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Date: June 5, 1986

FY 1986 MOZAMBIQUE PRIVATE SECTOR REHABILITATION III

656-0201B

Control Number: 645-007AM
Date: June 5, 1986

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/SWAZILAND

FROM: William Hammink, APPD

SUBJECT: Authorization of the FY 1986 Mozambique Private Sector Rehabilitation III Program (656-0201B)

Problem: Your approval is required for a grant to the Government of the People's Republic of Mozambique (GPRM) for a $9.57 million Commodity Import Program (CIP) from the FY 1986 ESF appropriation account under the Private Sector Rehabilitation Program - Phase III (PSR III).

Program Description: The PSR III Program is the third phase of AID's bilateral involvement in Mozambique. The purpose of the program remains to support the private agricultural sector by providing foreign exchange for productive inputs needed by private commercial and family farmers. The primary justification for the Phase III program, as in Phases I and II, rests on the need to support the GPRM's policy trend toward private sector development, provide resources which will help these new policies succeed, and encourage further movement toward a market economy. Because of the lack of foreign exchange and the low priority given private sector agricultural production since independence, few inputs have gone to support the private farmers. The commodities imported under the FY 1984 and FY 1985 programs are making a significant difference, but will fall far short of meeting the needs even within the specific target regions. The overall demand for agricultural equipment and inputs, especially by private farmers eager to capitalize on the higher prices of vegetables and to use the land given them which had been formerly state farmland, still far exceeds supply. Agricultural equipment and inputs provided under Phases I and II have started the process of revitalizing the private agricultural sector in the targeted areas, and the Phase III program will continue this process.

Since this is the third year of the PSR program, more emphasis is given in the FY 1986 program on the long-term economic effects of the CIP-financed commodities. The first two years started out with a wide variety of primary inputs. Based on the experience learned, the overall commodity list for the PSR III program concentrates more on tractors, trucks and related spare parts than prior years and provides more funds for raw materials to increase the value-added element of the imports. Also, systemic constraints to increasing agricultural production, such as transport, are being addressed through the mix and ultimate end-users of the commodities.

Phase I and Phase II of the PSR program included funds for technical assistance. The technical assistance funds are being used to assist Mozambique meet critical needs in training and advisory services required for private sector development and increased food production. The FY 1986 PSR III does not include a technical assistance component and is strictly a CIP.

A technical evaluation of the FY 1984 CIP was conducted in January 1986 by the REDSO/ESA Senior Agricultural Officer. He interviewed over 20 farmers in the Chokwe and Maputo regions and found that the program had a major beneficial effect and there appeared to be a strong production response. The evaluation indicated that the program has been effectively and efficiently managed. The commodities imported were appropriate for the stated needs of the target sector and were of good quality. Further, they were available to the end-user in time for the next appropriate planting season. The Phase I program has met its documented goals and objectives. There are indications that the market is starting to have a greater role in resource allocations and in the rural farming sector in general.

Private commercial and family farmers have responded to the availability of the CIP commodities by increasing agricultural production. In the case of the Chokwe region, the increased production was due to an increased area under production, which was possible because of the increased availability of inputs. Most of the farmers who received tractors were also given additional land (former state farm land) and the additional land was producing crops where there were no crops produced before.

There have been some substantive policy changes as a result of the discussions regarding the Phase III program. First, the GPRM has substantially increased the surcharge to be applied to equipment and commodities, resulting in final sales prices to the consumer which are in most cases double the prices charged for the commodities imported under the FY 1984 program and which more closely approximate market prices. More importantly, the GPRM has unilaterally applied the substantially higher FY 1986 surcharge to the commodities imported under the FY 1985 program because they realize that the prices based on the official exchange rate and the relatively small surcharge applied in the FY 1984 program are not realistic. Second, the GPRM has agreed to apply the surcharge to more items than under the FY 1984 program. For the FY 1985 and FY 1986 programs, cultivators and motorpumps will have a surcharge of 150% and knapsack sprayers will have a surcharge of 100% whereas these items did not have a surcharge applied in the FY 1984 program. These changes represent a positive and continued movement by the GPRM in assuring that the final sales prices of the AID-financed commodities more fully reflect their true economic value.

Third, the GPRM has articulated six specific criteria which will be used to allocate the equipment imported under the PSR III program. These are outlined in the PAAD and signify an important step in specifying precisely what the criteria are and in moving away from direct allocation based on non-economic criteria. These substantive allocation criteria may be more effective in increasing overall production than using market prices for allocation at this time given the economic situation in Mozambique.

Fourth, the GPRM has agreed to use private distributors and importers wherever possible. Since there are no general private sector importers, the approved parastatals will continue to issue bids and make the awards. However, once selection is made, if the firm which handles distribution of the equipment to be imported has the capability to import and if it is private, it will be allowed to import as well as distribute the equipment. The projection for the FY 1986 commodities shows that over half of the dollar value of the commodities will be distributed by private sector firms (in FY 1984 this was 31% and in FY 1985 was 38.7%).

Fifth, since the design team found that transport was a serious problem for the marketing of produce grown by the private agricultural sector, the GPRM has agreed to sell some of the trucks imported under the Phase III program to private sector transporters who agree to use the trucks to transport agricultural goods from the targeted regions. This will be undertaken on a pilot basis for FY 1986 and the use of the trucks for marketing agricultural produce from private farmers will be evaluated to determine if this procedure should be used in future programs.

A number of studies will be undertaken during the remainder of FY 1986 to provide information for future programs. An end-use monitor was hired in March 1986 and has already designed five surveys to look at:

(1) production responses due to the AID-provided inputs and liberalized output prices;

(2) socio-economic variables that influence income of private sector farmers;

(3) operations of agricultural commodity private transporters;

(4) production changes of manufacturers receiving AID-funded raw materials; and

(5) the operation of the urban markets.

In addition, the AAO/Maputo plans to initiate a study on local currency uses in order to develop a strategy and a plan to utilize the local currency generations, both from the CIPs and from PL 480 food aid. These studies, along with the major evaluation of the Phase II program planned for October-November, 1986, will provide important information for the design of the FY 1987 program and future programs.

The GPRM has improved considerably the process for depositing local currency generations in the special account and in the trust fund since the evaluation in January, 1986, and the AAO/Maputo is satisfied that deposits are up to date and accounted for.

Environmental Considerations: A categorical exclusion from the requirement of further environmental analyses has been approved for the CIP under the PSR III program.

Conformance with Legislative Restrictions: Section VII and Annex K of the PAAD discuss the conformance of the PSR III program with the specific and general legislative restrictions related to the FY 1986 program. To the best of our knowledge, all of the commodities and materials to be imported under the PSR III program will go to the private sector, subject to continued evaluation.

Waivers: The PAAD includes the following waivers attached as Annex H.

A. Approved by AID/Washington:

1. Blanket waiver for various agricultural inputs and equipment from Code 941 sources ($2.5 million);

2. Worldwide blanket right-hand-drive light vehicle waiver which covers the 3-ton trucks from Code 899 sources ($420,000);

3. Heavy vehicles from Code 899 sources ($860,000);

4. Shipping and insurance waiver to Code 941 vessels for agricultural vehicles, tools, and implements.

B. Waivers requiring your approval as part of program authorization:

1. Diesel fuel and lubricants from Code 899 sources ($900,000);

2. Tractor and truck spare parts from Code 899 sources ($668,000);

3. Irrigation pump sets and accessories from Code 899 sources ($500,000);

4. Seeds from Code 899 sources ($937,000).

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Congressional Notification: A Congressional Notification for the Private Sector Rehabilitation Program was submitted to the Congress in July, 1985 and clearance given for the overall program on August 6, 1985, in STATE 241060. The authorization of the FY 1986 PSR III program is covered under that CN.

Program Management: The Director, USAID/Swaziland has ultimate responsibility for the Mozambique program; however, the AAO/Maputo and the Commodity Management Officer in Maputo will have monitoring and implementation responsibilities for the PSR III program consistent with the Redelegation of Authority dated October 22, 1985 between the USAID/Swaziland Director and the AAO/Maputo. The AID/W backstop office for the program is AFR/PD/SAP.

Grant Agreement Approval: The Grant Agreement will contain the same conditions precedent as found in the Grant Agreements for the PSR program for FY 1984 and FY 1985. The covenants to be included in the Grant Agreement are shown in Section VIII of the PAAD. As shown, these covenants reflect the legislative and other requirements regarding the FY 1986 PSR III program. Under the Redelegation of Authority for the Mozambique program dated October 22, 1985, the AAO/Maputo has the authority to negotiate and execute the Grant Agreement provided it is in accordance with this program authorization. The GPRM has reviewed and approved a draft Grant Agreement; therefore, execution of the Grant Agreement should take place very shortly after you have authorized the FY 1986 PSR III program.

You have been redelegated the authority to sign the attached PAAD and thus authorize the FY 1986 PSR III program from the AA/AFR in STATE 172182 dated 05/31/86 (Annex N of the PAAD). An ECPR was held in Mbabane, Swaziland on May 6, 1986, at which time all review committee members recommended that you sign the PAAD and authorize the FY 1986 program. There are no outstanding issues.

Recommendation: That you sign the attached PAAD facesheet and thereby approve the authorization of the $9.57 million FY 1986 Mozambique Private Sector Rehabilitation Program - Phase III.

ATTACHMENT: PAAD FOR PSR III PROGRAM

AID 1120-1 PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 656-0201B 2. COUNTRY MOZAMBIQUE 3. CATEGORY COMMODITY FINANCING - STANDARD PROCEDURES 4. DATE JUNE 4, 1986
5. TO: Robert G. Huesmann Director, USAID/Swaziland		6. OYB CHANGE NO. --
7. FROM Alan A. Silva Alan A. Silva AID Affairs Officer, AAO/Maputo		8. OYB INCREASE $9,570,000 TO BE TAKEN FROM: ESF
9. APPROVAL REQUESTED FOR COMMITMENT OF $ 9,570,000		10 APPROPRIATION - ESF

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☒ FORMAL ☐ NONE	6/86 - 6/87	DATE OF AUTHORIZATION

15. COMMODITIES FINANCED

Trucks, tractors, agricultural implements and equipment, tractor, truck and implement spare parts, seeds, handtools, fertilizers, irrigation equipment, galvanized zinc sheets, diesel fuel and lubricants, and raw materials for the manufacture and assembly of agricultural inputs and other farm equipment.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	$9,570,000	U.S.:	$2,785,000
Limited F.W.:	$2,500,000	Industrialized Countries:	$4,285,000
Free World:	$4,285,000	Local:	-$0-
Cash:	-$0-	Other:	Code 941: $2,500,000

18. SUMMARY DESCRIPTION

(See attached continuation sheet)

19. CLEARANCES		DATE
CM/EO:JAShane	JShane	6/4/86
DD:HJohnson		6/5/86
RLA/SA:ESpriggs		6/6/86
PPD:AReed		6/5/86
R/CONT:GByllesby		6/5/86
R/ECON:NCohen		6/5/86
APPD:WHammink	WHammink	6/5/86

20. ACTION

☒ APPROVED ☐ DISAPPROVED

R Huesmann — AUTHORIZED SIGNATURE — 6/6/86 DATE

Director, USAID/Swaziland

TITLE

Continuation Sheet:

MOZAMBIQUE PRIVATE SECTOR REHABILITATION III PAAD, 656-0201B

18. SUMMARY DESCRIPTION:

The PSR III Program is the third phase of AID's initial bilateral involvement in Mozambique. The purpose of the Program remains to support the private agricultural sector by providing foreign exchange for productive inputs needed by private commercial and family farmers. The primary justification for the Phase III Program, as in Phases I and II, rests on the need to support the GPRM's policy trend toward private sector development, provide resources which will help these new policies succeed, and encourage further movement toward a market economy. The PSR III Program concentrates assistance on the private agricultural sector, since the need and the production potential in this sector are extremely high. AID-financed agricultural inputs and equipment will give the private farmers the means to take advantage of the GPRM policy changes. Commodity support will be given to the full range of private sector producers, that is family farmers, commercial farmers and, to a lesser extent, cooperatives. Also, some raw materials will be purchased for local manufacture of agricultural inputs and equipment. The Phase III Program includes only a Commodity Import Program (CIP). The CIP, which will import primarily agricultural equipment and inputs, will be implemented over an 18 month period. It is expected that most procurement will be made in the first 9 months. The terminal date for disbursing authorization will be 18 months after the signing of the Grant Agreement.

Conditions Precedent and Covenants for the Program are presented in Section VIII, Negotiating Status and Conditions. Annex H of the PAAD contains waivers to be approved as part of the PAAD Authorization for:

1. diesel fuel and lubricants from Code 899 sources ($900,000)
2. irrigation pump sets from Code 899 sources ($500,000)
3. seeds from Code 899 sources ($937,000)
4. tractor and truck spare parts from Code 899 sources ($668,000)

Waivers already approved by AID/Washington include:

1. blanket waiver for various agricultural inputs from Code 941 ($2,500,000)
2. heavy trucks from Code 899 sources ($860,000)
3. blanket worldwide waiver for right-hand drive light trucks from Code 899 sources ($420,000)
4. blanket shipping and insurance waiver for Code 941 vessels

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MOZAMBIQUE PRIVATE SECTOR REHABILITATION III
(656-0201B)

ABBREVIATIONS

AA/AFR	Assistant Administrator, Bureau for Africa (AID/W)
AAO	AID Affairs Office
AAO/Maputo	AID Affairs Office, Maputo, Mozambique
AID	Agency for International Development
AID/W	Agency for International Development, Washington, D.C.
C.I.F.	Charge, Insurance, Freight
CIP	Commodity Import Program
CM/EO	Commodity Management/Executive Officer
CP	Conditions Precedent
DIR, USAID/S	Director, USAID/Swaziland
EEC	European Economic Community
ESF	Economic Support Fund
FAO	Food and Agriculture Organization of the United Nations
FY	Fiscal Year
GDP	Gross Domestic Product
GPRM	Government of the People's Republic of Mozambique
GSP	Global Social Production
IBRD	International Bank for Reconstruction and Development (World Bank)
IEE	Initial Environmental Examination
IFB	Invitation for Bids
IMF	International Monetary Fund
Kg	Kilogram
km	Kilometer
MOA	Ministry of Agriculture
M/SER/AAM	Office of Acquisition and Assistance Management (AID/W)
MT	Metric Tons
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OP.'C	Overseas Private Investment Corporation

PAAD	Project Assistance Approval Document
PAIP	Program Assistance Identification Proposal
PSR	Private Sector Rehabilitation Program
REDSO/ESA	Regional Economic Development Services Office/East and Southern Africa
RFQ	Requests for Quotations
RLDC	Relatively Least Developed Country
RSA	Republic of South Africa
UN	United Nations
UNIDO	United Nations Industrial Development Organization
U.S.	United States
USAID/Swaziland	United States Agency for International Development, Mission to Swaziland
USSR	Union of Soviet Socialist Republics
ZANU	Zimbabwe African National Union

FY 1986 MOZAMBIQUE PRIVATE SECTOR REHABILITATION III

EXECUTIVE SUMMARY

A. The Grant

This Program Assistance Approval Document recommends that the U.S. Government grant the Government of the People's Republic of Mozambique (GPRM) $9,570,000, from Economic Support Funds, for a Commodity Import Program (CIP) to support the Private Sector Rehabilitation III (PSR III) Program. The PSR III program would be the third year of an existing Private Sector Rehabilitation program. The first two years included both technical assistance and CIPs, while the PSR III program will include only a CIP. The CIP, which will import primarily agricultural equipment and inputs, will be implemented over an 18 month period. It is expected that most procurement will be made in the first 9 months. The terminal date for disbursing authorization will be 18 months after the signing of the Grant Agreement.

B. Implementing Agencies

The Ministry of Agriculture (MOA) of the GPRM will coordinate the overall commodity import program and be responsible for implementation and distribution. Procurement and importation will be effected by parastatal importers, private sector equipment agencies, private companies for the raw materials, and several semiautonomous units within the Ministry of External Trade.

C. Program Description

The basic purpose of the program is to support the private agricultural sector and encourage increased production through the importation of vitally needed inputs and equipment. The CIP will provide foreign exchange for the importation of presently unavailable agricultural commodities for private sector farmers and raw materials for the local manufacture of agriculturally-related commodities.

D. Findings

The macro-economic and agricultural situation clearly justify the provision of a grant to finance the importation of vital agricultural inputs to be used exclusively by private sector farmers. While the importation of similar items in the first two years of this program has reached the intended beneficiaries, the commodities have not satisfied the very large needs of private agricultural farmers in the targeted geographical areas. The agricultural inputs and equipment will increase food production, save the foreign exchange otherwise needed to import food, and revitalize the private agricultural sector in the targeted areas. A formal ECPR for the PSR III program was held on May 6, 1986 in Mbabane, Swaziland and the review committee recommended the authorization of the PSR III program. A categorical exclusion for the CIP has been approved for the Initial Environmental Examination (Annex I).

E. Program Waivers

The AA/AFR has approved a blanket waiver for selected commodities such as tractors, tractor implements, seeds, handtools and natural rubber under the

PSR III program to permit procurement from countries included in AID Geographic Code 941 (i.e. Brazil, Zimbabwe, Swaziland) for up to $2.5 million. The AA/AFR also has approved waivers to permit procurement of heavy trucks (8 ton) from Code 899 countries. AID/W has determined that the worldwide blanket waiver for right-hand drive vehicles applies to the purchase of the light trucks (2-3 ton) from Code 899 countries. In addition, M/SER/AAM has approved a blanket shipping and insurance waiver to allow shipping on vessels registered in countries included in Code 941 when U.S.-registered vessels are not available. Waivers to be approved as part of this authorization package are included in Annex H.

F. Major Conditions Precedent and Covenants

Only the standard Conditions Precedent will be included in the Grant Agreement. The Grant Agreement will include the standard covenants as stipulated in Handbook 4. In addition, the GPRM will covenant that:

- the commodities imported under the Agreement will be sold or otherwise distributed to the Mozambique private farming sector, including both commercial and small farmers and cooperatives, or will be sold to private sector agriculture-related concerns, including transporters;

- best efforts should be made to increase the involvement of private sector firms in the importation and distribution of commodities financed under the Agreement;

- unless otherwise agreed by A.I.D. in writing, it will assure, in consultation with A.I.D., that the local sale price for A.I.D.-financed tractors, tractor implements, trucks and other commodities reflects the true economic value of the items and generates a fair return to capital;

- the amount generated from any price increases or surcharges in order to comply with the covenant on pricing of commodities will be deposited into the special local currency account;

- unless otherwise agreed by A.I.D. in writing, (A) no less than 75 percent of the local currency proceeds required to be deposited into the special account will be utilized for mutually agreed upon economic development activities; (B) the balance may be used for these and other mutually agreed upon purposes; and (C) commodities imported under the Agreement will be used to meet long-term development needs, as more fully described in implementation letters;

- funds in the special account shall be made available, on a priority basis, to support private voluntary organizations (PVOs) and the private sector.

G. PAAD Design Team Members

-- William Hammink, Project Development Officer, USAID/Swaziland
-- Neal P. Cohen, Regional Economist, USAID/Swaziland
-- Robert Armstrong, Senior Agricultural Officer, REDSO/ESA
-- Judi Shane, Commodity Management/Executive Officer, AAO/Maputo
-- Gary L. Byllesby, Regional Controller, USAID/Swaziland
-- Gary B. Bisson, Regional Legal Advisor, Southern Africa
-- Edward J. Spriggs, Regional Legal Advisor, Southern Africa

I. ECONOMIC AND AGRICULTURAL SITUATION

A. General Background

Mozambique became independent from Portugal on June 25, 1975, after a ten-year war waged by the national liberation movement, FRELIMO. FRELIMO party leader, Samora Michel, has been president since independence. At its Third Party Congress in February, 1977, FRELIMO was declared a Marxist-Leninist vanguard party dedicated to the creation of a socialist state in Mozambique. During the ensuing years, the government established a centrally planned economy. The economy entered a period of prolonged decline, leading to major policy changes at the Fourth Party Congress in 1983.

FRELIMO is the sole legal political party, with most political authority residing in the Permanent Political Committee, which in turn is responsible to the 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.

A major insurgency is being waged by the Mozambican National Resistance (RENAMO), which has posed a progressively more serious threat to national security and development. Increasingly RENAMO has focussed on attacking economic targets and destroying rail lines, electric power lines and oil pipelines. The GPRM has budgeted nearly a third of its 1986 budget to defense overall as a consequence.

The Nkomati Accord signed in March, 1984, between the Republic of South Africa (RSA) and Mozambique resulted from a realization by the GPRM that ending the insurgency problem is sina qua non for economic stability and development. The Accord promised that RSA would end its support for RENAMO and opened the way for increased cooperation between the two countries. However, the RENAMO insurgency has increased, in some cases dramatically, over the past two years, and many questions remain about the commitment of the RSA to the spirit of the Nkomati accord.

Since independence, FRELIMO has maintained close relations with the Socialist bloc countries, notably China, East Germany, Cuba and the USSR, which had provided much support during the war for independence. Mozambique is a member of the Southern African Development Coordination Conference, which aims to reduce the economic dependence of its members on South Africa.

Relations with the West improved markedly following President Machel's close involvement in the Lancaster House negotiations leading to the independence of Zimbabwe in 1980. Mozambique joined the IBRD, the IMF and the Lome Convention in 1984 and has received a major $45 million rehabilitation loan from the IBRD. By word and example, Mozambique has been supportive of U.S. diplomatic efforts in promoting regional stability. Additionally, Mozambique has pursued an increasingly pragmatic and genuinely non-aligned stance in international relations. Finally, the positive maturing and strengthening of Mozambique-United States relations were demonstrated by an official visit by President Samora Michel to the United States to meet with President Reagan, other American leaders and potential American investors.

