQ'S will be telexed to interested firms. The Bank of Mozambique will designate a U.S. bank to issue letters of credit to successful quoters. Given the fact that the procurement and payment procedures duplicate those of the first program, the reestablishment of these standard modes of operation should progress quickly.

The Commodity Management Officer will be responsible for monitoring the importation, customs clearance, and distribution process. Verifying commodity end-use --- to the extent permitted by rural security --- will be an important element of her duties. For both AID and the GPRM, the CIP monitor will survey end-use, and inspect conditions under which commodities are stored, discharged from the port, and distributed in the target areas of Chokwe, Xai-Xai, and Maputo Province.

The implementation details of the TA and Training Component will be included in an amendment to the PAAD after design and negotiation with the government is complete.

B. Reports

In addition to the shipping and financial reports required by the standard CIP, the Ministry of Agriculture will provide quarterly status reports indicating the progress in distribution of each type of commodity imported, from the date of tendering to the date of delivery to the end-user. The regional authorities will keep records of the names of farmers who bought high-value items sold in the target areas. The CIP monitor, working with local officials, will utilize these records to make spot checks on end-use, to ensure that diversion or re-sale has not taken place.

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For the sale and repair of tractors (and accessories) and trucks, the distributor will provide a prospective quarterly work plan and a summary of work done during the preceding period. Each distributor will give receipt and inspection reports, records of claims entered and quarterly sales records identifying area and type of end-user. In this way, we will be able to monitor sales to ensure that only the private sector benefits from the importations. These reports should also identify and eliminate bottlenecks in the distribution process. Finally, the reports will also detail such activities in support of private sector end-users, as periodic maintenance visits, technical assistance classes, and other servicing activities.

Ministry quarterly reports will form the basis of a joint project review to be chaired by a representative of the Bank of Mozambique. The review committee will consist of the AID Affairs Officer, the CMO, officials of the GPRM'S implementing agencies, and importers. The review will monitor program progress, discuss points contained in the quarterly reports, resolve problems which have arisen or can be reasonably foreseen to arise, and recommend action for the next quarter's activities.

The reports of the CIP monitor will highlight problem areas in procurement, importation, port clearance, and distribution/marketing of AID-financed commodities. The monitor will help the GPRM and CMO jointly resolve implementation problems. The reports will also indicate importation and/or distribution activities foreseen in the next quarter. Once the inputs are distributed, the CIP monitor will begin to assess the impact of the commodities on increased production.

The third quarterly report will form the basis of an internal AID 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 commodities to private sector end-users, utilization of the inputs, and possible impacts on availability of surplus produce.

The AID Affairs Officer will be responsible for the programming of local currency generations under the CIP. He will ensure that reports on the selected activities -- similar in content to those required under our P.L. 480 program -- will be made by GPRM.

C. Evaluations

For the commodity import component, an evaluation will be scheduled for the sixteenth month after the signing of the grant. The evaluation will review the impact of the inputs provided. On a sample basis, private commercial and family farmers will be surveyed to determine the impact of inputs on their productivity and the increased availability of produce in the Maputo market area.

Such evaluation and survey will be executed by a contractor. Evaluation participants will include the AID Affairs Officer, the Commodity Management/Executive Officer, the program coordinator from the Bank of Mozambique, the project manager at the Ministry of Agriculture, and appropriate officers from REDSO/ESA.

For the proposed technical assistance component, a mid-project evaluation will take place one year after the first consultants arrive in country. The evaluation will cover those points included in the bi-monthly meetings, indicated under Project Monitoring and Management, above.

Thirty months after the signature of the TA grant agreement, a second evaluation will examine progress toward reaching the objectives of the program's various sub-projects and will make recommendations for continued AID assistance. The AID/W project office and REDSO/ESA will be required to carry out these evaluations.

VII. NEGOTIATING STATUS AND CONDITIONS

A. Negotiations

The Bank of Mozambique and the Ministry of Agriculture have agreed to the private sector and regional targets for the CIP. The general objectives of the TA and Training component are also acceptable to the GPRM.

For the Commodity Import Program, 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 to increase food production in private sector agriculture, the team believes that the GPRM will be able to sign the grant agreement shortly after authorization. The draft CIP agreement has been prepared.

A separate grant will be signed for the TA and Training Component. The negotiating status and any special grant conditions will be presented in the proposed amendment for the component

B. Conditions Precedent and Covenants

Only the standard conditions precedent will be included in this agreement while the following covenants will be required.

a. The GPRM will covenant that the commodities imported under the agreement will be sold exclusively to or otherwise distributed to the Mozambique private farming sector including both commercial and small farmers and cooperatives.

b. The GPRM agrees that, unless otherwise agreed by A.I.D. in writing, it will, in consultation with A.I.D., set a local sale price for A.I.D.-financed tractors, tractor implements, and trucks which reflects the true capital costs of the items and generates a fair return to capital.