Mozambique has a population estimated at 14 million people in 1986, increasing at 2.6 percent per year, and a land area of 312,500 square miles (equal to England, France and Portugal combined). 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 has occurred in recent years, particularly to the capital city of Maputo. This movement has increased due to the rural insurgency. An estimated 16 percent 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. Tribal conflict is not strong and the government has made concerted efforts to de-emphasize ethnic differences in the population.

Mozambique has excellent port sites with the potential to serve as a natural outlet for the trade of the landlocked countries of southern Africa. Most of Mozambique is flat with higher elevations in the western part of the country. There are some 60 rivers, the most important being the Limpopo, Save, Zambezi, Lurio and Rovuma. These provide ample opportunities for irrigation and hydro-power generation. The hydro-power station at Cabora-Bassa, which could generate 3600 megawatts, is the largest in sub-Saharan Africa. The predominant vegetation is tropical forest and savanna. While rainfall is generally favorable, erratic patterns of late have contributed to serious cyclical drought conditions. There was severe flooding in 1977-78 and intermittent drought and cyclones from 1982 to 1985.

Mozambique also has considerable mineral resource potential, although much of the country has not been adequately surveyed to determine how much of the resources are economically recoverable. Coal reserves could permit large scale exports, but the transport system has constrained development in recent years. There is also some mining of tantalum, a valuable and strategic mineral used in hardening steel. Many other minerals have been identified but the economic viability of their extraction has not been determined. Foreign firms are currently assessing the viability of petroleum and bauxite production.

The colonial Portuguese adopted a mercantilist approach to Mozambique, whereby the colony supplied Portugal with cheap primary products and purchased relatively expensive finished products from Portugal. Only in the last two decades of colonial rule was there development of local industries, non-estate agriculture and social services. The Portuguese colonial legacy left the indigenous Mozambican people with little education, practical skills, manufacturing capacity or business experience. Large commercial farms were Portuguese operated and largely designed to meet Portugal's needs. The transportation system was designed not for Mozambique's internal needs, but rather to transfer goods to and from the RSA and Rhodesia.

In 1970 less than one percent of the black African population had a primary school education and there were only around ten black Mozambicans with university degrees. Africans were forbidden to engage in commerce and formal land ownership was limited to European settlers, although most African families were allowed to use land for subsistence food production.

Of the estimated 250,000 Portuguese in the country at independence, less than 50,000 remained two years later. Many of those that left destroyed or sabotaged their farms and factories before leaving. The economy was depleted of skilled manpower. Faced with the loss of much of the country's managerial capacity and capital, the new government nationalized all financial services, legal practices, education, health, oil refining, coal and other mineral production, rental property and most of the agricultural estates which had been abandoned. While much of the state intervention was caused by practical circumstances and not because of a specific economic philosophy, the Third Party Congress in 1977 placed the country formally in the socialist mode of development and directed the state to:

-- develop and consolidate its control over the economy;

-- promote socialization of agriculture;

-- accelerate industrialization with emphasis on heavy industry;

-- train Mozambican nationals to run the country; and

-- improve economic management.

The only sectors which remained predominantly private were retail trade, smallholder family agriculture (although much reduced in economic importance), internal cargo transport and petty services. Socialization of agriculture required the establishment of state farms and communal villages. It was felt that these would permit the provision of social services to the people and the rapid recovery of production and export. The GPRM followed this basic strategy until the early 1980s when the declining economy and large foreign debt led to some major changes in direction.

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

1. Recent Developments

The Fourth Congress Party in April 1983 acknowledged that the government had made policy errors and criticized, in particular, the inability of the state farms to run efficiently. It directed the government to increase its support for cooperatives and private farmers, specifically to

-- maximize the use of land presently under state farms, minimize new investment, and use existing equipment more efficiently;

-- direct more resources to cooperatives and smallholder family and private commercial farmers;

-- permit producer prices to rise so as to provide economic incentives to farmers;

-- reduce state spending so as to control the deficit and ensure that new investments are technically and financially viable, contribute to a reduction in the balance of payments deficits; and

-- restructure state enterprises to be more efficient, to adopt accounting practices appropriate to effective management, and to have greater financial managerial autonomy to respond to needs.

The government has taken a number of steps since 1983 to implement these directives. A number of prices were totally freed while others were raised significantly; state farm lands were reallocated to private and family farmers; some state enterprises were sold to the private sector; and management was given greater control over spending and prices. Firms can now retain 20 percent of their hard currency export receipts to use for incentive pay or imports. Foreign investment regulations were liberalized, and several foreign firms are seriously considering new investment. The government has reduced the access of loss making firms to automatic financing credit from the Bank of Mozambique. Government spending has been frozen and the GPRM is negotiating with the IMF and IBRD to deal with a multitude of economic policies, including exchange rates, balance of payments, debt and pricing problems.

The government recognizes that many mistakes were made in the past, but it lacks the human and financial resources to make a complete break with past practices. It is probably best to call current government economic policy 'eclectic.' The government seems willing to try different approaches to its problems based on the funds which it can find but following, if possible, the state-controlled allocative process which has been used both under the Portuguese and since independence. The government is continuing to support state farms and enterprises, although seeking improved efficiency, while at the same time is giving more support to private farmers and selling many industries to private businessmen.

2. Education and Health

Mozambique continues to face daunting social problems in spite of significant gains in certain areas since independence. Adult literacy rose from 7 percent in 1975 to about 28 percent today and 44 percent of the people 15-24 years old attend school. Primary school enrollment increased from 672,000 to 1.4 million, with 119 percent[1] of the male and 72 percent of the female primary school age population in school. Secondary school enrollment tripled with 3 percent of the age group in secondary school in 1965 and over 6 percent now. While there has been considerable progress, educational levels are still below those of most other African countries.

Similarly, health care seriously lags that of most other countries. Although life expectancy has risen from 41 to 46 years since independence, infant mortality is still one of the highest in the world, 159 per 1,000, and six provinces have over 200 deaths per 1,000 live births. The departure of many physicians increased the patient-physician ratio from 16,230:1 at independence to 39,140:1 now. Because of the scarcity of physicians, some 3,250 health workers, mainly paramedics, have been trained and preventive health care is stressed. In this area, Mozambique is viewed as an innovator amongst low-income countries.

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[1] This is possible because of over-age males in primary school.

The sub-Saharan Africa low-income countries spend, on average, 23.1 percent of their non-defense budget on education and health and 9.5 percent of their total budget on defense. Mozambique spends more on defense, 30.1 percent, but education and health still receive 22.9 percent of the non-defense budget. In 1984, expenditures on health and education rose to an estimated 26.7 percent of the non-defense budget.

3. Macro-Economic Performance

Macro-economic data for Mozambique may be inaccurate because of changing definitions and the lack of skilled personnel to collect the data, ensure consistency and comparability with other data and interpret the information when it is available.

In the last three years of Portuguese rule, real Gross Domestic Product (GDP) is estimated to have fallen by 9.8 percent per year. For the first four years of independence, real GDP rose by 2.5 percent led by expansions in government spending. Agriculture grew by 1.1 percent per year on average. Since 1980, real GDP has fallen by 3.6 percent per year on average (IMF estimates) for a per capita fall of 6.0 percent per year. This implies that the average person is about 27 percent worse off now than in 1980.

Mozambique uses Global Social Product (GSP) as its primary measure of economic performance. The main differences between this and GDP are that GSP excludes the value of financial services and public administration. Real GSP dropped by 25 percent between 1980 and 1985 (projected), and real GSP per capita dropped by 8.1 percent per year on average. This is one of the worst macro-economic performances of any country in the world this decade. The armed conflict, drought, inappropriate economic policies and economic mismanagement have all contributed to the problems.

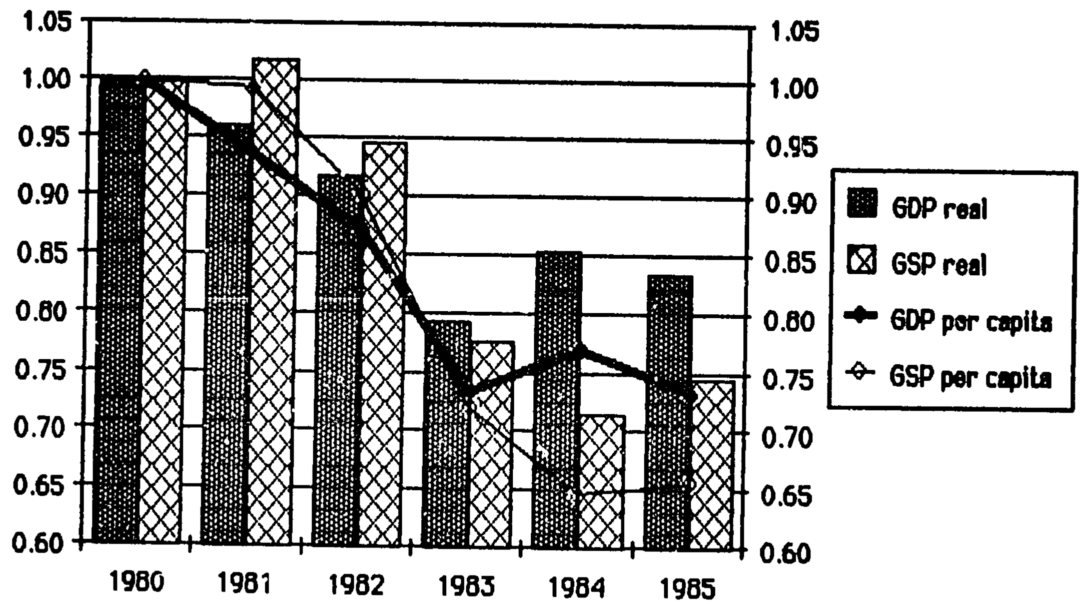
Investment in the country has been very low recently, around 12 percent of GDP over the last three years. Unless there is a large increase in efficiency from existing capital, this implies an aging of the capital stock and decreased future growth. A lack of resources has forced the government to emphasize increasing output from existing resources. The prospects for future growth are worsened by the lack of domestic savings. The government has not been able to finance its recurrent budget from tax revenue, and thus has had to resort to monetary expansion and international borrowing. Domestic savings are negligible. The People's Development Bank pays between 1 and 6 percent on savings. It experimented with higher savings rates but was unsuccessful in attracting increased savings, leading to the conclusion that savings were not interest rate responsive. It has recently increased the number of branches, however, and preliminary indications are that more is now being saved in the banking system.

4. Balance of Payments, Debt, Monetary Statistics and Prices

a. Balance of payments

During Portuguese rule, Mozambique consistently ran a deficit on merchandise trade which was financed by a large surplus on the services account (mine worker earnings and receipts from the use of Mozambican rails and ports). During the early 1970's, the merchandise trade deficit was usually over

Table 1
National Income Accounts (real)
(indexed 1980=1.00)



Source: IMF: Mozambique - Staff Report for the 1985 Article IV Consultation, June 3, 1985

$100 million. Even though trade continued to grow after 1973, by 1982 the deficit had grown to over $600 million.

Receipts from transportation fees and mine workers[2] dropped from $217 million in 1973 to an estimated $108 million in 1985 while expenditures, mainly interest payments, doubled to $184 million (even after the debt rescheduling). Thus, from running slight surpluses on the current account prior to independence, the country is now running deficits of around half a billion dollars a year. Grants have usually been able to finance less than a third of this, forcing foreign debt to increase. Imports have been falling since 1982 due to the rising debt and reduced amount of foreign exchange.

b. Debt

The country's external debt has increased to an estimated $2.4 billion, which is 1.2 times GDP. Debt arrears in November, 1984, prior to the rescheduling,

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2 There was a substantial increase in the number of mine workers going to South Africa in 1985. The number of recruits increased from 42,000 in 1984 to 52,700 in 1985. There was also a 18-19 percent increase in earnings. The mine recruiting organization, Wenala, estimates likely total earnings in 1986 at R200 million. Sixty percent of this is automatically deferred and paid to the workers by the Bank of Mozambique in meticais. In 1985, earnings from mine workers were the largest single export earner and possibly equal to the value of all other exports combined.

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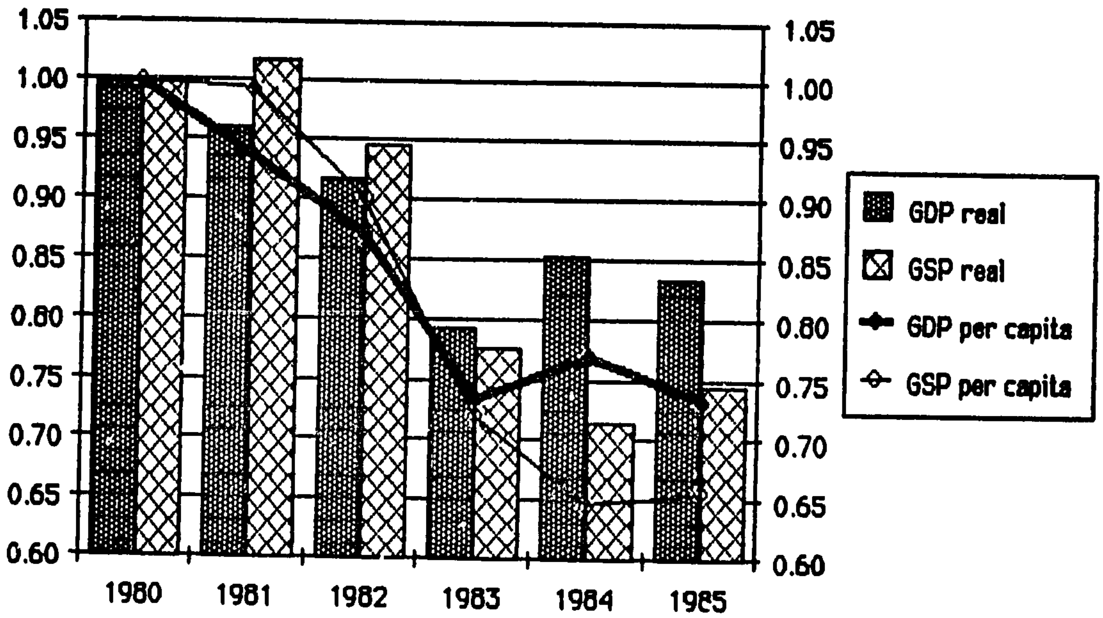

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were six times exports. The ratio of debt to GDP, and the ratio of 1985 debt service to GDP are the worst of any low-income country and worse than almost all middle-income countries. The cost of servicing that part of the debt not in arrears is 1.6 times the total value of exports and service receipts.

Table 2

Distribution of Mozambique's 1984 Debt and 1985 Debt Service

owed to	1984 debt	1985 debt service
OECD	36%	22%
Centrally Planned Economies	31%	29%
OPEC	16%	21%
Multilateral Financial Institutions	8%	2%
Private and Other	10%	26%

c. Monetary Statistics

Table 3 shows trends for three balance of payments indicators: merchandise trade balance, current account balance (same as merchandise trade balance but includes earnings of mine workers and transportation system and interest payments), and basic balance (current account balance plus external grants). The merchandise trade balance became increasingly negative through 1982, although it improved slightly since then due to a shortage of foreign exchange reducing the ability to import. Prior to independence, the merchandise account deficit was financed by service receipts resulting in a rough current account balance. The current account deficit also improved slightly from 1982 to 1984 but is estimated to have increased again in 1985. The basic balance gives an idea of required government financing and shows an estimated large increase in the amount of financing (or rescheduling) required in 1985 compared to 1984.

The value of the metical is pegged by a formula to the value of a basket of six currencies: the British Pound, French Franc, German Mark, Portuguese Escudo, South African Rand, and U.S. Dollar. There has been no change in the weighting of the currencies in the basket or any devaluation or revaluation; changes in the exchange rate are caused by changes in the currencies in the basket. Large increases in the amount of meticais in circulation combined with a limited number of items for sale have led to a discrepancy between the official and the 'unofficial' exchange rates. The official exchange rate is around 40 meticais to the dollar and 17 meticais to the rand[3]. The 'unofficial' exchange rate varies up to 1,600 meticais to the dollar and 700 meticais to the rand.

The IMF is recommending a major devaluation, 'a multiple, not a percentage devaluation,' but many in government are not convinced that devaluation will have a positive impact. They argue that Mozambique's exports will not be

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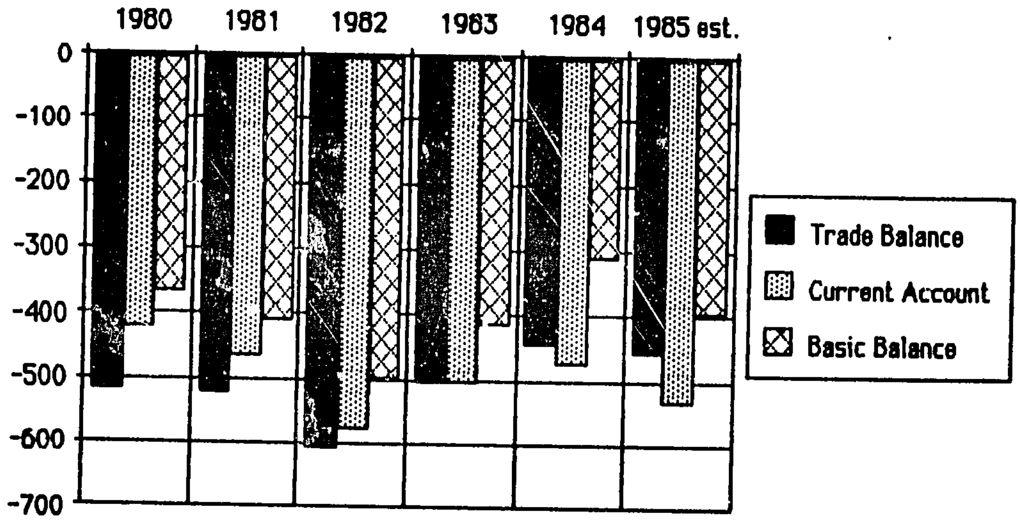
3 Mine workers receive a fixed 20 meticais to the rand, which is a reduction from the 40 meticais for the rand they used to receive.

stimulated significantly by such a devaluation because production will continue to be hampered by insecurity and transportation difficulties. Further, devaluation will increase import prices and 'cause a major hardship for the urban population.' The argument is that both export and import prices are essentially foreign currency price inelastic in the current "war-time" situation. However, at the official exchange rate, many of Mozambique's exports are simply not competitive on the international market.

Table 3

Balance of Payments 1980-1985 (estimated)

(in millions of U.S. Dollars)



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While the government has had to resort to international borrowing to finance imports, it has resorted to monetary expansion to finance the government budget deficit. The result has been large increases in the amount of money in circulation, i.e. 23 percent per year on average since 1980. Between 1980 and 1984, the real value of production (GSP) fell by 28 percent. Thus, 129 percent more money is trying to purchase 28 percent fewer goods.

There are no official price statistics for Mozambique, but the IMF estimated that between 1980 and 1984 prices[4] rose by 6 percent per year or by 26 percent. The result of higher monetary growth than real growth is usually inflation; however, with inflation suppressed by price controls, the result has been a large increase in idle meticais outside the banking sector.

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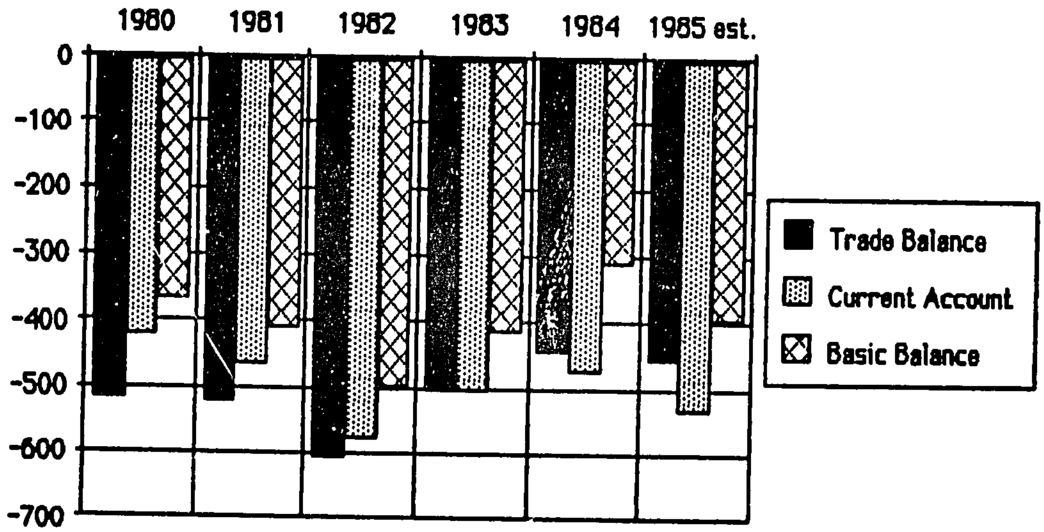

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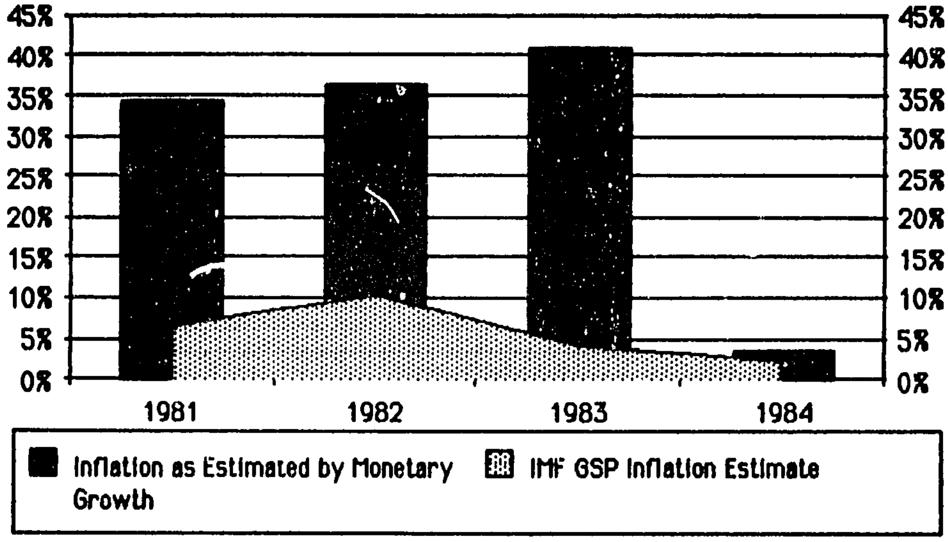
Table 4

Annual Inflation Estimates

1981-1984



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-- prices that are directly controlled by the Council of Ministers, individual Ministries or Regional Governments;

-- prices that are set by a formula based on costs, profit rates and working margins; and

-- those prices that are free from direct government control.

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5 The methodology being used is basically the Quantity Theory of Money, an identity where money supply times the velocity of circulation is equal to the value of goods and services: MV=PT. In 1984, "V" was an exceptionally low 1.05. Problems with the data mean that all the results ought to be viewed as indicative only.

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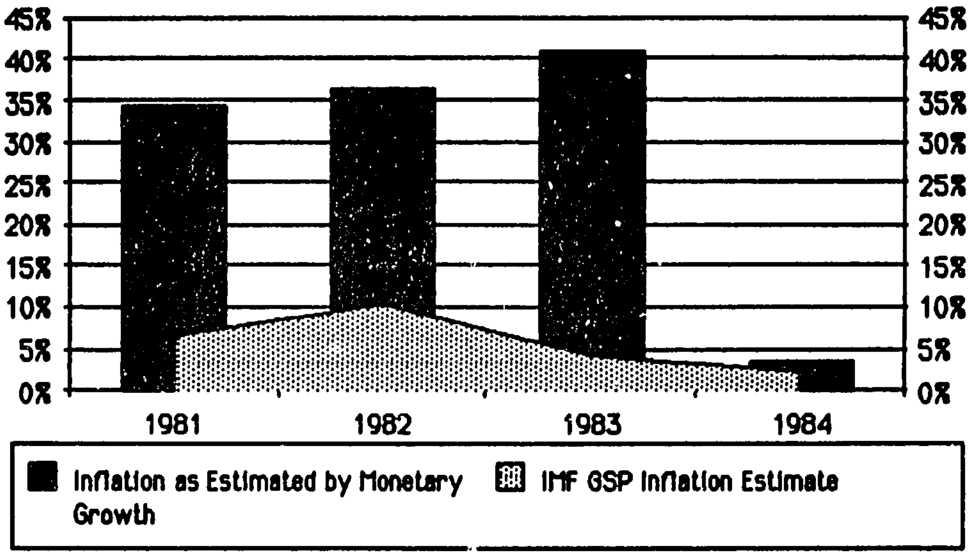

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The 1982 law designated a number of ministries as having key responsibility for control of certain prices. Under the system, there is room for considerable flexibility in prices between provinces (to reflect different cost structures and the needs of producers and consumers in the area). It is also theoretically possible to make pri.e changes or remove items from direct price control more easily. However, a lack of manpower to analyze prices has meant that most recent price changes have originated from central decisions of the National Commission for Salaries and Prices which is chaired by the Minister of Finance and under the Council of Ministers. For a number of imported essential commodities, the landed C.I.F. price is greater than the local price, i.e. the government subsidizes these prices.

The National Commission was the responsible organization behind the increase in many prices last year and the freeing of most fruit and vegetable prices. There is an on-going discussion with the World Bank on freeing additional prices; however, because of the political implications of this action, the decision will be made by the Politburo.

Many wages are also controlled by the government, although the last legislated change in non-governmental salaries was in January 1980 when the minimums were increased by 50 percent[6]. Private sector minimum wages are still low, for example non-seasonal agricultural workers earn just over 50 meticais per month. When possible, workers prefer to receive part of their salary in goods.

5. Government Budget

One half of the increase in government spending since 1980 has been on defense and security. Spending increases combined with declining revenues have led to increasing government deficits. Beginning with the 1984 fiscal year, total revenue did not cover recurrent spending.

The government deficit is greater than the figures show since profits from government enterprises are included in the budget while losses are financed through the banking system. The internal and external trade organizations have been the major state enterprises showing profits, while the largest losses have been from state farms, and operation of the ports and rail lines. The Bank of Mozambique has requested the government to convert non-performing loans to grants. The deficit was reduced for some years by sales of government and bank gold holdings, but this non-tax revenue can not be repeated.

Defense and security absorbed 30 percent of total government spending in 1984 and 44 percent of all recurrent spending. Between 1980 and 1984, 58 percent of the increase in spending was on defense. Budgetary difficulties have forced reductions in the capital investment budget. It has dropped from 17 billion meticais in 1983 to an estimated 8 billion meticais in 1985. This has meant large reductions on capital spending in agriculture, industry, energy, transport, communication and construction.

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6 Just prior to independence, there were some very large wage increases, over 300 percent, because of strikes and efforts to discourage workers from leaving the country, or to assist in transferring funds overseas.

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Revenue has been falling because the decreasing availability of items to purchase has reduced consumption and import tax collections. Reduced profits of companies (public and private) have also reduced revenue. Recent increases in the beer and tobacco tax will improve revenue slightly in 1986.

The continuing security problem, and the lack of wage increases for government employees[7] since 1975 will put increasing pressure on the budget in 1986. The government realizes that the budget cannot sustain the subsidies to many consumer items or the losses of some state enterprises. There is talk of increases in prices to reflect cost of production. Those firms which cannot be profitable will be considered for closure or transfer to the private sector. The large amount of meticais in circulation implies that there is money to pay taxes. The problem will be finding the way to collect the tax. Very high import duties on non-essential imports is a possibility, but the lack of foreign exchange will make this difficult. Improved performance of public enterprises will take time and is unlikely to have much impact in 1986.

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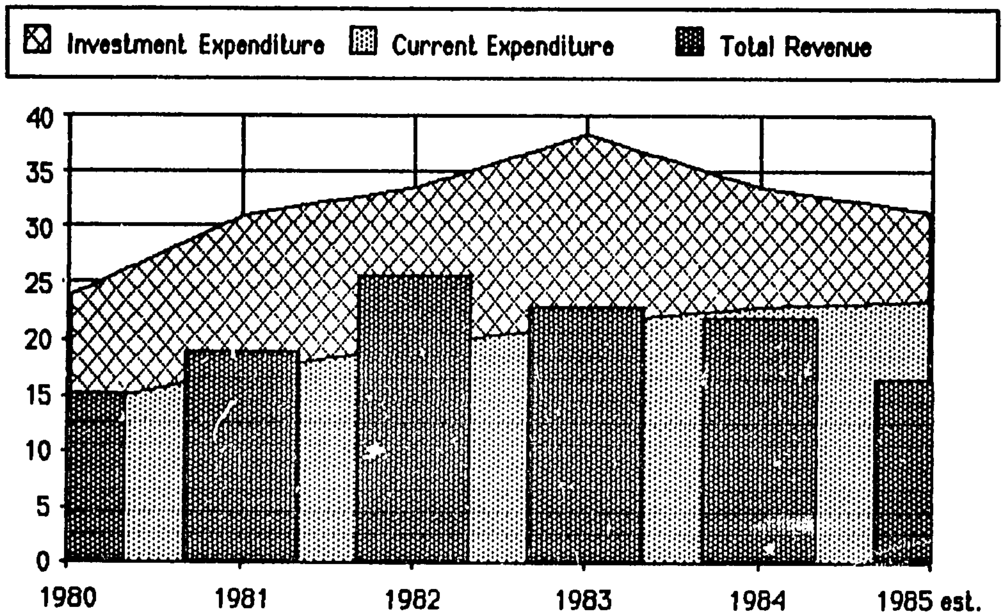
(in billions of meticais)



Fiscal Year

Source: Ministry of Finance, Government of Mozambique

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Manufacturing accounts for only 5 percent of total employment and 14 percent of GDP. Manufactured exports are negligible. There are around 300 manufacturing enterprises, of which two-thirds are in light industry. Over half the

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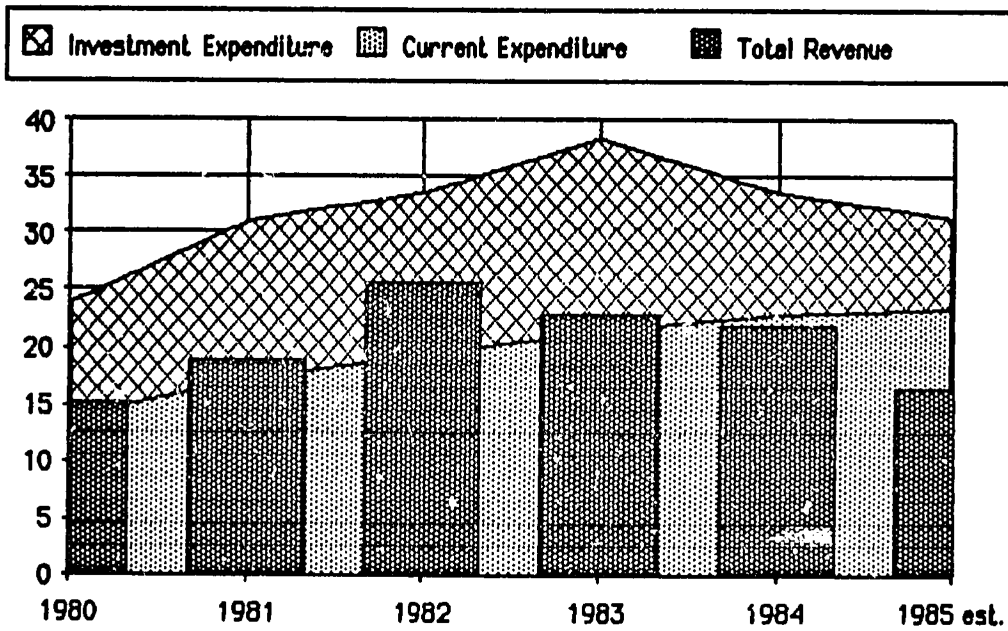

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industrial enterprises, two-thirds of all industrial production, is represented by nationalized firms or those that were 'intervened,' that is, firms that were abandoned by their owners at independence and managed by government-appointed managers. Most industrial production is in Maputo and Beira.

There are many serious constraints to manufacturing development, such as the acute shortage of skilled people, lack of raw materials, the poor transportation system, economic mismanagement and the security situation.

Overall, manufacturing output is half that of 1973 with the bulk of the decrease in the period to 1976 (independence), and since 1980 (the effect of the drought, security problems and foreign exchange shortages). In 1983, the food processing and agro-industry sector accounted for a third of total manufacturing output, while accounting for almost one-half of the sector's output in 1973. Petroleum refining and hydro-power generation accounted for only one-quarter of total manufacturing output in 1983 but accounted for 58 percent of 1973 production. The only subsectors which have improved their output in the last decade have been commercial fishing (up 65 percent to 7 percent of total manufacturing output), textiles (up 39 percent to 6 percent of the total), and shoes (up 122 percent to 3 percent of the total).

C. The Agricultural Sector

1. Country Wide Situation

Although official statistics are often unreliable, data from various sources are better now than a year ago. During the last year, three visiting AID teams (FY 1985 PAAD design, FY 1984 CIP evaluation, and FY 1986 PAIP design) have compiled an informal data base to supplement other sources. This report is based on a review of these data supplemented by discussions with GPRM officials, foreign technical advisors and private sector farmers.

Estimates of marketed production for the 1985-86 cropping season are now available and are discouraging for the major cereal crops. For example, the estimated total marketed production for the period May 1985 through April 1986 is expected to be 46,000 metric tons (MT) of maize and 13,000 MT of rice compared to 82,000 MT of maize and 19,000 MT of rice for the period May 1984 through April 1985. FAO estimates that the total production of maize, rice and wheat for the period January to April 1986 will be about 63,000 metric tons less than the total consumption requirements. Substantial food aid, therefore, will continue to be required throughout the country.

However, Ministry of Agriculture officials in Chokwe (an area which received AID-financed commodities under the FY 1984 CIP and will receive commodities under FY 1985 and FY 1986 CIPs) reported an increase of 12,000 MT of rice in the 1985 crop over the 1984 crop and expect another increase of 10,000 MT for the 1986 season over 1985. This information does not agree with the official estimates for national marketed production and points out the difficulty of working with the available data sources. Chokwe is an interesting example of the difficulties caused by the security problem. The district is secure and local production is increasing. The discrepancy may be a result of the lack of security and adequate transportation between Chokwe and Maputo which inhibits shipments out of the area and thus the production is not recorded as marketed production.

In summary, the drastic reductions in production during recent years are attributable to the drought and the flood conditions, but even more to the RENAMO insurgency. 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

There are basically four subsectors in agriculture. The first, and by far the largest, consists of the small family-owned farms which practice mixed farming by growing maize, beans, sweet potatoes, groundnuts, cassava and cashew nuts and raising some animals. This family sector produces practically all of the cassava crop, the bulk of the 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. There are approximately 1,900,000 family units nationwide with an average size of 5.5 people. Given favorable weather, the family sector produces sufficient food (except for 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. Very little technical assistance or extension service is given to family farmers, although assistance is increasing in certain areas. The absence of relevant research and information concerning soil, water, technology and cultivation for the sector impedes the development of the family farmer.

The state farm subsector occupies an area of about 140,000 hectares or some 6 percent of the total cultivated land and employs an estimated 150,000 workers. The state farms produced over 35 percent of the total marketed agricultural production, and received, until recently, more than 90 percent of government investment in agriculture. The production of specialized industrial 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 until very recently. Today, commercial farmers cultivate an estimated 50,000 hectares of highly productive land. These farmers do remarkably well, in spite of the lack of inputs, and their share in the total marketed production of foodcrops is currently about 15 percent.

The cooperative subsector cultivates an approximately 12,000 hectares and contributes between one or two percent of the total marketed production of foodcrops. This share has decreased during the last two years.

As a result of the decisions made by the Fourth Party Congress the proportions of production contributed by these four subsectors are changing. The FY 1984 CIP evaluation showed that the output from the private/family sector is increasing due to an increased amount of land available to the private and family sectors and an increased availability of inputs and equipment. It is estimated by MOA officials in the targeted areas of Chokwe and the green zones around Maputo that the AID-financed inputs from the FY 1984 CIP accounted for around 90 percent of the inputs available to private and family farmers in those areas. The impact that the CIP program has had on output in Chokwe and the green zones has been real, but it will take another year for the increases to show up in the marketed production figures.

3. Agricultural Production

Since independence, agricultural production has not only failed to keep pace with population growth, but actually declined in absolute terms in 1982, and, even more sharply, in 1984 and 1985. Cassava is the most important food crop with negligible amounts actually marketed since most is used for subsistence consumption. Marketed production of both maize and rice, the second and third most important food crops, were in 1983 at two-thirds of their 1980 production levels. In 1979 a heavy cyclone affected the northern provinces, and in January 1984 another cyclone caused extensive damage in the south. Starting in 1981, four years of prolonged droughts have caused widespread problems in the south and central portion of the country. Rainfall in the 1982/83 season was at levels between one-fourth and two-thirds of the previous 30 year average. Estimated losses in production from this drought amounted to about US $80 million. The UN estimates that 4.5 million people have been affected by the drought, of whom it says 1.7 million were "seriously affected".

Climatic conditions have generally returned to normal and rainfall to date has been above normal for the 1985/86 season. This would suggest that the decrease in marketed production results from either shortages in input supplies, lack of transport or a further deterioration of the security situation in cereal producing areas. The latter reason is probably a major cause.

Table 6

Mozambique Marketed Production of Major Crops 1979-85

(in thousands of metric tons)

	1979	1980	1981	1982	1983	1984	1985(est)
Cashews	n.a.	n.a.	90.1	57.0	18.1	25.3	n.a.
Sugar	n.a.	170.2	177.2	125.8	73.7	39.3	n.a.
Cotton	36.8	64.8	73.5	60.4	23.0	19.7	n.a.
Tea	86.0	90.1	99.2	109.7	51.1	59.8	n.a.
Copra	52.2	37.1	54.3	36.6	30.7	24.8	n.a.
Citrus Fruits	39.0	32.0	36.0	29.1	18.0	n.a.	n.a.
Maize	60.0	65.0	78.3	89.0	55.3	82.0	46.0
Rice	56.2	42.8	28.1	41.5	17.1	19.1	12.5

Source: Ministry of Agriculture, GPRM

From 1975 to 1981 agricultural export earnings increased but have declined since. Major agricultural exports dropped in volume by 41 percent from 1982 to 1983. As shown in Table 6, from 1983 to 1984, production of major export crops such as sugar, copra and cotton decreased, while production of cashew nuts and tea increased over the same period.

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 mainly 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, general food shortages and rural insurgency.

One of the few bright spots in the national food production situation is the availability of fresh produce in the local Maputo (and Chimoia, Nampula and other) markets. For example, one year ago, the central Maputo market was virtually closed, with only a few stalls open for business. For the past six to eight months, the market lot has been practically full to capacity, and traders have set up stands outside the enclosed market area. The selection of fresh produce includes most items found in any southern African market. Free market forces are evidently at work: initial high prices declined in response to market supply and demand factors. Decreased seasonal supply in December 1985 through February 1986 has predictably led to higher prices.

Discussions with various knowledgeable local officials indicate that the increase in availability of locally-grown vegetables is a result of a combination of four factors: (1) the increased availability of inputs to support the green zones private farmers; (2) the decontrol of vegetable and fruit prices which supplied the essential incentive to produce; (3) the increased capacity of the local Maputo area transport system, although still very limited, to move the produce to market; and (4) the determination and support of the green zones coordinating committee to make the system work. The availability of the FY 1984 CIP agricultural inputs (especially seeds and fertilizers) is being given credit for much of the success of the green zones private farmers' production program. The CIP has supplied inputs which were not previously available to target farmers and their produce is getting to markets.

4. Marketing Systems

During colonial times the rural marketing system consisted of some 6000 rural traders known as cantineiros, usually of Portuguese or Indian 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 trader network. However, in the isolated rural areas, traders have not returned, in part because of lack of incentives and in part because of the lack of security.

The state enterprise, Agricom, was created in April, 1981, to function as collectors and buyers of cereals at district level throughout the country. Agricom's physical network consists of 240 fixed buying posts, 65 mobile buying brigades and 92 warehouses. Where traders do not exist, Agricom has attempted to pick up the marketing and distribution functions. Most importantly, Agricom has assumed 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.

The inter-regional marketing system continues to deteriorate as Agricom's transport fleet is victimized by the RENAMO insurgents. Also, Agricom suffers from poor equipment maintenance, a lack of spare parts and a limited number of qualified management personnel. As a result, Agricom no longer buys the major part of the production of the principal cereals. An increasing amount is being produced for local consumption and used in lieu of wage payment or traded in the informal local markets.

5. Other Donor Activity

A World Bank Rehabilitation Program of $45 million was approved in 1985 and delivery of material has begun. The program includes up to $5 million for the importation of commodities related to agricultural development, principally tools and seeds. These inputs will not duplicate procurements under the FY 1986 CIP. The Bank inputs are not geographically targeted and are for support of the "low input smallholder" agricultural sector. In addition, the seeds to be imported are for basic food crops such as maize, dry beans, sorghum and groundnuts and will be made available on a nationwide basis. Finally, although a sizeable quantity of hand tools is included in the program, the national stock of all types of agricultural inputs has been so depleted that the demand will still be far from satisfied.

The FAO has a substantial presence in Mozambique. In addition to its current activities, it has recently completed an agricultural sector survey mission to identify future projects for FAO and other donors. The report of this mission, however, does not present a prioritized analysis of the sector, but suggests some seventeen different sub-projects covering the whole range of standard agricultural development activities from soil conservation to seed multiplication. While the FAO mission recommended an agricultural program of some $15 million, there is at present no indication of the source of funding for this program, and rapid implementation of activities recommended by the mission is not likely.

Other donors, including the European Economic Community (EEC) and the Scandinavian countries, provide substantial assistance to the agricultural sector, but mainly for cooperatives, family farmers and refugees in areas other than the AID targeted regions. Although the PSR programs do not conflict or compete with other donors' activities, better donor coordination is needed. For example, the CIP could finance raw materials to private factories which are receiving IBRD or UNIDO technical assistance. AID is attempting to increase donor coordination, especially in agriculture, within the present staffing constraints.

II. PROGRAM BACKGROUND AND ISSUES

A. Private Sector Rehabilitation Program, Phases I and II

AID began regular bilateral assistance to Mozambique in FY 1984 with the initial obligation of the Private Sector Rehabilitation I (PSR I) Program. The program included a CIP component ($6,000,000) and a technical assistance component ($2,000,000). The purpose of PSR I was to "rehabilitate the private sector, especially agriculture, so as to increase food production by selling currently unavailable inputs to private farmers". The basic agreement between the GPRM and AID emphasized four policy issues: (a) lessening controls on producer prices of agricultural commodities; (b) devaluing the local currency to narrow the gap between the official and parallel market rates; (c) moving toward greater reliance on the market rather than on public sector agencies for the allocation of resources; and (d) lessening the dependence of the economy on parastatals and government enterprises. Except for the issue of devaluation, which is currently being discussed with the IMF and the World Bank, there has been significant progress on the other policy issues.

PSR II included a $12,000,000 CIP for the private agricultural sector and $1,000,000 for technical assistance. The purpose of Phase II was similar to that of Phase I:

> "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 implementation status of the two programs is described in the following sections.

1. PSR I (FY 1984) CIP

The FY 1984 program provided a range of agricultural equipment and inputs targeted in three areas: the green zones around Maputo, the areas of Manhica and Marracuene just north of Maputo and the area around Chokwe some 200 km north of Maputo. The CIP was obligated in September 1984. Procurement under this program has been completed and virtually all commodities ordered from the original RFQs are in-country. As a result of the strong U.S. dollar and the extremely competitive prices (especially from Brazil), the actual cost of commodities ordered pursuant to the initial RFQs was approximately $1 million less than planned. These funds were reprogrammed to purchase peanut and cowpea seeds.

The procurement process set up for the PSR I CIP has been highly successful, with the exception of the role of the U.S. bank to which the Letter of Commitment was issued. The procurement process functioned as follows: after the selection of a supplier based on responses to the RFQ, a Letter of Credit was issued through the local and U.S. bank branches. Because the U.S. bank was ineffective and unnecessary delays were encountered for certain procurements, the USAID/Swaziland Regional Controller issued Direct Letters of Commitment to certain suppliers, thus bypassing the banks. At the time of the issuance of the Direct Letters of Commitment or the Letters of Credit, the importer's account at the Bank of Mozambique was blocked, and an amount of local currency equivalent to the C.I.F. price of the commodities calculated at the official exchange rate was deposited in a special account. The commodities were brought into the country and cleared through customs by the importer in a very timely manner. (The importers have been either parastatal agencies or private firms, depending on the particular category of commodity.) Once through customs, the commodities were turned over to the various distributors who, in turn, moved them on to the final retail outlets.

After considerable discussion with AID, the GPRM agreed to impose a surcharge for high-value items under both FY 1984 and FY 1985 CIPs. The surcharge resulted in the final price to the consumer being more than double what it would have been in the absence of a surcharge. Thus, the final price more fully reflected the true scarcity value of the high-value item in the local currency.

At all stages of the distribution process, parastatal and private companies were used to move the commodities to the final private sector end-user. In the case of seeds and fertilizers, Boror, an 'intervened' distributor, supplied the goods to the local unit of the green zones coordination committee, which acted as the final retailer. The importation and distribution of Ford and Massey-Ferguson equipment and spare parts were entirely in the hands of the private sector firms involved. In all cases, accurate records were kept to ensure the commodities went only to private sector farmers. There were very few delays once the commodities were off-loaded in Maputo.

A technical evaluation of the FY 1984 CIP was conducted in January 1986 by the REDSO/ESA Senior Agricultural Officer. He interviewed over 20 farmers in the Chokwe and Maputo regions and found that the program had a major beneficial effect and most likely a strong production response. The evaluation indicated that the program has been effectively and efficiently managed. The commodities imported were appropriate for the stated needs of the target sector, they arrived in a timely manner, and they were of good quality. Further, they were available to the end-user in time for the next appropriate planting season. The program has met its documented goals and objectives. There are indications that the market is starting to have a greater role in resource allocations and in the rural farming sector in general.

Private commercial and family farmers have in general responded to the availability of the CIP commodities by increasing agricultural production. Since other factors were important as well in the production increase, the causal relationship is not certain. Nevertheless, the fact remains that in January of 1985 there was very little produce in the Maputo markets, and there is now a good supply and an adequate selection of produce. In the case of the Chokwe region, the increased production was mainly due to an increased area under production. Most of the farmers who received tractors were also given additional land (former state farm land) and the additional land was producing crops where there were no crops produced before.

In the Chokwe area in 1983 there were only 200 hectares cultivated by the private sector. Beginning with the "first season" in 1986 the private/family sector will plant over 4000 hectares while the area under production on some of the state farms will be reduced by as much as 30 percent. Inputs are being officially made available to the private sector for the first time since 1975 and private/family sector production will certainly increase as a result of these changes.

In addition, the FY 1984 CIP has had a substantial political impact. America is now seen as the principal benefactor of the Mozambique private/family agriculture sector in the targeted areas. As a Chokwe farmer expressed it, "America has given the 'privates' back their pride and we can again hold our heads up."

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As a result of the increased production by private farmers, some systemic problems are developing, especially lack of adequate transportation and marketing. There will be a growing demand for marketing services required for an ever growing number of independent private producers. The provision of medium-size and large trucks in the FY 1985 and FY 1986 CIPs should help alleviate part of the transportation problem.

The most important recommendation of the evaluation was that the program continue to supply the same kinds of inputs to the same targeted areas and end-users in sufficient quantities to sustain the present program before expanding to new areas, target groups, or types of commodities. Also, the evaluation recommended that the AAO/CIP staff develop an output monitoring system to measure the CIP generated agricultural production. An end-use monitor has been hired by the AAO and is developing a system to monitor and evaluate output.

2. PSR II (FY 1985) CIP

The FY 1985 program provided basically the same types of commodities as the first CIP. PSR II also financed a limited amount of seeds, fertilizer, and hand tools for areas affected by the drought in central Mozambique. The program also imported raw materials for private industries which manufacture local inputs and other products needed by private and family farmers, including tires, irrigation pipe and hose, and rubber boots. The program continued to focus on the greater Maputo and Chokwe areas and added a new area around Xai-Xai at the mouth of the Limpopo River.

The Agreement with the GPRM obligating $11 million for the CIP was signed on August 27, 1985 and amended to add another $1 million in late September 1985. All Conditions Precedent have been satisfied. The procurement process began in September, 1985, and most of the awards were made during the period of November 1985 through February 1986. Fertilizers and most seeds have arrived in ample time for the second agricultural season starting in April. Agricultural equipment and trucks have been manufactured, and were shipped during March through April. All procurement actions should be completed and commodities received prior to the first agricultural season of the next agricultural year in October, 1986.

Many of the importers involved in the Phase I procurement were also involved in the FY 1985 procurement process, and the procedures therefore went very smoothly. The negotiated procurement process was utilized in all procurement actions that were carried out in Maputo. Two procurements were implemented on behalf of the GPRM by M/SER/AAM in AID/W, for fertilizer and zinc sheets. The pool of potential suppliers was larger than for the previous program, as new firms requested to be included in the solicitation. As of February 15, 1986, of the $11 million available, $7.4 million has been awarded and Direct Letters of Commitment have already been issued for one-half of that amount. The solicitation period has ended for the remaining $3.6 million and terms and conditions for the commodities to be procured are being finalized.

After evaluating the financing procedures used for the FY 1984 program, mostly by bank Letters of Credit, the Bank of Mozambique and the AID Affairs Office decided to use AID Direct Letters of Commitment for most of the procurement under the FY 1985 program. This decision was based on the need for faster issuance of financing documents to suppliers, and better control of documentation related to the procurements and disbursements. The USAID/Swaziland

Regional Controller has been issuing Direct Letters of Commitment for overseas suppliers and AID/W for U.S. suppliers. The procedure for award and concurrence and request for issuance of Direct Letters of Commitment is outlined in a letter from the AID Affairs Office to the Bank of Mozambique (Annex L).

B. GPRM Economic and Political Initiatives

Since the Fourth Party Congress in 1983, the GPRM has instituted a number of important reforms which essentially open and liberalize some areas and functions of the economy, making it somewhat less centrally controlled and planned. The GPRM initiatives, which greatly influence the potential success of the PSR programs and demonstrate a sustained movement towards a market-oriented economy, are briefly outlined in this section.

The impetus for the reforms was the exceptionally poor performance of state enterprises up to 1983, especially the inability of the state farms to produce outputs commensurate with the capital invested in them. The country's foreign debt was rising rapidly, but the foreign exchange to repay the debt was not being earned. The years of drought in the early 1980s exacerbated the problems of mismanagement on state farms and lack of resources and support to the private farming sector and led to very large food aid requirements.

Significant changes since 1983 have not been promulgated all at once, but have been emerging at a reasonably steady pace. Specific changes and initiatives have taken place in three main areas: agriculture, non-agricultural enterprises and macro-economic management.

In agriculture, the primary focus of the reforms was on family and private commercial farmers, including:

-- shifting land from state farms to private and family farmers,

-- increasing resources, both equipment and technical assistance, available to private and family farmers, and

-- ending output price controls on almost all fruits and vegetables.

The shift of land from state farms to private and family farms has been concentrated in the Limpopo Agro-Industrial Complex in Gaza Province where some 13,000 hectares of state-managed irrigated farmland were shifted. Much of this land was not under cultivation, but had been reserved for state use. In the Chokwe region, a considerable amount of uncultivated state land has been given to the private farmers receiving AID-financed equipment as well as to other commercial and family farmers who can show that they will utilize the land.

The government has also increased technical services and credit to private and family farmers. For the first time many of them can receive loans with which to purchase inputs. It is notable that at the same time that the government has had to reduce the inputs available to state farms because of a lack of foreign exchange, it has agreed that AID-financed inputs would go <u>only</u> to private and family farmers. The AID-financed inputs, especially fertilizer and seeds, accounted for over 90 percent and in some cases 100 percent of the available inputs for private farmers. In the areas where AID inputs are directed, the non-state farms have access to more inputs than the state farms and thus their share of total production has increased.

In May 1984, the government initiated an experiment in market pricing in Zambezia Province and four months later increased some farmgate prices. The Zambezia experiment was successful, and in May 1985, the GPRM completely deregulated prices for cassava, sweet potatoes, green maize, fruits, most vegetables, ducks and turkeys. In addition, it announced higher prices for maize, groundnuts, beans, wheat, rice, cotton seed, chickens, eggs and beef. Some of the increased prices are as follows:

Table 7

Changes in Controlled Prices, May 1985

(Meticais per Kg)

Item	Old Price	New Price
Beef top quality	150.00	300.00
Maize (farmer)	6.00	13.00
Maize (consumer)	9.00	17.50
Cotton	12.50	16.00
Groundnuts (farmer)	15.00	20.00
Groundnuts (consumer)	26.50	30.50
Wheat	4.40	11.50

In October 1985, pig and pork prices were increased as well. The government is now considering whether to liberalize fish, white potato, goat and sheep prices.

It appears that there has been a much greater increase in prices to the consumer than to the producer for those items where prices were totally freed. This is probably because of the shortage of transport and transporters to get produce to market. Less competition for the farmers' output is believed to permit the transporters, wholesalers and retailers to reap most of the benefit from price liberalization. Nonetheless, many private farmers feel they are selling more and making more profits since the liberalization.

The GPRM has also made significant changes in the operation of private and state non-agricultural enterprises:

-- a foreign exchange retention scheme began in 1984 and has since been expanded whereby firms (public or private) which export in hard currencies can receive up to 20 percent (or more if needed) of the export value in hard currency to use as wage incentives or to purchase needed imports;

-- greater freedom in running state enterprises: wages were freed to an undefined extent, and linked to production so as to boost productivity; state enterprises are expected to be run along commercial lines with the obligation to be profitable;

-- an ending of the state monopoly on foreign trade which permits some private firms to engage in import and export activities in competition with state enterprises;

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-- increased credit controls on government enterprises whereby they no longer automatically receive as much credit from the banking system as they need; thus forcing some state enterprises to constrain their costs, reduce their loss making activities, increase prices or shut down;

-- increased electricity tariffs to reduce the losses of the government enterprise;

-- privatization of a number of state enterprises; and

-- liberalization of foreign investment regulations.

The Ministry of Industry and Energy in November 1984 outlined plans for the privatization of some nationalized and state 'intervened' firms ('intervened' firms are those which came under state management after abandonment by their owners after independence). In 1985, the Ministry sold more than 20 firms to local private entrepreneurs. The firms range from a water pump factory with over 100 workers to an asbestos brake lining workshop with 8 workers. The privatized firms include IMA (zinc roofing and manufacture of irrigation tubes) which will receive AID-financed zinc sheets in the FY 1986 CIP, Famol (truck assembly plant), Damodar and Mangaljy (marketing of cashews in Zambezia Province), the Industrial Springs Co. (springs and suspension parts for trucks and railway cars) and FARMOL (vehicle radiator manufacture and repair). The GPRM has asked the Portuguese conglomerate Joao Ferreira dos Santos to take over all cotton activities from planting to ginning in Nampula Province and is considering privatizing the local construction industry. Further efforts to privatize are constrained by the lack of skilled managers.

The GPRM approved a new, more liberal foreign investment code in August 1984, following an agreement with OPIC the previous month. In April 1985, Mozambique hosted an American Trade and Investment Mission. The government has publicized numerous project proposals, mainly in agriculture and natural resources, and a few have resulted in new investment.

Lonrho has been allocated 5,000 acres of land in Sofala to grow cotton as well as land in Chokwe for vegetables and livestock. Lonrho plans to prospect for gold in Manica Province, and will manage the Hotel Polana in Maputo and rehabilitate hotels elsewhere in the country. Contracts have been signed with Exxon/Shell, Amoco and BP for petroleum exploration. Edlow Resources of the U.S. signed a protocol for titanium extraction last year. The Zimbabwean firm, E.C. Meikle, is extracting bauxite in Manica Province on a royalty basis.

In the area of macro-economic management, the government has introduced some important changes:

-- Mozambique joined the IMF and World Bank in September 1984, and has been discussing policy reform, loans and stand-by facilities with them;

-- the GPRM tightened its budget and reduced the automatic credit available to loss making parastatals;

-- to increase revenue, the government announced major increases in tobacco and beer taxes; and

-- there was a rescheduling of the debt by the Paris Club following the publication of the government's Economic Action Program for 1984-1986.

C. Program Policy and Issues

1. AID Policy Dialogue

The GPRM has made commendable progress in supporting family and commercial farmers, in improving the efficiency of certain state enterprises and selling some to private entrepreneurs and in improving the macro-economic policy environment. However, many problems remain, especially major pricing, exchange rate and budgetary issues. In discussions with GPRM officials, AID supports the leading role of the World Bank and the IMF in negotiations on developing a realistic price system, realistic value for the metical and further improvements in parastatal and government operation. The GPRM has indicated that major policy reforms could come as early as July 1, 1986.

AID will continue to support the GPRM's general policy changes in support of the private sector, while concentrating our own policy dialogue on issues that most directly influence the main beneficiaries of the AID program, i.e. family and private farmers. The major objective of the AID policy dialogue will continue to be to increase the profitability of private farming so as to provide incentives for higher production. This implies that we will seek liberalization of more output prices and changes of restrictive farming practices. For example, additional crop and livestock/meat prices should be liberalized; required sales to state factories or required planting of specific crops reduced; and private transportation linkages improved. Studies of the effects of the recent output price liberalizations will be completed jointly by AID and the GPRM before the program is designed for next year to provide a basis to encourage further price liberalizations.

2. Allocation and Pricing

The allocation and pricing of AID-financed equipment and inputs are closely linked in the Mozambique context. Increasing the final sales price through a surcharge is still not a market-determined price and the higher price will not change the allocation process. The ultimate objective is to allow any farmer with the productive capacity and income potential to purchase agricultural equipment at market-determined prices.

Under the FY 1984 and FY 1985 CIPs government officials decided which districts and which farmers within those districts would receive the imported equipment. This direct allocation process is not much different than what had existed under the Portuguese. Direct allocations of equipment reportedly are based on local officials' knowledge of which farmers have the best production records, can use the equipment effectively and have demonstrated ability to farm. The current allocation system seems to be, from limited field observations, working within an acceptable efficiency.

The current allocation system, if it is truly based on production potential more than "other" factors, may indeed be the most efficient system for Mozambique at this time. However, the apparent success is partly because there is so little equipment available to private farmers that there are many farmers who would use the equipment very productively, although perhaps not the most productively. As the program comes closer to meeting the demand, at least for tractors, then the problems of a direct allocation system will become more noticeable.

During negotiations on the design of the FY 1986 CIP, the GPRM articulated six specific criteria which will be used to allocate the equipment imported under the PSR III program. These criteria signify an important step in specifying precisely what the criteria are and in quantifying the allocation criteria. The specific criteria are as follows:

1. relationship between physical area and machinery;
2. record of success in achieving agreed-upon output targets;
3. yields per hectare;
4. level of delivery of cereals to mills;
5. experience and knowledge of using machinery; and
6. need for new equipment or for mechanization.

To guide future policy, AID and the GPRM will work toward identifying ways to reduce or gradually change the current direct allocation process. One of the objectives in supporting the private agricultural sector and increasing production is to end direct government control and allow the pricing and market system to work. In the Mozambique context, this may take a long time, but AID will continue to encourage movement toward a freer market system whenever possible. There are many ways to reduce the direct allocation scheme, few of which have been tried in Mozambique. Most of the alternative allocation schemes will also have problems. A study will be conducted on the current allocation scheme to determine its overall effectiveness and on experiences in other countries in moving away from a direct allocation process. This study will inform AID and the GPRM on the need for changing the allocation schemes and provide some alternative ideas.

There is considerable misunderstanding over the related issue of appropriate pricing of the AID-financed commodities. Even with the surcharge to increase the final consumer price, it is still a fixed price and basically a guess of what the real market price would be in a totally free economy. The agricultural price system includes low prices for many inputs and market determined prices for some outputs which give incentives other than what the government wants or the economy needs (i.e. farmers buying larger tractors or trucks than they can economically use because of their low prices). Farmers should decide what equipment they actually need based on the market-determined costs of the different pieces of equipment and the expected increase in their incomes. Since many prices are still fixed in Mozambique, both for outputs and inputs, and since there are so few agricultural commodities for the private sector, it is very difficult to try to determine the true value of equipment and commodities based on their economic scarcity.

The official exchange rate does not accurately measure the economic cost of hard currency. The parallel exchange rate in Maputo ranges up to 1,600 meticais to the dollar for minor cash transactions. However, in rural areas and for large equipment, the parallel rate is much less. Field questioning indicated that all farmers thought the price of 790,000 meticais (actual price for 65 hp tractors under the FY 1984 CIP) for a new 65 h.p. tractor to be very cheap; those with no tractor thought it would cost them about 2-3 million meticais. One farmer had paid 1.4 million meticais for a very old tractor including its rehabilitation. Small used trucks being sold by Mozambicans working in South Africa are selling for 50-75 percent more than the price of a new small truck under the FY 1984 CIP. Analysis on suppressed inflation indicates a need for a slightly more than doubling of the general price level just for the period 1980-1984. Based on the inflation analysis and anecdotal evidence as described above, a substantial increase in the final price of all AID-financed equipment is needed although it would only be conjecture as to what level of increase is needed. Following discussions during PAAD design, the GPRM realized that the final sales prices for the AID-funded commodities were too low and agreed to increase substantially the surcharge for most of the equipment imported under the FY 1985 CIP and to apply the surcharge to more items. Tractors, seeders, grain shellers and sprayers will have a surcharge of 100 percent (only tractors had a surcharge applied for the FY 1984 CIP). Tractor-drawn implements, trucks, pick-ups, motorcycles, bicycles and motorpumps will have a surcharge of 150 percent. For 65-hp tractors, the final retail price will be 3.5 times the C.I.F. cost at the official exchange rate. For 8-ton trucks, the final sales price will be 4.2 times the local currency C.I.F. cost. These substantial increases to be applied to the FY 1985 CIP are an important indication of the GPRM's willingness to make the final sales prices more accurately reflect their true economic value. These same surcharges will also apply to the FY 1986 program. Based on conversations with farmers as to what they would be willing to pay, assuming this is based in part on profit potential of the equipment, the government's proposal to increase the surcharges and to increase the number of items to which the surcharge is applied is appropriate at this time.

Prices of the equipment and inputs should not be increased so drastically in the short term that they reduce the incentives for farmers to expand production. A 15-20 fold increase over the C.I.F. price at the official exchange rate for high-value items would be a very negative incentive for production and probably lead to the trucks and tractors being sold to only the richest farmers and not necessarily the best farmers. AID will continue to work with the GPRM to increase gradually the price until the market price is found, or seek some other method to assess the market price. Some alternatives include auctions (either limited to pre-selected farmers or any farmer, or completely open), or permitting private sector retailing free from constraints, or some other approach.

3. Transport

Transport is another determinant affecting the success of the AID program. Increased output from private farmers only helps the country and the farmers if that output can get to market. The shortage of farm-to-market transport limits the profit potential, and thus incentive, to the farmer. The freeing of market prices for fruits and vegetables has apparently led to a situation whereby farmers are not receiving much higher prices for their produce for a variety of reasons, but it seems mainly because of limited or non-existent competition for transport. Preliminary evidence from limited discussions indicate that the transporters and retailers are receiving up to 90 percent of the benefits from the price liberalization. Some GPRM officials view this result as an indication that price liberalization has failed.

The PAAD design team talked to many farmers who are aware of the higher prices in the cities and want transport to take advantage of the higher prices, selling directly to the retailers. This makes sense for the large, commercial farmers and maybe for groups of farmers or cooperatives whose production warrants a large truck. The large number of trucks to be imported under the FY 1986 CIP is in response to the growing transport problem. However, most farmers will need to use the larger (8-ton) trucks for marketing produce only a small part of the year. In theory, private transporters would utilize the large trucks more efficiently than would private farmers. However, since there is no free market and since little is known about the private transport sector, we do not know if this is the case in Mozambique. There are private transporters in Maputo who have indicated an interest in purchasing trucks with the understanding that the trucks will be used primarily for transporting agricultural produce. The GPRM and AID have agreed to sell a small number of trucks to private transporters under the PSR III program on a pilot basis to ascertain their effectiveness in increasing marketed agricultural production.

III. PROGRAM DESCRIPTION

A. Program Purpose and Justification

The overall program goal of AID assistance in Mozambique remains basically the same as described for the Phases I and II programs. Mozambique continues to be in an economic morass. The program goal is to promote long-term development and growth in Mozambique in order to provide stability in southern Africa. The best means of achieving long-term growth is through the private sector. The AID program is supporting the GPRM private sector initiatives and encouraging further movement toward a market economy. The AID program concentrates assistance on the private agricultural sector because of the high production potential, economic importance and unmet need in the sector. The purpose of the FY 1986 PSR III program is therefore to continue to support the private agricultural sector and encourage increased production by providing foreign exchange for productive inputs needed by private commercial and family farmers.

Because of the lack of foreign exchange and the low priority given private sector agricultural production since independence, few inputs have gone to support the private farmers. Agricultural equipment and inputs provided under Phases I and II have started the process of revitalizing the private agricultural sector, and the Phase III program will continue this process.

Phase I and Phase II of the PSR program included funds for technical assistance. The technical assistance funds are being used to assist Mozambique meet critical needs in training and advisory services required for private sector development and increased food production. The FY 1986 PSR III does not include a technical assistance component, but is strictly a CIP, basically the same as the CIPs for Phases I and II.

Clearly, very serious problems exist in the Mozambican economy and the implementation and impact of this program will be constrained by these problems. Justification for this program rests on the continuing overwhelming needs of the private sector and the slow, but steady, steps of the GPRM in restructuring the policies and the economy. Much needs to be changed on the road to a market economy, but significant development activities in the agricultural private sector can proceed, and indeed the Phase I program has made an appreciable impact within the present policy environment. The evolution is in the right direction -- towards a mixed economy. Although a fully, market-oriented economy may never develop, the eventual result may be very positive as well as uniquely Mozambican.

B. Phase III Commodity Import Program

The FY 1986 CIP of $9,570,000 will be similar to the FY 1985 CIP, i.e. it will continue to provide foreign exchange to import essential agricultural equipment and inputs and, where appropriate, raw material to produce inputs locally. Private sector producers (family farmers, commercial farmers and, to a limited extent, cooperatives) will continue to receive the commodities imported under the CIP. No assistance will go to the state farms.

The FY 1984 and FY 1985 CIPs concentrated on the agricultural sector and on certain target areas which have the highest potential. The most serious problem for private sector farmers was that few, if any, production resources, such as equipment, spare parts, and inputs, have been available. Much of the agricultural equipment and trucks (to transport produce) in the private sector were out of service or at the end of their effective life span. Further, there were shortages of basic tools and seeds for all private sector farmers. Similarly, private agriculture-related industries (food processing and agricultural input production) were 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 basic requirements for subsistence production, such as seeds and hand tools, were in very short supply or just not available.

This is still the case. The commodities imported under the FY 1984 and FY 1985 programs are making a difference, but will fall far short of meeting the needs even within the specific target regions. The overall demand for agricultural equipment and inputs, especially by private farmers eager to capitalize on the higher prices of vegetables and to use the land given them which had been formerly state farmland, still far exceeds supply. For example, in just one of the six districts of the green zones around Maputo, there are reported to be 126 private commercial farmers while only one truck and three motorcultivators were made available to the district through the FY 1984 CIP. One of the few sources of agricultural inputs and equipment for private sector farmers in the targeted regions is from the AID program.

Since this is the third year of the PSR program, more emphasis is given in the FY 1986 program on the long-term economic effects of the CIP-financed commodities. The first two years started out with a wide variety of primary inputs. Based on the experience learned, the overall commodity list for the PSR III program (Annex A) concentrates more on tractors, trucks and related spare parts than prior years and provides more funds for raw materials to increase the value-added element of the imports. Also, systemic constraints to increasing agricultural production, such as transport, are being addressed through the mix and ultimate end-users of the commodities.

Based on the analysis above and the results of the FY 1984 CIP evaluation, the program will again concentrate support in the three regions supported through the FY 1985 program, namely Chokwe, Xai-Xai and Maputo area which includes the green zones around Maputo and the districts of Marracuene and Manhica just north of Maputo. These are high potential areas and the requirements are still very high compared to the supply.

In addition to the regional emphasis, some commodities (especially raw materials) not tied to a specific region will also be financed. This includes raw material for local private sector production of irrigation pipes, truck and tractor batteries, tires, and boots. Spare parts for many of the larger items purchased under the FY 1984 and FY 1985 programs such as tractors, motorcultivators, small trucks, implements and seed cleaners will also be procured. Finally, galvanized zinc sheets for local construction, parts for local assembly of truck trailers and plastic containers for transport of vegetables will be purchased. For the manufactured and assembled items and the spare parts, priority will still be given to the target regions and in any case, will be sold only to the private sector.

Officials from the MOA developed a commodity list for the FY 1986 CIP based on reported continued requirements from the three target regions and on the mix of commodities from the previous two CIPs. MOA officials and the PAAD design team jointly modified the original list, on both technical and programmatic grounds. As mentioned above, the final commodity list represents a greater emphasis on importation of raw materials for local value-added, on trucks to help alleviate the increasingly important transport constraint, and on spare parts for equipment imported under Phases I and II to ensure their continued high level of use.

As before, private sector firms or traders are the first choice for distribution and sale of the inputs. Indeed, interviews with some local traders and transporters in Maputo indicated that a small, but thriving, private sector transport industry exists and could be utilized much more than was the case for the first two CIPs. Higher utilization of private sector traders and transporters will be an important objective of the FY 1986 program. Two private firms will handle the purchase, distribution and sale of tractor parts to commercial farmers. Truck spare parts will also be sold by private dealers. Depending on the bid, it is also possible that the importation of tractors and trucks will be handled by the private firms as well. In the target areas where private traders exist, they will handle local distribution and sale of items such as hand tools, some seeds and tin sheeting. In areas where traders do not operate and for larger items, government institutions -- such as Agricom (for some seeds, hand tools and other small items), Boror (for fertilizer) and the Ministry of Agriculture itself -- will effect distribution and sale.

The GPRM has requested that AID supply the commodities in time for the start of the September/October growing season. Although the planned obligation of the FY 1986 CIP is now early June, many of the items should arrive in time since the procurement process for the FY 1985 program went quickly and most of the items to be procured are the same for the FY 1986 CIP.

The proposed $9,570,000 program consists of the following:

1. Commodity Procurements for Target Regions ($6,732,000)

This portion of the CIP concentrates its support in the same three regions as last year, Chokwe, Xai-Xai and the area around Maputo, all of which have a mix of large and medium-sized commercial enterprises and private family farms. The final commodity list (Annex A) shows the planned distribution by region of trucks, tractors, tractor implements, motorcultivators, knapsack sprayers, and fuel. The distribution of the major items shown in Annex A represents an analysis of continued requirements, the technological appropriateness of the equipment for the region, and production potential. Other commodities targeted for these regions include irrigation equipment, handtools, seeds, fertilizer, and protective clothing.

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a. Chokwe Region

First, the CIP will continue to aid the farmers in Chokwe. This is an impressive irrigated area with over 30,000 hectares in furrow irrigation. It produces substantial surpluses in vegetables, rice and maize. Production levels had dropped sharply after independence until just a few years ago, primarily resulting from the failure of state farms and drought. According to the Director of the Chokwe Coordination Unit, production of vegetables increased 50 percent and rice increased 75 percent from 1984 to 1985. He estimated that the 1986 production of rice will increase by more than 60 percent over the 1985 level. 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 farmers. AID commodity assistance has helped and will continue to assist the private sector reestablish itself in this area, increase the amount of area under production by private sector farmers by using idle state farm land or newly prepared lands, and increase overall production by the private sector. For the area, the Chokwe Coordination Unit has extension agents who work full-time providing assistance only to private sector farmers. The unit will again have responsibility for coordinating the distribution, allocation and sale of inputs.

b. Xai-Xai Region

The second target region consists of four districts in the area of Xai-Xai, the provincial capital of Gaza 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 over 100 commercial farmers could possibly be assisted. The MOA official in Xai-Xai coordinating the distribution and sale of the FY 1985 commodities has a detailed list of 83 requests for tractors alone and almost that many for trucks. The level of agricultural production in the Xai-Xai region is much more basic than in Chokwe. There is less irrigated land and much of its infrastructure is in disrepair. The commercial farming sector is relatively small although in the past year the authorities have started to cede unproductive state farm land to commercial farmers to use. Also, over 2,500 hectares of state farm land have been given to private farmers, mainly family farmers, for their use. The AID-financed inputs are in great demand by family and commercial farmers for use on the new land. To reflect these requirements, more hand tools, maize seeds and fertilizer, rather than vegetable seeds and heavy equipment, will go into this area.

c. Maputo Region

The third area is Maputo Province, including the areas of Marracuene and Manhica north of Maputo and the green zones around Maputo. For Marracuene and Manhica, a relatively small, but well-organized, group of commercial farmers will be the principal beneficiaries. They have made intensive use of the AID-financed equipment under previous CIPs and emergency programs and additional commodities are needed to enable them to market more vegetables and grain to Maputo. The green zones around Maputo will also receive substantial assistance since it is a very productive area and the need is great for small-scale equipment such as small trucks and motorcultivators. Additionally, a substantial number of family farmers throughout Maputo Province will receive seeds, hand tools and other basic inputs.

As discussed previously, 10 of the 45 8-ton trucks to be imported under the FY 1986 CIP will be sold directly to private transporters. The trucks will be sold on a competitive basis to private transporters who have licenses from the GPRM to carry agricultural produce to markets from the AID-targeted regions and have a track record of transporting agricultural produce. This is viewed as a pilot effort and use of these trucks will be as closely monitored as necessary.

2. General Commodities ($2,838,000)

Similar to the FY 1985 program, AID will import spare parts and raw materials for local manufacture or assembly of agricultural-related commodities which will be distributed throughout the country but only for private sector farmers and mainly in the targeted regions.

a. Spare parts for Tractors, Trucks and other Equipment ($668,000)

Approximately $668,000 will be utilized for spare parts for tractors, motorcultivators, small trucks, tractor implements, and seed cleaners to maintain the equipment which has been imported under the previous two CIPs and in the case of tractors and small trucks, to provide the private sector dealers enough spare parts to repair existing tractors and small trucks owned by private farmers. An estimated 90 percent of the privately owned tractors are made either by Ford or Massey-Ferguson. Based on interviews with farmers and the local Ford and Massey-Ferguson dealers, private farmers are increasingly aware of the availability of the AID-financed spare parts (procured under the FY 1984 CIP) and are bringing in old tractors for repair. A motor mechanic repair specialist, after seeing the state of the tractors still in use, has recommended that the tractor dealers be very selective in repairing old tractors. However, the farmers themselves are using the market (cost of repairing the tractor) to determine if they should repair or otherwise discard their old tractors.

b. Raw Material for Manufacture and Assembly ($2,120,000)

In determining the type and mix of raw materials, the design team and the MOA analyzed the capacity of companies which received raw materials under the FY 1985 CIP and the continued requirement of the commodities in the private agricultural sector. Also, other commodities which were in critically short supply and which could be manufactured locally were identified and included in the CIP (raw materials for batteries and steel and other inputs for truck trailers). The raw materials under the FY 1985 program have not yet arrived; thus, an analysis of the manufacture and distribution of planned outputs was not possible. Nevertheless, all of the known factories which will receive raw materials under the FY 1986 CIP were visited and evaluated.

About $220,000 will be used for raw materials for the production of irrigation pipes, hoses and rubber boots by the private firm of Fabrica Continental de Borracha, SARL (FACOBOL). Around $300,000 worth of raw materials is being imported by FACOBOL under the FY 1985 program. The plant is fully operational and the raw materials under the FY 1986 program will assist the plant to continue to manufacture the vitally needed irrigation pipes and hoses and rubber boots.

A private battery company, TUDOR, will import $150,000 of raw materials, basically mixed rubber, lead ingots and separators (a PVC material), to manufacture truck and tractor batteries. TUDOR is currently working at 30 percent of capacity. The firm will distribute the batteries through its normal distribution channel but only for private sector farmers and primarily for the three target regions.

In addition, $250,000 will be used to import steel and other inputs for the manufacture and assembly of truck trailers at MAQUINAG, a private company in Maputo which manufactures a large variety of truck trailers. MAQUINAG will manufacture 8-ton truck trailers compatible with the 8-ton trucks imported under the FY 1985 program. For trailers, about 65 percent of the value is local and 45 percent is imported. The capacity of MAQUINAG is about 400 trailers per year of different sizes and in 1985 they operated at 40 percent of capacity. Approximately 20 truck trailers will be manufactured from the CIP-funded steel and other inputs and will be sold to the farmers who purchased the 8-ton trucks imported under Phases I and II.

The FY 1986 CIP will also include $500,000 for the importation of galvanized zinc sheets for a private company, IMA, to manufacture roofing and other inputs (buckets, watering cans) for rural households. The zinc sheeting will be used to manufacture some required consumer items and building materials which are just not available in the rural areas.

Finally, as in the FY 1985 CIP, $1,000,000 will be made available to import nylon for tires (approximately 10 percent of the yearly imported raw material) for MABOR, the local General Tire affiliate in Mozambique. General Tire continues to provide an advisory team to assist in plant operation. MABOR has good management and equipment but just lacks raw materials. The plant not only makes tires for the local market but also exports, thus earning foreign exchange.

c. Containers for Storage and Transport

Approximately $50,000 will be made available for the importation of plastic containers to store and transport vegetables. There is a critical shortage of these low-cost containers and estimates are that about 50 percent of the vegetables are lost when transported without containers in the medium to large (3-8 ton) trucks. The design team found that wooden containers are not a viable option because they are broken up and used for firewood or other purposes. Also, local private firms are not able to manufacture containers because they do not have the correct molds. The MOA and AAO will identify suppliers from nearby Geographic Code 941 countries for the containers.

As mentioned, the final procurement list for the FY 1986 CIP is shown in Annex A. Annex B shows a comparison of the items imported under the FY 1984, FY 1985 and planned FY 1986 commodity import programs. As in the FY 1984 and FY 1985 CIPs, the specifications for the commodities are suitable for the growing conditions and technology in Mozambique.

IV. IMPLEMENTATION OF THE COMMODITY IMPORT PROGRAM

A. Responsibilities

AID will finance the procurement of agricultural commodities and industrial raw materials which are approved by the GPRM for importation by the designated importers, which if possible will be private firms, or if not, parastatal entities who traditionally import specific categories of commodities. In Annex A, the designated importers are stipulated for each commodity grouping.

As before, the Commodity Management/Executive Officer (CM/EO) will work with the designated importers to finalize the terms and specifications for the RFQs and IFBs. 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 private manufacturers. The managers of the factories have had much experience in importation of raw materials, know exactly what they need and will be able to finalize the specifications in a timely manner.

B. Applicable AID Regulations

AID Regulation One is applicable to all transactions financed by the Grant. Copies of AID Regulation One are available to importers and potential suppliers from the AID Affairs Office in three languages: English for South African and Zimbabwean suppliers; the Spanish version for Portuguese speakers; and the French edition for certain European representatives.

All procurement will follow the competitive negotiated procurement procedures set forth in Section 201.23 of AID Regulation One. However, the importer(s) may elect instead to use the formal competitive bid procedures set forth in Section 201.22 for specific procurements. This is the only practical way to do business, as potential suppliers are located in many countries, and the only practical and reliable way to communicate is by telex. All designated importers have telex machines, as does the AID Affairs Office, to facilitate response to suppliers' questions. Utilizing formal tenders would not be a viable method, as it would require the advertisement in many newspapers in neighboring countries, as well as a good, rapid mail system. The mail system in Mozambique is not always reliable and there is only one courier service currently in Maputo, and the rates are prohibitive.

Formal competitive bid procedures will again be utilized 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. 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 Tires, USA, a part owner of the local firm. For certain private sector imports, specifically spare parts, the special supplier-importer relationships will apply, and competitive bidding will not be required.

Special provisions, as contained in the AID Commodity Eligibility Listing, will apply to fertilizer and seeds.

All items included in the Commodity Eligibility Listing will be eligible for financing. Related services, including delivery and insurance policies, are also eligible, provided that 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, if they are used, are to be financed by the Grant.

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

C. Import Procedures

Once the evaluation of the offers is completed following AID Regulation One criteria, consensus on the award is obtained between the importer, a representative of the MOA and the CM/EO, and the awards are made for each category or group of commodities; a pro forma invoice is then 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, license, and concurrence of award letter are then submitted to the Bank of Mozambique by the importer for assignment of a transaction number. With the transaction number and other documents, the importer can then receive the goods in the port. Annex L contains a detailed explanation of the import and financing procedures.

D. Port Clearance and Inland Transportation

Since the agricultural target zones are all within 100 miles of the Port of Maputo, commodities will be arriving by vessel to Maputo, and then transported by truck or rail to the designated sites. In addition, commodities originating from neighboring countries can be delivered by rail or road.

E. Commodity Arrival and Disposition

Experience under Phases I and II has shown that goods are cleared rapidly by the importer, 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 most of the commodities and are responsible for distribution to the farmer. These offices maintain complete records of sale and distribution of all AID financed inputs.

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 owner in the target zones.

Raw materials are destined for factories in the industrial areas near Maputo, and will be imported, cleared and transported to the sites by the private firms.

F. Disbursement Period

Based on previous experience, all evaluation and award actions should be completed within twelve months of the signing of the Grant Agreement. The terminal disbursement date will be established at eighteen months after the signing of the Grant Agreement.

G. Implementation Schedule

Based on the experience gained during the implementation of the previous CIPs, the various steps in the procurement process should proceed as follows:

Month, 1986	Action/Activity
June	Grant Agreement signed.
June	Implementation Letter No. 1 issued.
June	CPs met, Implementation Letter No. 2 issued.
	Designated importers finalize text of request for quotations, obtain approval from AID Affairs Office, issue RFQs by telex.
	Requirements for those items to be purchased in the U.S. finalized and submitted to M/SER/AAM for issuance of IFB in the U.S.
July - September	Evaluations of quotations made, Direct Letters of Commitment issued by USAID/Swaziland Regional Controller and by AID/W for U.S. procurements.
August - December	Commodities arrive at the Port of Maputo and are distributed to private sector farmers in the designated regions and to local private manufacturers.

H. Required Waivers and RLDC Status

Since the implementation of the first CIP in Mozambique, AAO/Maputo has requested AID/W to facilitate the determination for the U.N. "RLDC" status which would allow the program to be authorized for Geographic Code 941 procurement. AAO continues to work for this designation, in conjunction with the support offices in AID/W, because Mozambique qualifies on an economic basis, and because this designation would simplify procurement planning and implementation, eliminating the requirement to process the requested blanket Code 941 source/origin waiver.

As RLDC designation has not yet been obtained, all of the following waivers, based on previous procurement history, will be required to implement the proposed procurement for this program:

	Code	Description	Value	Authority	Waiver No.
A.	941	Blanket waiver for various agricultural inputs	$2,500,000	AA/AFR	01
B.	899	Right hand drive 8-ton trucks	$ 860,000	AA/AFR	02
C.	899	Blanket right hand drive light trucks	$ 420,000	A/AID	03

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	Code	Description	Value	Authority	Waiver No.
D.	941	Blanket Shipping and Insurance Waiver		M/SER/AAM	04
E.	899	Diesel fuel and lubricants	$900,000	DIR, USAID/S	05
F.	899	Tractor/truck spare parts	$668,000	DIR, USAID/S	06
G.	899	Irrigation pump sets	$500,000	DIR, USAID/S	07
H.	899	Seeds	$937,000	DIR, USAID/S	08

All waivers are attached as Annex H.

I. Use of the Private Sector

Activities related to the CIP have involved both the public and private sectors, in the following areas:

1. Importers: Per Annexes C and D, parastatals and private firms were both used under Phases I and II. The percentage of commodities imported by the private sector, by dollar value, increased from FY 1984 to FY 1985 and the projections for the FY 1986 program show a similar increased percentage imported by the pri[illegible]e sector. The GPRM has agreed to a covenant to use private distributors and importers wherever possible. Since there are no general private sector importers, the approved parastatals will continue to issue bids and make [illegible] awards. However, once the selection is made, the GPRM has agreed for th[illegible] 1986 program that if the private firm which handles distribution of the equipment to be imported has the capability to import, it will be allowed to import as well as distribute the equipment.

2. Transporters: Per Annexes C and D, parastatals had the responsibility for distribution for the majority of items. However, it was demonstrated that this sector did not have sufficient capacity to transport some of the inputs, especially the quantities of fertilizer from Maputo to Chokwe, and ads were placed in the local newspaper to attract private transporters for this purpose. The participation of private transporters will be increased by either establishing a requirement to use private transporters for certain commodities, or on an informal basis, as had been done during the FY 1985 program.

3. Distributors: Governmental entities aligned to the Ministry of Agriculture have been responsible for sale, distribution, and maintaining records of the disposition of the inputs financed by AID. To a certain extent, especially for the high valued items, it is advisable to have the Ministry retain this responsibility. If private distributors or retailers were to have available AID-financed inputs, such as vegetable seeds, fertilizer and hand tools, then an accountability system would have to be developed.

4. Factories: For the 1985 program, raw materials were financed for two private factories, FACOBOL, for production of rubber items, and to MABOR, for the production of tractor and truck tires. This year there are

additional proposals, and additional opportunities for AID financing, since, over the past year, 20 factories have been divested. The factories proposed to receive raw materials for the FY 1986 program are:

a. MABOR, for additional truck and tractor tires.

b. FACOBOL, for additional rubber boots and irrigation pipes and hoses.

c. TUDOR, for the manufacture of 4000 truck and tractor batteries.

d. IMA, for the production of corrugated zinc sheets for roofing, an incentive good. This factory was proposed by the government for financing from the FY 1985 program, but the PAAD team, after visiting the plant, turned down the request. The factory was in a state of disrepair, and there was insufficient resident technical expertise. The FY 1986 PAAD team was again invited to reconsider this factory, and a dramatic change was evident. The factory had been turned over to the original owners, who had sent a manager who had worked there until 1978. He has thorough knowledge of all aspects of the operation, and plans to have the plant fully operational by April, 1986. It is recommended that funds be reserved for the importation of zinc sheets and an AID representative visit the plant again at the time of obligation to make a final determination of the acceptability for assistance.

d. MAQUINAG, a large firm which manufactures hospital and kitchen equipment, school furniture and all types of truck and tractor trailers, for the manufacture of truck trailers to fit the 8-ton trucks imported under the previous CIPs.

V. LOCAL CURRENCY GENERATIONS

A. Status of Special Account from FY 1984 and FY 1985 CIPs

The USAID/Swaziland Regional Controller evaluated the status of the CIP local currency accounts and Trust Fund in February, 1986, and made a number of recommendations for the FY 1986 program. The arrangement for making deposits into the special account for both previous CIPs as specified in the Grant Agreements is that the AID office in Maputo would submit a billing to the Bank of Mozambique based on a monthly report of disbursements (the W-214 report) issued by AID/W. The Bank of Mozambique is then supposed to deposit the meticais equivalent into the special account and the required percentages of the total into the Trust Fund account within 30 days. There are separate local currency accounts for each year. The exchange rate used for converting the dollar disbursement by AID into the meticais amount to be paid by the importer is the official exchange rate on the date of the disbursement by AID.

The current system is not working as well as it should for a variety of reasons:

-- the W-214 report is received two months after issue and the information contained in it is not accurate,

-- the deposits made by the government are not based on the billings presented by AID, but some other method that has not yet been identified, and

-- the bank statements have not been provided to AID on a regular basis to monitor the local currency inflows into both accounts.

Based on information supplied by the Ministry of Finance, as of February 5, 1986, the GPRM had made deposits totaling 180,512,476.45 meticais for the FY 1984 CIP (counterpart and Trust Fund) and nothing for the FY 1985 CIP. As of January 31, 1986, AID had requested them to make deposits totaling 117,357,460.50 meticais for the FY 1984 CIP and 40,791,379.44 meticais for the FY 1985 CIP. The deposits made by the government do not relate to the billings provided by AID. An analysis will have to be performed to determine which bills have been paid and what exchange rates were used.

As agreed during negotiations with the government concerning the surcharge to be applied to high-value items, the government will deposit the surcharge amount for the FY 1985 CIP into the special account to be used as mutually agreed upon. The surcharge amount from sale of the commodities imported under the FY 1984 program is not required to be deposited into the special account. The FY 1986 program will require that amounts generated from the surcharge be deposited into the special account. The amounts deposited from the surcharges will be exclusive to the basis for the Trust Fund deposits. The AAO is in the process of negotiating the most expeditious means of verifying the surcharge amounts.

An accountant was hired locally by the AAO/Maputo to track all local currency generations and deposits into the special accounts and Trust Fund accounts. The GPRM has improved considerably the process for depositing local currency generations in the special account and in the Trust Fund since the evaluation in January, 1986, and the AAO/Maputo is satisfied that deposits are up to date and accounted for.

To date, no local currency funds from the special account have been disbursed nor have there been any serious proposals from the GPRM for the use of those funds. The AAO will work closer with the AID coordinators in the Bank of Mozambique and the Ministry of Finance to commit and disburse funds for mutually agreed upon activities. The AAO will also consider the possibility of using some of the local currency generations for government budgetary support. This method of utilizing local currency proceeds is a sensible alternative under present conditions in Mozambique for several reasons. First, projects usually require foreign exchange resources as well as local currency. Foreign exchange is extremely scarce and local currency is not. Second, large amounts of CIP-generated meticais are accumulating and some expeditious way to reduce the accumulation is in order. Third, the AID Affairs Office will not be staffed adequately until late 1986 to give full impetus to local currency programming. One of the major tasks of the new AAO Program Officer will be to program local currency funds.

In addition, other donors also have substantial amounts of meticais that they are trying to program. AID will initiate a study using PMR funds to analyze the macro-economic implications of various uses of the local currency and to help define a strategy and plan. Development of a strategy and close oversight by the Program Officer should facilitate the best use of the local currency funds.

B. Procedures and Use of Funds for PSR III Program

Based on the experience from the first two CIPs, the USAID/Swaziland Regional Controller and the AAO/Maputo will negotiate several changes in the procedures for the FY 1986 CIP-generated local currency. Proceeds from the sale of items financed by the Commodity Import Program will be deposited in a special account in a bank agreeable to both AID and the government. Again, 3.5 percent of the local currency contained in the special account, excluding the amount deposited into the special account accruing from the surcharge, will be deposited into a Trust Fund account for local currency costs of operating the AID program in Mozambique.

For the FY 1986 program, AID will recommend that the system of depositing local currency generations be changed so that the importer issues a check to the Bank of Mozambique in meticais based on the C.I.F. amount in the pro forma invoice from the supplier for deposit into the special account at the time of award. A copy of the deposit slip for the special account should accompany the "Concurrence of Award" letter from the Bank of Mozambique. This should have little impact on the importer since currently the Bank of Mozambique blocks the importer's account at the time the importer places the order. A quarterly review of accounts will be made by the parties to take into consideration the other charges that might accrue to the actual C.I.F. amount. If an importer was due a refund, he would apply to the Bank of Mozambique who would then authorize the Ministry of Finance to issue a check for the refund and the special account would be adjusted accordingly.

The Ministry of Finance will continue to issue checks on a periodic basis, agreed to by AID, directly to the AAO for deposit into the Trust Fund.

As discussed above, the AAO will initiate a study to develop a local currency use strategy and plan, and will make a more concerted effort in the rational programming of local currency.

The FY 1986 Authorization legislation contains a specific restriction concerning the use of local currencies generated by CIPs in Africa. Basically, at least 75 percent of the local currency generated from the sale (thus including the surcharge) of AID-financed imports must be used for purposes consistent with regular types of development assistance. To satisfy this requirement, the AAO will not approve the use of more than 25 percent of total local currency generations for purposes other than development related activities.

VI. MONITORING, REPORTS AND EVALUATIONS

A. Program Monitoring and Management

The AID Affairs Office in Maputo will have primary responsibility for the implementation and monitoring of the FY 1986 CIP and will generally maintain the management structure developed for the first two commodity import programs, with the important addition of an end-use monitor.

The commodity import program will be managed by the CM/EO, with the assistance of a procurement monitor hired under a personal services contract and an end-use monitor who was hired in mid-March, 1986, also under a personal services contract. The procurement monitor assists the CM/EO in keeping accurate computer-generated records, monitoring all phases of the procurement process through port arrival and customs clearance and checking on the distribution process. The end-use monitor is an important addition in ascertaining that the commodities are being used by private farmers and the level to which the commodities, especially the equipment, is being used. The end-use monitor will set up a system to try to ascertain the amount of production response from the AID-supplied equipment and inputs.

A final commodity list has been approved by all parties (Annex A), including the amounts for each type of commodity and the geographical distribution. Importers, working in collaboration with the Ministry of Agriculture, will prepare the specifications and the requests for quotation. All specifications for new or different commodities will be finalized before the Grant Agreement is signed.

B. Reports

The reports required under the FY 1986 CIP will be similar to those under the FY 1985 program. In addition to the shipping and financial reports required by the standard CIP, the Ministry of Agriculture will continue to provide periodic status reports indicating the progress in distribution of each type of commodity imported. The MOA official responsible for the AID program maintains very close contact with the CM/EO and the CIP monitor on an almost daily basis. Under the FY 1984 program, the regional authorities have kept very complete records of the names of farmers who bought equipment sold in the target areas. The CIP monitor has a list of all farmers who received equipment from Phase I and will likewise have a similar list for farmers who receive Phase II equipment.

For spare parts, the firms involved keep a detailed record of the private sector farmers who require repairs to their tractors or who buy spare parts. Spare parts financed by AID are stored separately and separate inventory records are maintained. Each distributor maintains receipts and inspection reports, records of claims entered and quarterly sales records identifying area and type of end-user. This will continue for the FY 1986 program and these records will be used more extensively by the end-use monitor.

The computer-generated reports by the CIP monitors will continue to form the basis of a joint program review to be chaired by a representative of the Bank of Mozambique. The review committee will consist of the AID Affairs Officer, the CM/EO, officials of the GPRM's implementing agencies, and importers. The review will monitor program progress, discuss points contained in the reports, resolve problems which have arisen or can be reasonably foreseen to arise, and recommend actions for the next quarter's activities. These planned meetings have been infrequent to date but the AAO/Maputo will strive to maintain the reviews on a regular basis.

The CIP monitor and the end-use monitor will compile reports on the procurement, importation, port clearance, distribution, marketing and eventual end-uses and major effects of the CIP commodities. These reports will be used to highlight problems and to monitor success of the program.

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

C. Evaluations

An evaluation of the FY 1984 CIP was completed in February 1986. Section II.A. includes a summary of the evaluation findings and recommendations. The major evaluation of the FY 1985 CIP is planned for October-November 1986 which is approximately 16 months after initial obligation of the FY 1985 program. The evaluation will examine in detail a number of issues which will affect next year's program. These issues include: success of the allocation process, production response due to the AID-financed equipment and inputs, productive use of the CIP commodities, effect of freed output prices on farmer's decisions, and comparison of final equipment prices to other prices and to potential profits; as well as the confirmation that the commodities are getting to the intended beneficiaries. Annex M includes a draft scope of work for the FY 1985 CIP evaluation. The CIP end-use monitor, working closely with the Regional Economist in Swaziland, has begun four surveys to collect much of the information required for the evaluation.

The formal evaluation of the FY 1986 CIP will take place approximately 16 months after obligation and will again survey private commercial farmers and family farmers to determine the productive use of the imported commodities and the impact of the equipment and the inputs on increased production and productivity. The FY 1986 CIP evaluation will utilize the problems and findings as delineated in the FY 1985 evaluation to make it most valuable to AID.

VII. COMPLIANCE WITH CONGRESSIONAL REQUIREMENTS

The FY 1986 Authorization for AID and the Continuing Resolution for Appropriations contain specific language which relates directly to the Mozambique FY 1986 CIP. This section briefly delineates how the planned commodity import program will meet these legislative requirements.

A. Development Criteria

The PAIP for the PSR III program contains a detailed summary of the criteria included in Section 801(a) of the International Security and Development Cooperation Act of 1985, which applies to all CIPs in Africa. The PAIP assessed the PSR III program with respect to these CIP criteria and concluded that the program meets the legislative criteria (see Annex K). The Grant Agreement will include a provision concerning the requirement in Section 801(a)(6)(A) that 75 percent of the local currency generated by the sale of the imports be deposited into a special account and be used for economic development activities consistent with sections 103 through 106 of the Foreign Assistance Act of 1961. AID will negotiate with the GPRM to ensure that the surcharge is deposited into the special account for Phase III commodities. Since the government claims that this tax should go into the general government budget, AID will be willing to allow up to 25 percent of the local currency generations, including the surcharge, to be allocated for budgetary support, less the 3.5 percent to be used for the Trust Fund. The budgetary support would be a recognition that the surcharge in effect will be returned to the government, up to the limits as stated above.

B. Support to the Private Sector

The FY 1986 Authorization Act (Section 813A) and the FY 1986 Continuing Resolution contain specific restrictions on assistance to Mozambique. Providing commodities solely to private agricultural sector end-users under the procedures set forth in this PAAD is consistent with the legislative requirements. This is confirmed in the PAAD Guidance Cable (Annex E), paragraph 5.

C. Other Restrictions

The FY 1986 Continuing Resolution requires that of the planned amount to be given to Mozambique, $5 million of ESF funds be made available only following democratic elections. The FY 1986 PSR III CIP was originally budgeted for $15 million. Pursuant to the Continuing Resolution requirements, $5 million of this is being held. This PAAD authorizes $9,570,000 which includes the budget deficit reduction of 4.3 percent applied to the remaining $10 million.

In addition, the FY86 Authorization contains special language concerning the use of grant funds to support U.S. firms when foreign competitors are using mixed-credit to underbid procurement solicitations. Appropriate language will be included in the Grant Agreement as required.

AID/Washington has determined that the Mozambique Private Sector Rehabilitation Program is not subject to the legislative requirement whereby 18 percent of all CIP commodities must be U.S. agricultural commodities.

VIII. NEGOTIATING STATUS AND CONDITIONS

A. Negotiations

The Bank of Mozambique and the Ministry of Agriculture have agreed to the private sector and regional targets of the CIP which are basically the same as in Phase II with some minor changes. The GPRM has agreed to substantially increase the final price of most items by increasing the currently applied surcharge and adding a surcharge for some items for which the surcharge did not precisely apply. The exact amounts of the increase in the final price of all commodities will be negotiated prior to the signing of the Grant Agreement. Notwithstanding these negotiations, the Grant Agreement should be signed soon after authorization since it is similar in nature and scope to the Grant Agreement for the Phase II program.

If democratic elections are held in Mozambique during FY 1986 in compliance with the Congressional Continuing Resolution, a PAAD amendment for an additional $4,785,000 ($5 million minus the deficit reduction of 4.3 percent) will be approved at that time and a Grant Agreement Amendment signed.

B. Conditions Precedent and Covenants

The standard conditions precedent and covenants will be included in the Grant Agreement. However, because of Congressional restrictions and other program factors, the following covenants will also be required.

1. End Use Covenant. The Grantee covenants that the commodities imported under the Agreement will be sold or otherwise distributed to the Mozambique private farming sector, including both commercial and small farmers and cooperatives, or will be sold to private sector agriculture-related concerns, including transporters.

2. Importers and Distributors. The Grantee and A.I.D. agree that best efforts should be made to increase the involvement of private sector firms in the importation and distribution of commodities financed under the agreement.

3. Pricing of Commodities. The GPRM agrees that, unless otherwise agreed by A.I.D. in writing, it will assure, in consultation with A.I.D., that the local sale price for A.I.D.-financed tractors, tractor implements, trucks and other commodities reflects the true economic value of the items and generates a fair return to capital.

4. Special Account. The GPRM agrees that the amount generated from any price increases or surcharges in order to comply with the covenant on pricing of commodities will be deposited into the special local currency account.

5. Economic Development Activities. The GPRM agrees that, unless otherwise agreed by A.I.D. in writing, (A) no less that seventy-five percent of the local currency proceeds required to be deposited into the special account will be utilized for mutually agreed upon economic development activities; (B) the balance may be used for these and other mutually agreed upon purposes; and (C) commodities imported under the agreement will be used to meet long-term development needs, as more fully described in implementation letters.

6. Private Voluntary Organizations and the Private Sector. The GPRM and A.I.D. agree that funds in the special account shall be made available, on a priority basis, to support private voluntary organizations (PVOs) and the private sector.

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MOZAMBIQUE PRIVATE SECTOR REHABILITATION PROGRAM III; FINAL COMMODITY LIST
Commodity Import Program
Grant No. 656-K-601B

COMMODITY	ALLOTMENT	DISTRIBUTION Maputo	Xai-Xai	Chokwe	Total	UNIT VALUE ($)	IMPORTER	VALUE	GEOG. CODE	WAIVER NO.	NEGOTIATED	941 SHIP	FORMAL	000 SHIP
Tractors	$889,500										$889,500	$889,500		
65 HP (4 X 2)		25	30	15	70	7350	Intermecano	$514,500	941	01				
65 HP (4 X 4)		3		7	10	12000	Intermecano	$120,000	941	01				
90 HP				10	10	15000	Intermecano	$150,000	941	01				
Tractor Implements														
Disc Plow, 3		28	30	22	80	650	Intermecano	$52,000	941	01				
Disc Plow, 4				10	10	800	Intermecano	$8,000	941	01				
Harrows, 20 discs		28	30	32	90	500	Intermecano	$45,000	941	01				
Motorcultivators	$175,000	50			50	3500	Intermecano	$175,000	941	01	$175,000	$175,000		
Knapsack Sprayers	$37,000	600	200	200	1000	37	Intermecano	$37,000	000				$37,000	$37,000
Trucks	$1,275,000										$1,275,000	$1,275,000		
Eight ton		20	15	10	45	19000	Intermecano	$855,000	899	02				
Three ton		35	8	7	50	8400	Intermecano	$420,000	899	03				
Diesel Fuel	$900,000	3000m3	1500m3	2500m3	7000m3		Petromoc	$900,000	899	04	$900,000	$900,000		
Motor Oils									899	04				
Lubricants									899	04				
Spare Parts	$668,000													
Tractors											$668,000	$668,000		
Ford							Tecnica Indust	$200,000	899	05				
Massey Ferguson							Entreposto	$250,000	899	05				
Misc. Heavy Equip.								$10,000	899	05				
Motorcultivators														
Yanmar							Mecanagro	$15,000	899	05				
Trucks														
Toyota							Uniao Comercia	$50,000	899	05				
Mercedes							Entreposto	$80,000	899	05				
Mitsubishi							Tecnica Indust	$50,000	899	05				
Implements														
Baldan							Mecanagro	$9,000	899	05				
Seed Cleaners														
Nogueira							Mecanagro	$4,000	899	05				

MOZAMBIQUE PRIVATE SECTOR REHABILITATION PROGRAM III; FINAL COMMODITY LIST
Commodity Import Program
Grant No. 656-K-601B

COMMODITY	ALLOTMENT	DISTRIBUTION Maputo	Xai-Xai	Chokwe	Total	UNIT VALUE ($)	IMPORTER	VALUE	GEOG. CODE	WAIVER NO.	NEGOTIATED	941 SHIP	FORMAL	000 SHIP
Irrigation Equipment	$500,000						EARLI	$500,000			$500,000	$500,000		
Diesel Pumps									899	06				
Accessories									899	06				
Hand Tools	$400,000						Tradimex	$400,000	000				$400,000	$400,000
Fertilizers	$1,600,000						Interquimica	$1,600,000	000				$1,600,000	$1,600,000
NPK														
Urea														
Amm. Sulfate														
Seeds	$937,000						Interquimica	$937,000	899	07	$937,000	$837,000		$100,000
Raw Materials for	$2,170,000													
Zinc Sheets							IMA	$500,000	000		$670,000	$670,000	$500,000	$500,000
Irrigation Pipes and Hoses							FACOBOL	$100,000	000					
Truck and Tractor Batteries							TUDOR	$150,000	000					
Truck Trailers						12500	MAQUINAG	$250,000	000					
Plastic containers								$50,000	000					
Boots (natural rubber)							FACOBOL	$120,000	941	01				
Tires (nylon)							MABOR	$1,000,000	000		$1,000,000			$1,000,000
Protective Clothing	$18,500							$18,500	000				$18,500	$18,500
Gloves														
Overalls														
Masks														
TOTAL:	$9,570,000							$9,570,000			$7,014,500	$5,914,500	$2,555,500	$3,655,500

COMPARISON OF CIP PROCUREMENT FOR FY84, FY85 AND PLANNED FY86 PROGRAMS

ANNEX B

Category/Line Item	CHOKWE QUANTITY FY84	FY85	FY86	XAI-XAI QUANTITY FY84	FY85	FY86	MAPUTO & GZ QUANT. FY84	FY85	FY86	TOTAL QUANTITY FY84	FY85	FY86	TOTAL VALUE FY84	FY85	FY86
I. AGRICULTURAL EQUIPMENT															
A. Tractors													$665,641	$864,800	$959,500
65 HP Tractor (+20%SP)	36	27	22	0	35	30	0	38	28	36	100	80			
85-90 HP Tractor (+20%SP)	0	0	10	0	0	0	2	0	0	2	0	10			
45-50 HP Tractor (+20%SP)	10	0	0	0	0	0	8	0	0	18	0	0			
Loader, 80 HP	0	0	0	0	0	0	1	0	0	1	0	0			
MotoCultiv, 12-15 HP, diesel	0	0	0	0	0	0	19	0	50	19	0	50			
B. Tractor Implements													$323,459	$183,734	$105,000
Fixed Disc Plows	40	27	32	0	35	30	50	38	28	90	100	90			
Disc Harrows	40	27	32	0	35	30	50	38	28	90	100	90			
Seeders	40	10	0	0	15	0	50	0	0	90	25	0			
Cultivators	120	20	0	0	15	0	50	10	0	170	45	0			
C. Sprayers													$69,915	$30,560	$37,000
Knapsack, 20 ltr. (one nozzle)	300	200	200	0	200	200	100	200	600	400	600	1000			
Power take off (1000 ltrs)	0	0	0	0	0	0	1	0	0	1	0	0			
Power take off (350 ltrs)	25	0	0	0	5	0	0	0	0	25	5	0			
D. Oxen Drawn Implements	1500	2500	0	0	2500	0	0	1000	0	1500	6000	0	$67,063	$242,886	$0
E. Seed Cleaners, small equip	100	75	0	0	80	0	0	50	0	100	205	0	$243,659	$115,808	$0
F. Scales	0	0	0	0	0	0	250	0	0	250	0	0	$65,795		$0
G. Protective Clothing													$68,074		$18,500
II. TRANSPORTATION EQUIPMENT															
A. Trucks													$411,240	$1,322,328	$1,275,000
8 Ton, 4X2 (+20% SP)	0	17	10	0	4	15	2	0	20	2	21	45			
2-3 Ton, 4X2 (+20% SP)	36	0	7	0	38	8	4	25	35	40	63	50			
1 ton pick-ups	0	0	0	0	0	0	0	10	0	0	10	0			
Motorcycles	0	7	0	0	8	0	0	10	0	0	25	0			
Jeeps	0	1	0	0	1	0	0	2	0	0	4	0			
B. Other Transportation Equipment													$0		$0
Bicycles	0	1300	0	0	1300	0	0	1400	0	0	4000	0		$177,000	
Carts, axle, wheel, chassis	0	200	0	0	150	0	0	50	0	0	400	0		$160,000	
III. FUEL - Diesel, ltr.	0	2 mil		0	1.25 m		0	1.1 mi					$0	$1,000,000	$900,000

COMPARISON OF CIP PROCUREMENT FOR FY84, FY85 AND PLANNED FY86 PROGRAMS

ANNEX B

Category/Line Item	CHOKWE QUANTITY			XAI-XAI QUANTITY			MAPUTO & GZ QUANT.			TOTAL QUANTITY			TOTAL VALUE		
	FY84	FY85	FY86	FY84	FY85	FY86	FY84	FY85	FY86	FY84	FY85	FY86	FY84	FY85	FY86
IV. SPARE PARTS															
Tractor Spare Parts													$735,000	$300,000	$460,000
Truck Spare Parts														$200,000	$180,000
Other Spare Parts															$28,000
V. IRRIGATION EQUIPMENT													$399,992	$500,000	$500,000
A. Motorpump Set (dif. sizes)	15	36		0	27		21	27		36	90				
VI. HAND TOOLS													$391,933	$629,720	$400,000
VII. FERTILIZER													$1,429,076	$1,863,083	$1,600,000
N-P-K, 15-30-15 (in MTs)	1300	2070		0	150		325	380		1625	2600	2600			
Urea (in MTs)	1315	1200		0	700		100	100		1415	2000	2000			
Ammonia Sulphate (in MTs)	0	600		0	150		380	150		380	900	900			
VIII. SEEDS													$1,077,349	$2,110,086	$937,000
IX. RAW MATERIAL													$0		
Zinc Sheets, Galvanized, 10' (I														$999,995	$500,000
Plastic, for containers															$50,000
For Irrigation Pipes (FACOBOL)														$60,000	$100,000
For Truck and Tractor Batteries															$150,000
For Truck Trailers (MAQUINAG)															$250,000
Rubber for boots														$130,000	$120,000
Rubber for Water Hose														$110,000	
Nylon for tires														$1,000,000	$1,000,000
										TOTAL			$5,948,196	$12,000,000	$9,570,000

LIST OF COMMODITIES UNDER PHASE I CIP, FY 1984

COMMODITY	Allotment	Distribution Zonas Verdes	Chokwe	Total	Value	Code	L/C Value	Available$
Tractors	$750,000							
MotoCultiv, 12-15 HP, diesel		19	0	19	$104,816.75	941	$104,816.75	$84,359.0
65HP		0	36	36	$364,348.80		$560,824.20	
85HP		2	0	2	$23,433.00			
45HP-50HP		8	10	18	$148,996.80			
Loader 80HP		1	0	1	$24,045.60			
All awards inc. 20% sp.parts								
Tractor Imps.	$380,000							
Fixed Disc Plow						941	$323,459.02	$56,540.98
2disc, 26"		18	0	18	$9,101.88			
4disc, 28"		30	40	70	$49,749.56			
5disc, 28"		2	0	2	$1,824.67			
10% Spare Parts					$6,067.61			
Disc Harrows								
Offset, 16 disc, 18"		18	0	18	$5,621.80			
10 % Spare Parts					$562.18			
Offset, 18 disc, 22"		30	40	70	$49,525.80			
Offset, 20 disc, 20"		2	0	2	$1,563.87			
10% Spare Parts					$4,743.00			
Seeders								
2 rows		18	0	18	$17,363.97			
3 rows		32	0	32	$48,564.99			
3 rows w/fertillizer (Inc. 15% Spare Parts)		0	40	40	$81,004.84			
Cultivators								
7 blades		18	0	18	$3,336.72			
9 blades		30	40	70	$16,545.89			
11 blades		2	0	2	$533.94			
Hydraulic Rev. Blade (30/50 HP)		0	80	80	$27,348.30			
Tractor Sp.Parts								
Ford	$260,000				$261,396.24	935	$261,396.24	($1,396.24)
Massey Ferguson	$475,000						$473,603.76	$1,396.24
					$408,443.91			
					$10,671.67			
					$11,662.91			
					$23,826.91			
					$18,998.36			

LIST OF COMMODITIES UNDER PHASE I CIP, FY 1984

COMMODITY	Allotment	Distribution Zonas Verdes	Chokwe	Total	Value	Code	L/C Value	Available$
Trucks								
8 Ton, (4X2)	$420,000							
20% Spare Parts		2	0	2	$31,900.00	935	$411,240.00	$8,760.00
3-4 Ton (4X2)					$6,380.00			
20% Spare		4	36	40	$310,800.00			
					$62,160.00			
Irrigation Equip.	$400,000							
Motorpumps, 47 HP								
Electric Pumps, parts		0	15	15	$139,956.00	935	$399,992.06	$7.94
Mobil Motorpumps & Access.		4	0	4	$15,654.42			
Electric & Motorpumps		5	0	5	$43,796.58			
Motorpumps & Access.		7	0	7	$13,852.00			
Motorpumps 5 HP & S.Parts		5	0	5	$15,973.85			
Motorpumps 10 HP & S.Parts		/		15	$32,683.00			
Attachments & Sp. Parts				38	$98,048.00			
		0	39	39	$27,123.21			
Hose 30 meters', 3/4"		500	0	500	$4,145.00	941		
Hose, 1", meter		1000	0	1000	$810.00			
Watering cans		2500	0	2500	$5,950.00			
Oxen Drawn Imps.	$190,000							
Harrows-Triangular						941	$67,062.92	$122,937.08
Harrows-Zig-Zag		0	250	250	$7,226.30			
Spare Parts/Harrows		0	250	250	$15,852.30			
Cultivators					$3,351.70			
Plows		0	500	500	$13,804.43			
Spare Parts/Plows & Cultivators		0	500	500	$18,699.63			
					$8,128.56			
Hand Tools								
Prunning Saws	$450,000					941	$391,933.25	$58,066.75
Axes with Handle		1500	0	1500	$4,725.00			
Flat Files, 6"		19000	0	19000	$78,980.00			
Manure Fork, 4 teeth		500	0	500	$425.00			
Garden Rakes, 12 teeth		5000	2000	7000	$27,990.64			
Hammers		10000	0	10000	$36,835.62			
Machete, Straight		2500	0	2500	$13,174.94			
Garden Rakes, 8-10 teeth		11000	1000	12000	$47,983.84			
Shovels, Pointed, Handle		10000	0	10000	$29,989.96			
Prunning Scissors		5000	2000	7000	$20,370.00			
Shovels, Squared, Handle		500	0	500	$2,400.00			
Sickles		5000	2000	7000	$20,370.00			
Metric Tape, 20 m		0	11000	11000				
Medium Knives		2000	0	2000	$45,708.25			
Weeding Hoes - 500 GRS		1500	0	1500	$1,125.00			
Ring Hoes, 1100/1300 GRS		2000	0	2000	$2,122.00			
Ring Hoes, 910 GRS		20000	4000	24000	$30,538.00			
		10000	0	10000	$12,570.00			

LIST OF COMMODITIES UNDER PHASE I CIP, FY 1984

COMMODITY	Allotment	Distribution Zonas Verdes	Chokwe	Total	Value	Code	L/C Value	Available$
Tang Hoes, 700 GRS								
Trianglular Files, 7"		14000	0	14000	$15,680.00			
		500	0	500	$945.00			
Fertilizer, MT (Maputo)	$1,465,000							
Urea						000	$1,429,076.09	$35,923.91
NPK (15-30-15)		100	1315	1415				
Amonnium Sulfate		325	1300	1625				
		380	0	380				
Fertilizer, MT (Nacala)								
Urea 850								
NPK 100				850				
				100				
FOB:								
Freight:					$966,044.15			
Insurance:					$452,226.65			
					$10,805.29			
Seeds (Kgs)	$706,206							
Cabbage (Improved Globe Y.R.)								
Bell Peppers (California)		440	400	840	$4,116.00	941	$90,709.25	($371,143.49)
Turnips (Purple Top Globe White)		250	0	250	$4,625.00			
Pumpkin (Sugar)		300	0	300	$810.00			
Beets (Detroit Perfected)		3800	0	3800	$14,630.00			
Coriander		1500	0	1500	$4,950.00			
Radish (Cherry Bell)		20	0	20	$75.00			
Lettuce (Great Lakes)		100	0	100	$340.00			
Egg Plant (Long Purple)		800	0	800	$10,240.00			
Small Onion (White Lisbon)		340	0	340	$5,916.00			
Onion (Texas Grand)		510	0	510	$7,420.50			
Parsley (Forrest Green, Curled)		650	800	1450	$21,025.00			
Collard (Vates Non Heading)		150	0	150	$1,072.50			
Carrots (Chantenay)		500	0	500	$1,750.00			
Cauliflower (Snowball T-4 med)		1000	0	1000	$5,100.00			
Insurance		150	0	150	$1,950.00			
Freight					$299.25			
Potato					$6,390.00			
Cabbage (K. K. Cross)		31000	200000	231000	$56,784.42	935	$124,909.42	
Garlic (Egyptian White)		100	100	200	$45,400.00			
Swedish Turnip		10000	10000	20000	$16,800.00			
Kale (Galega)		200	0	200	$1,100.00			
Freight (Rail)		500	0	500	$2,750.00			
Insurance					$690.00			
Corn (Kalahari)					$1,385.00			
Sugar Beans (Natal)		50000	0	50000	$32,589.70	935	$154,744.82	
Black eyed pea				90000	$93,453.60			
Chick Pea		30000	0	30000	$27,686.40			
Peanuts		800	0	800	$1,015.12			
				600000	$520,800.00	941	$706,986.00	

LIST OF COMMODITIES UNDER PHASE I CIP, FY 1984

COMMODITY	Allotment	Distribution Zonas Verdes	Chokwe	Total	Value	Code	L/C Value	Available
Compass								
Sprayers,				403000	$186,186.00			
Knapsack, 20 l. one nozzle	$117,652					941	$69,915.05	$47,734.95
Power take-off (1000 ltrs.)		100	300	400	$16,852.00			
Power take off (350 ltrs.)		1	0	1	$4,403.15			
Seed Cleaners/Threshers		0	25	25	$48,659.90			
Tractor Mounted	$243,792							
Diesel Engine		0	70	70	$109,270.00		$243,659.08	$132.92
Spare parts		0	30	30	$80,580.00			
Freight					$28,477.00			
Insurance					$23,851.25			
Scales					$1,480.83			
Scales, veg 20KG	$65,500							
Scales, 100KG		150	0	150	$26,654.36		$65,795.00	($295.00)
Protective Clothing		100	0	100	$39,140.64			
'Rubber Boots								
'Gloves	$76,850	10000	0	10000	$52,100.00	941	$68,073.88	$8,776.12
'Overalls		110	340	450	$4,133.25			
'Masks, respirators		110	340	450	$2,756.06			
		110	340	450	$9,084.57			
Bank Charges								
TOTAL ALLOCATED:	$6,000,000						$5,948,196.79	$51,803.21 (Reserved for banking charges)

LIST OF COMMODITIES UNDER THE FY 1985 CIP - PHASE II

Commodity	Allotment	Distribution Chokwe	Xai-Xai	Maputo	Droug. Areas	Total	Geog Code
Tractors	$758,200.00						
65 HP Tractors		27	35	38	0	100	941
20% S.Parts							
Tractor Spare Parts							
M. Ferguson	$150,000.00						935
Ford	$150,000.00						
Tractor Implements	$359,253.00						
Fixed disc Plows							941
2 Disc, 26"		18	20	15	0	53	
3 Disc, 28"		9	12	7	0	28	
10% S.Parts							
Disc Harrows							
Offset 18 Disc 22"		18	20	15	0	53	
Offset 20 disc 20"		9	12	7	0	28	
10% S.Parts							
Seeders							
3 Rows		10	15	0	0	25	
15% S.Parts							
Cultivators, 9 Blades		20	15	10	0	45	
Hydraulic Rev. Blade		10	30	10	0	50	
Grain Sheller		20	25	0	0	45	
20% S.Parts							
Oxen Drawn Implements	$242,886.00						
Plows		1000	1000	500	0	2500	941
Triangular Harrows		1500	1500	500	0	3500	
5% S.Parts							
Small Manual Equipment	$60,000.00						
Hand Grinding Mills		40	0	40	0	80	941
Hand Grain Cleaner		0	40	0	0	40	
Sprayers	$36,760.00						
Knapsack 20 lts(one nozzle)		200	200	200	0	600	941
Power Take-off 350 Lts		0	5	0	0	5	
10% S.Parts							
Transportation Equipment	$1,251,108.00						
Trucks 4x2 - 8 Tonnes		20	5	0	0	25	935
Trucks 2-3 Tonnes (4x2)		0	38	25	0	63	
Pickup 800 Kgs (4x2)		0	0	10	0	10	
Jeeps SWB 4x4		1	1	2	0	4	
Motorcycles 50 cc		7	8	10	0	25	

LIST OF COMMODITIES UNDER THE FY 1985 CIP - PHASE II

Commodity	Allotment	Distribution Chokwe	Distribution Xai-Xai	Distribution Maputo	Droug. Areas	Total	Geog. Code
20% S.Parts							
Cart Axle/Wheel/Chassis	$160,000.00	200	150	50	0	400	941
Bicycles	$177,000.00	1000	1000	1000	0	3000	941
Trucks Spare Parts	$200,000.00						
Make A							
Make B							935
Fuel							
Diesel	$1,000,000.00	2000000	1250000	1097826	0	4347826	941
Irrigation Equipment							
Motorpump Set	$500,000.00	36	27	27	0	90	941
Hand Tools	$664,532.00						941
Ring-Hoe-900grs		0	3000	6000	54665	63665	
Ring Hoe 1100grs		4000	4000	6000	0	14000	
Weeding Hoe 500grs		0	1000	0	30000	31000	
Garden Rake 12 Teeth		0	2000	0	0	2000	
Machete, Straight		2000	6000	8000	31155	47155	
Manure Fork, 4 Teeth		0	1000	1000	0	2000	
Sickles		2000	4000	0	0	6000	
Hatchet, With Handle		0	4000	8000	15000	27000	
Shovel, Pointed, With Handle		2000	1500	0	0	3500	
Shovel, Square, With Handle		2000	2500	0	0	4500	
Pickaxe		0	1000	0	0	1000	
Saw, Prunning (Hand Saw)		1000	0	0	0	1000	
Saw, Frame (Plain Bowsaw)		1000	5000	1200	0	7200	
File, Flat 6"		0	1000	0	0	1000	
Hammer		2000	2000	0	0	4000	
Plier		0	1000	0	0	1000	
Hinge		2000	4000	0	0	6000	
Locks		2000	2000	0	0	4000	
Padlocks		2000	4000	0	0	6000	
Watering cans		0	1000	0	0	1000	
Fertilizer (MT)	$1,880,180.00						
N-P-K, 15-30-15		2070	150	380	0	2600	000
Urea		1200	700	100	0	2000	
Ammonium Sulphate		400	150	150	0	900	
Freight							
Insurance							

LIST OF COMMODITIES UNDER THE FY 1985 CIP - PHASE II

Commodity	Allotment	Distribution Chokwe	Xai-Xai	Maputo	Droug. Areas	Total	Geog Code
Seeds (Kgs)	$211,330.00						
Onion (Texas Grano)		500	90	600	0	1190	941
Pumpkin (Sugar)		0	100	320	0	420	
Kale (Tronchuda)		0	100	800	0	900	
Cauliflower (Snowball T 4 Medium)		0	40	60	0	100	
Tomato (Roma)		500	100	530	0	1130	
Lettuce (Great Lakes)		0	40	210	0	250	
Carrots (Chantenay)		0	20	530	0	550	
Bell Pepper (California Wonder)		0	25	325	0	350	
Cabbage (Gloria or K.Market)		250	75	335	0	660	
Cucumber (Ashley Long)		0	10	290	0	300	
Eggplant (Long Purple)		0	10	220	0	230	
Watermelon (Florida Giant/Black Diamond)		0	0	100	0	100	
Turnip (Purple White Globe)		0	0	50	0	50	
Freight							
Insurance							
Cow-Peas		0	0	3000	0	3000	
Peanut		0	0	83000	0	83000	
Seeds (Kgs)	$898,756.00						
Green Kale (Galega)		0	100	0	0	100	935
Butter Beans		100000	35000	91000	0	226000	
Black-Eye Beans		0	25000	0	0	25000	
Chick- Peas		0	200	0	0	200	
Corn (Kalahari White)		0	50000	21000	780000	851000	
Garlic (Common White)		0	3000	23000	0	26000	
Potato (BP1 or Up-to-date)		450000	92000	0	0	542000	
Zinc Sheets	$999,995.00						
Zinc Sheets, Galvanized, 12'		35000	25000	16628	0	76628	000
Raw Material							
Nylon For Tires	$1,000,000.00						000
Natural Rubber							941
For Boots	$130,000.00						
For Water Hose 3/4"	$110,000.00						
For Irrigation Pipe	$60,000.00						
TOTAL............	$11,000,000.00						

ANNEX E

Action PPD TYP DIR CONT

ACTION: AID INFO: AMB/DCM CHRON

VLEOVZCZCMB0078
PP RUEHMB
DE RUEHC #8076/01 0181714
ZNR UUUUU ZZH
P 181711Z JAN 86
FM SECSTATE WASHDC
TO RUEHTO/AMEMBASSY MAPUTO PRIORITY 0917
RUEHMB/AMEMBASSY MBABANE PRIORITY 6930
BT
UNCLAS STATE 018076

LOC: 067 285
19 JAN 86 2210
CN: 01552
CHRG: AID
DIST: AID

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: PRIVATE SECTOR REHAB III (656-0201) - PAAD GUIDANCE

1. ECPR MET AND APPROVED PAIP ON DECEMBER 17. MEETING WAS CHAIRED BY DAA SAIERS; AAO/MAPUTO AND USAID/SWAZILAND DIRECTOR ATTENDED. THIS MESSAGE REPORTS ON DISCUSSION AND CONCLUSIONS REACHED AT ECPR AND FOCUSSES ON GUIDANCE FOR THE UPCOMING EVALUATIONS AND PAAD DESIGN.

2. KEY ISSUES: THREE IMPORTANT ISSUES OCCUPIED MOST OF OUR TIME DURING THE REVIEW - (1) PRICING OF CIP-FUNDED COMMODITIES; (2) FOREIGN EXCHANGE ALLOCATION PROCESS; AND (3) CONDITIONALITY AND THE ROLE OF THIS PROGRAM IN STIMULATING POLICY DIALOGUE AND PROMOTING REFORM.

A. PRICING: THE PRICING ISSUE WAS DISCUSSED AT LENGTH WITHOUT ANY CLEAR CONCLUSION. IMPORTS SOLD AT PRICES WELL BELOW THEIR SCARCITY VALUE LEAD TO WINDFALL PROFITS AND A MISALLOCATION OF RESOURCES. WE UNDERSTAND THE DIFFICULTIES OF GETTING THE GOVERNMENT TO MOVE ON THIS ISSUE, BUT WE BELIEVE IT IS CENTRAL TO MAKING ANY PROGRESS ON POLICY REFORM. ACCORDINGLY, WE SUGGEST THAT YOU PRESS FOR SUBSTANTIAL INCREASES IN THE SURTAXES ON BIG-TICKET ITEMS. ALTHOUGH WE DID NOT AGREE TO ANY SPECIFIC PROPOSAL FOR THE LEVEL OF SURCHARGES AT THE ECPR, WE ENCOURAGE YOU TO AIM FOR GETTING THE METICAL PRICE UP TO 50 PERCENT OF THE PARALLEL MARKET RATE ON ITEMS WITH A UNIT COST OF DOLLARS 500 OR MORE. IF THE GPRM WILL NOT AGREE TO ADDITIONAL SURTAXES AT LEVELS ACCEPTABLE TO THE MISSION, YOU HAVE THE AFRICA BUREAU'S APPROVAL TO DELETE BIG-TICKET ITEMS FROM THE COMMODITY LIST FOR THE FY86 PROGRAM.

	Action	Info
DIR		
DD	✓	
PPD	✓	
APC		✓
CONT		✓
RLA		✓
RHDO		
ADO		
R/ECON		
IDI		
TRNG		
JAO		
CHRON		✓
RF		✓
Reply Due 1/23		
Action Taken		
Date		
File		

B. CONDITIONALITY: THE ECPR CONCLUDED THAT CONDITIONALITY, AS TRADITIONALLY VIEWED, SHOULD NOT BE A PART OF THIS PROGRAM. THE USE OF TECHNICAL ASSISTANCE TO PERFORM STUDIES AND CONDUCT ANALYSES WAS DISCUSSED AS A POSSIBLE APPROACH TO GATHER THE INFORMATION NEEDED FOR

THE POLICY DIALOGUE PROCESS. HOWEVER, GIVEN SENSITIVITIES REGARDING THE NEW LEGISLATIVE PROVISIONS REGARDING ASSISTANCE TO THE PUBLIC SECTOR (SECTION 8136) OF THE FY 86/87 AUTHORIZATION STATUTE, AND THE CURRENT CONTINUING RESOLUTION) AND THE FACT THAT WE STILL HAVE A SIZEABLE TA PIPELINE FROM LAST YEAR'S PROGRAM, WE DO NOT APPROVE THE PROPOSED TA PACKAGE FOR THE FY86 PROGRAM. WE WANT TO EMPHASIZE THAT THIS DECISION WAS BASED ON CURRENT LEGISLATIVE AND PROGRAM FACTORS AND DOES NOT NECESSARILY APPLY TO FUTURE PROGRAMS IN WHICH WE MAY WISH TO CONSIDER SOME STRONGER TERMS AND CONDITIONS AS WELL AS A ROLE FOR TA IN THE POLICY DIALOGUE PROCESS. FURTHERMORE, IN AN EFFORT TO STAY INVOLVED IN THE POLICY DIALOGUE PROCESS, WE EXPECT THE MISSION TO CONTINUE TO UNDERTAKE POLICY ANALYSES AND TO DISCUSS FINDINGS WITH THE GPRM.

C. ALLOCATION PROCESS: AT BEST, THE EFFICIENCY AND EQUITY OF THE CURRENT COMMODITY ALLOCATION PROCESS IS QUESTIONABLE. DURING THE UPCOMING EVALUATION AND PAAD DESIGN, AN ATTEMPT SHOULD BE MADE TO TEST THE HYPOTHESIS THAT WE ARE REACHING PRODUCERS WHO ARE RESPONDING TO THE INCREASED AVAILABILITY OF CAPITAL EQUIPMENT AND OTHER INPUTS. WHILE DIRECT CORRELATIONS WILL BE IMPOSSIBLE TO ESTABLISH, WE SHOULD BE ABLE TO GET SOME IDEA ABOUT THE USES TO WHICH CIP COMMODITIES ARE BEING PUT. LIKEWISE, WE SHOULD BE ABLE TO DETERMINE IF AREAS RECEIVING CIP ASSISTANCE HAVE EXPERIENCED INCREASED AGGREGATE PRODUCTION. WHILE THESE FINDINGS MAY NOT BE VERY CONCLUSIVE, THEY MAY SATISFY OUR CONCERNS ABOUT WHETHER CIP-FUNDED COMMODITIES ARE CONTRIBUTING TO THE PROGRAM'S

OBJECTIVES OF INCREASED PRODUCTIVITY AND FOOD PRODUCTION AS WELL AS PRIVIATE SECTOR REVITALIZATION.

3. OTHER ISSUES/CONCERNS:

A. RLDC STATUS: THE ECPR AGREED TO EXPLORE WITH AGENCY POLICY OFFICIALS THE POSSIBILITY OF REVISING AGENCY POLICY REQUIRING THAT PROCUREMENT UNDER GRANTS TO COUNTRIES NOT ON THE UN LIST OF RLDCS BE LIMITED TO THE US ONLY, TO ALLOW CODE 941 PROCUREMENT UNDER GRANTS TO MOZAMBIQUE GENERALLY, ON THE GROUND THAT MOZAMBIQUE PRIMARILY MEETS THE REQUIREMENTS FOR INDUCTION ON THE UN LIST. AN ALTERNATIVE WOULD BE TO REQUEST A BLANKET WAIVER TO CODE 941 FROM A/AID UNDER ONE OF THE CRITERIA OF HB. 1B, CH. 5B4A; THE LIKELY ONE BEING , QUOTE CIRCUMSTANCES THAT ARE CRITICAL TO SUCCESS OF PROJECT OBJECTIVES UNQUOTE. IN THIS CASE, A FULL FACTUAL JUSTIFICATION FROM THE MISSION WOULD BE REQUIRED, FOCUSSING ON WHY CODE 941 PROCUREMENT IS CRITICAL TO PROJECT SUCCESS, RATHER THAN ON QUALIFICATION FOR THE UN

LIST. IN THE ABSENCE OF EITHER OF THESE, THE MISSION SHOULD PROCEED TO REQUEST AND/OR PROCESS (AS AUTHORITY IS DELEGATED) OUR TRANSACTIONAL WAIVERS REQUIRED, WITH ADEQUATE FACTUAL JUSTIFICATION, UNDER CH. 5B4A CRITERIA.

B. PESTICIDE PROCUREMENT: DUE TO THE STRONG FEELING BY THE MISSION THAT THE TA ASSOCIATED WITH PESTICIDE PROCUREMENT PROGRAM WOULD NOT BE MANAGEABLE, THE ECPR CONCLUDED THAT NO PESTICIDES SHOULD BE PROCURED BY AID AT THIS TIME. SHOULD CONDITIONS CHANGE, THE EA PREPARED FOR THE PAIP PROVIDES THE NECESSARY INFORMATION AND ANALYSIS TO JUSTIFY THE FUTURE PROCUREMENT OF PESTICIDES. ONLY A BRIEF UPDATE WOULD BE NEEDED. SINCE PESTICIDES WILL NOT BE PROCURED, AN IEE MUST BE PREPARED AND SUBMITTED TO THE BUREAU'S ENVIRONMENTAL OFFICER AND GC/AFR FOR APPROVAL. THE RECOMMENDATION IN THE IEE SHOULD BE FOR A CATEGORICAL EXCLUSION.

C. DELEGATION OF AUTHORITY TO AUTHORIZE THE FY86 PROGRAM:

THE ECPR RECOMMENDED THAT THE PAAD BE AUTHORIZED IN THE FIELD. SINCE THE LATEST CN (JULY 1985) NOTIFIED THIS PROGRAM AS ONE MULTI-YEAR DOLS 38 MILLION PROGRAM COMMENCING IN FY84, THIS PAAD SHOULD BE TREATED AS AN AMENDMENT. A DOA FROM A/AID WILL BE REQUESTED AND FORWARDED SEPTEL.

D. PURPOSE OF THE PROGRAM: THE ECPR CONCLUDED THAT THE PURPOSE STATEMENT IN THE PAAD SHOULD REFLECT THE PRIVATE TED
SECTOR SUPPORT FOCUS OF THE PROGRAM. THIS IS CONSISTENT WITH THE LANGUAGE OF THE AUTHORIZATION LEGISLATION AND THE CR. ONE SUGGESTED FORMULATION WOULD BE QUOTE TO SUPPORT THE PRIVATE AGRICULTURAL SECTOR THROUGH THE PROVISION OF COMMODITIES UNQUOTE.

E. U.S.-ORIGIN AGRICULTURAL COMMODITIES:

SECTION 205 OF THE FY86/87 AUTHORIZATION LEGISLATION REQUIRES THAT 18 PERCENT OF ESF-FUNDED CIPS BE USED FOR AGRICULTURAL COMMODITIES OF U.S. ORIGIN. AID/W IS CURRENTLY IN THE PROCESS OF DETERMINING HOW THIS WILL BE IMPLEMENTED. WE REQUEST THAT YOU NOTIFY AID/W OF THE AMOUNT OF ELIGIBLE AGRICULTURAL COMMODITIES (SEE STATE 364607) INCLUDED IN THE PROGRAM PRIOR TO APPROVING THE PAAD AND AWAIT OUR INSTRUCTIONS REGARDING THIS REQUIREMENT.

4. EVALUATION GUIDANCE: THE ECPR, WHILE RECOGNIZING THE IMPORTANCE OF EVALUATING THE PROGRAM IMPLEMENTATION CONCERNS IDENTIFIED IN ANNEX A OF THE PAIP, WANTS TO EXPAND THE SCOPE OF THE EVALUATION TO INCLUDE SOME OF THE TROUBLESOME CONCERNS EXPRESSED ABOVE. WE REALIZE THAT ANY EVALUATION METHODOLOGY AND SCOPE MUST BE CONSISTENT WITH DATA AVAILABILITY AND THE CAPACITY OF THE MISSION TO MANAGE THE PROCESS.

SPECIFICALLY, WE SEE THE JANUARY EVALUATION AS AN OPPORTUNITY TO GET A QUICK LOOK AT THE USE OF CIP-COMMODITIES AND PRODUCTION RESPONSES AND TO IDENTIFY POSSIBLE IMPROVEMENTS FOR FUTURE PROGRAMS. HOPEFULLY, SOME IDEA OF THE EFFICIENCY OF THE ALLOCATION PROCESS CAN ALSO BE GLEANED AND SOME INFORMATION CAN BE OBTAINED ON THE FEASIBILITY OF USING THE CIP AS A LEVERAGING MECHANISM. IN THIS REGARD, WE THINK THAT FARMER INTERVIEWS SHOULD BE AN INTEGRAL PART OF THE EVALUATION METHODOLOGY. AMONG OTHER THINGS, THESE INTERVIEWS SHOULD COVER SUCH POINTS AS: HOW FARMERS OBTAIN EQUIPMENT AND OTHER INPUTS, HOW COMMODITIES ARE BEING USED, WHAT FARMERS WOULD HAVE DONE WITHOUT THE CIP. IN ADDITION, SOME PRIVATE SECTOR DISTRIBUTORS AND RETAILERS SHOULD BE INTERVIEWED TO FIND OUT MORE ABOUT THE ALLOCATION AND PRICING PROCESSES.

AN IMPORTANT FEATURE OF THE JANUARY EVALUATION SHOULD BE THE DEVELOPMENT OF A SET OF ISSUES AND QUESTIONS FOR A MORE COMPREHENSIVE JULY EVALUATION, INCLUDING DEFINITION

OF DATA REQUIREMENTS, EVALUATION METHODOLOGY TO BE USED, AND A MECHANISM FOR COLLECTING THE NEEDED DATA. THIS INFORMATION SHOULD BE INCORPORATED INTO THE EVALUATION PLAN IN THE FY86 PAAD. IN ORDER TO DO JUSTICE TO THE JANUARY EVALUATION AND STILL HAVE THE TIME TO PLAN FOR THE JULY EFFORT, YOU MAY WISH TO FOCUS THE INITIAL ASSESSMENT ON BIG-TICKET ITEMS ONLY.

5. FY 1986 AUTHORIZATION AND APPROPRIATION LEGISLATION: (A) THE FY86 LEGISLATION (SECTION 813A) AND FY86 CR, BOTH SEPARATELY TRANSMITTED TO THE FIELD, CONTAIN SPECIFIC RESTRICTIONS ON ASSISTANCE TO MOZAMBIQUE. PROVIDING COMMODITIES SOLEY TO PRIVATE AGRICULTURAL SECTOR END USERS UNDER THE PROCEDURES SET FORTH IN THE PAIP IS CONSISTENT WITH THE LEGISLATIVE REQUIREMENTS

SINCE COMMODITIES FOR THIS SECTOR ARE MOZAMBIQUE'S MOST CRITICAL NEED, AND THE PAIP PRESENTS A PLAN FOR THE ONLY VIABLE WAY TO DELIVER THEM.

(B) THE CR ALSO REQUIRES THAT DOLS 5 MILLION OF ESF FUNDS NOT BE MADE AVAILABLE UNTIL DEMOCRATIC ELECTIONS ARE HELD. SINCE CONGRESS HAS PREVIOUSLY BEEN NOTIFIED OF DOLS 15 MILLION IN ESF FUNDS FOR COMMODITIES, DOLS 10 MILLION OF IT MAY BE OBLIGATED WITHOUT FURTHER ACTION UNDER THIS PROVISION. ANY DECISION AS TO WHETHER THE STATUTE HAS BEEN SATISFIED WITH RESPECT TO THE REMAINING DOLS 5 MILLION SHOULD BE REFERRED TO WASHINGTON.

6. WE ASSUME THAT YOU ARE STILL PLANNING A JUNE OBLIGATION AS SCHEDULED. SHULTZ
BT
#8076

NNNN

Mozambique Private Sector Rehabilitation III

3(A)2 NONPROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

A Congressional Notification for this activity was prepared at the time of notification for the PSR II Program in 1985.

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

No further legislative action is required for this assistance.

3. FAA Sec. 209 Is assistance more efficiently and effectively given through regional or multilateral organizations? If

No.

so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

N/A

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

N/A. Applicable to development loans. This is not a Dvelopment loan.

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

This grant-CIP will bolster the economy generally and permit increased importation of U.S. and other Code 941 goods and related services, as well as investment in a stronger ~~more~~ privately oriented Mozambican economy. The U.S. AID Program to Mozambique will improve the climate for U.S. business initiatives to that country.

6. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Provisions in the grant agreement for the CIP will require the country to utilize the counterpart local currencies in mutually agreed upon development activities primarily related to the private agriculural sector, including cooperatives. In addition. a negotiated percentage of these funds will abe available as GPRM trust funds for administrative uses of the U.S. AID Affairs office.

KJ

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

N/A.

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

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

N/A.

10. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

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

The assistance will permit the GPRM to increase the productivity of its private sector, particularly its private agricult ural sector. This in turn will promote economic and political stability. In assisting the Mozambique private sector, including small private farmers and cooperatives, AID will help the poor majority of farmers to participate in a process of growth through productive work

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

c. FAA Sec. 531(d). Will ESF funds made available for commodity imp[illegible]s or other progra[illegible] be used to gene[illegible] currencies? [illegible] such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

Yes. At least 75% of such generations will be so available.

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

Approximately 21% of CIP funds are planned to be expended for fertilizer and seeds of U.S. origin. These items are not considered U.S.-origin agricultural commodities for purposes of Section 205 of the ISDCA per 85 State 354607.

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

Yes. A general covenant will be included on the subject and a realted PIL will be issued on how these criteria are met under CIP.

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

See above.

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall

See above.

assess such plans to determine whether they will effectively promote economic development;	
(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;	See above.
(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;	See above.
(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;	See above.
(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities	See above.

which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

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

The agreement will so provide.

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

No.

N/A.

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

Yes. Special Account arrangements are in place for this and the two previous Mozambique CIPs.

2. <u>Nonproject Criteria for Development Assistance</u>

Not Development Assistance.

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

N/A.

b. <u>FAA Sec. 103, 103A, 104, 105, 106, 107.</u> Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.)

N/A.

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(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A.

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

N/A.

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

N/A.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i)(a) concerned with data

N/A.

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collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

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

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

(iv) reconstruction after natural or manmade disaster;

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

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

(5) [107] is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.) N/A

c. FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. N/A.
Does the assistance take into consideration the problem of the destruction of tropical forests? N/A.

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

e. FAA Sec. 122(b) Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? N/A.

5C(3) - STANDARD ITEM CHECKLIST

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

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

A. Procurement

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

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

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

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

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?

N/A.

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No. Through CIP provisions and and AID monitoring of commodity shipments, section 901(b) will be complied with.

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

N/A.

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes.

9. FY 1986 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

N/A. CIP transactions are under host country purchasing arrangements.

B. Construction

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

N/A.

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

N/A.

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

N/A.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — N/A.

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

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

Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo — (1) Yes. (2) Yes.

sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

(3) Yes.

(4) Yes.

b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated?

Yes.

c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

Yes.

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

Yes.

e. FAA Sec. 662. For CIA activities?

Yes.

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

Yes. The Southern Africa light-weight vehicle waiver for CY1986 will apply to CIP transactions.

g.	<u>FY 1986 Continuing Resolution, Sec. 503.</u> To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?	Yes.
h.	<u>FY 1986 Continuing Resolution, Sec. 505.</u> To pay U.N. assessments, arrearages or dues?	Yes.
i.	<u>FY 1986 Continuing Resolution, Sec. 506.</u> To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?	Yes.
j.	<u>FY 1986 Continuing Resolution, Sec. 510.</u> To finance the export of nuclear equipment, fuel, or technology?	Yes.
k.	<u>FY 1986 Continuing Resolution, Sec. 511.</u> For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	Yes.
l.	<u>FY 1986 Continuing Resolution, Sec. 516.</u> To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	Yes.

ANNEX G

REPÚBLICA POPULAR DE MOÇAMBIQUE

COMISSÃO NACIONAL DO PLANO

SECRETARIA DE ESTADO DA COOPERAÇÃO INTERNACIONAL

Av. Ahmed Sekou Touré n.º 21 — Caixa Postal, 1101 — Maputo

HIS EXCELLENCY

PETER JOHN DE VOS

UNITED STATE'S AMABASSADOR TO MOZAMBIQUE

M A P U T O

Sua referência	De	Nossa referência	Data
		454/GSE/DIR.OECD-AL/SECI/86	26.02.86

ASSUNTO: Official request for USAID Assistance.

Excellency,

As Your Excellency may be aware, the Government of the People's Republic of Mozambique has been taking measures that are aimed at revitalizing the private and co-operative sectors, specially in the agricultural field. In this way and with support of Your Government, the first support programme in the Green Zones of Maputo and Chókwè have been implemented and the second programme is being fulfiled in the same areas. Both programmes were financed by USAID.

Due to the reasons that the obtained results were good in the implementation of the programmes already agreed upon and desiring to give continuity to these kind of support already started, I request on behalf of the Government of the People's Republic of Mozambique the financing in amount of US$ 15 million to be used for the import of production implements for private sector whose programme was agreed upon with the USAID mission that recently visited Mozambique. In addition, an amount of US$ 2 million would be necessary for technical assistance and training in on going programmes.

I take this opportunity to renew to Your Excellency the assurance of my highest consideration.

THE SECRETARY OF STATE

ANTONIO SUMBANA

WAIVERS

(1r

UNCLASSIFIED STATE 178002

Actn FF
Info FM

ACTION: AID INFO: AMB/DCM CHRON

M OGZVZCZCMB0791
OO RUEHMB
DE RUEHC #8002 1562353
ZNR UUUUU ZZH
O 052353Z JUN 86
FM SECSTATE WASHDC
TO RUEHMB/AMEMBASSY MBABANE IMMEDIATE 8079
INFO RUEHTO/AMEMBASSY MAPUTO IMMEDIATE 1888
BT
UNCLAS STATE 178002

LOC: 077 407
06 JUN 86 2354
CN: 16575
CHRG: AID
DIST: AID

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: PRIVATE SECTOR REHAB PROJECT - OBLIGATION OF FY 86 FUNDS

REF: HUESMANN/WRIN TELECON OF JUNE 2

1. ACTION MEMOS FOR WAIVERS EXECUTED AS FOLLOWS:

--- WAIVER ---	DATE APPROVED BY AA/AFR
941 SOURCE/ORIGIN	5/16/86
941 SHIPPING	5/22/86
935 HEAVY TRUCKS	3/17/86
935 LIGHT RHD VEHICLES (WORLDWIDE BLANKET WAIVER)	3/9/86

2. DOA ACTION MEMO AND CABLE SIGNED ON 5/30/86.

3. PLEASE ADVISE AFR/SA AS SOON AS FUNDS ARE OBLIGATED. SHULTZ
BT
#8002

NNNN

Date Rec'd:		
	✓	
		✓
UPN		
ADO		
EHR		
PIA		
CON		
RMO		
CHRON		
RF		

Reply Due 6/9
Action Taken:
Initial/Date:
File Loc.

UNCLASSIFIED STATE 178002

UNCLASSIFIED STATE [illegible]

ACTION: ID INFO: [illegible]

Action PPD
Info RLA
cont

[illegible]
RR RUEHMB
DE RUEHC #6758 2871800
ZNR UUUUU ZZH
R 281759Z MAR 86
FM SECSTATE WASHDC
TO RUEHTO/AMEMBASSY MAPUTO 1447
INFO RUEHMB/AMEMBASSY MBABANE 7517
BT
UNCLAS STATE 096758

LOC: 158 031
29 MAR 86 1757
CN: 09140
CHRG: AID
DIST: AID

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: MOZAMBIQUE PRIVATE SECTOR REHABILITATION III

REFS: (A) MBABANE 799 (B) GILBERT/SILVA TELECON 2/25/86

1. DAA/AFR SAIERS CONFIRMS REQUEST MADE AT ECPR THAT HE WOULD LIKE TO SEE AT LEAST SUMMARY RESULTS OF EVALUATION OF PSR/CIP I BEFORE PROCESSING AD HOC DOA TO PERMIT FIELD AUTHORIZATION OF FY86 PAAD. WE REGRET THAT THIS POINT WAS NOT INCLUDED IN OUR GUIDANCE CABLE. WE HAVE REVIEWED SUCCESS STORY CABLE (MBABANE 799), WHICH, THOUGH HELPFUL, FALLS SHORT OF COVERAGE WHICH EVALUATION, EVEN IN SUMMARY FORM, WOULD PROVIDE. ACCORDINGLY, PLEASE CABLE ASAP EXECUTIVE SUMMARY OF EVALUATION, IF, AS WE UNDERSTAND, IT HAS ALREADY BEEN PREPARED.

2. AS REPORTED REFTELECON, SOURCE/ORIGIN WAIVER FOR RHD HEAVY TRUCKS IN THE AMOUNT OF DOLS 860,000 WAS APPROVED BY AA/AFR ON 3/17/86. CODE 941 SOURCE/ORIGIN WAIVER IN AMOUNT OF DOLS 2.5 MILLION IS NOW CLEARING IN FINAL. SER/AAM WILL REVIEW SHIPPING/INSURANCE WAIVER WHEN S/O WAIVER IS APPROVED. IN THIS CONNECTION, PER REFTELECON, WOULD APPRECIATE CABLE TALLY OF FIELD APPROVED WAIVERS AND AMOUNTS WHICH SHOULD TOTAL (INCLUDING CODE 941 WAIVER) DOLS 6.52 MILLION IN SHIPPING/INSURANCE WAIVER.
WHITEHEAD
BT
#6758

NNNN

	Action	Info
DIR		
DD		
PRM	✓	
APO		
CONT		✓
RLA		✓
PHDO		
ADO		
RECON		
[illegible]		
[illegible]		
[illegible]		
[illegible]		✓
RF		✓
Reply Due 4/4		
Action		
Taken		
Date		
[illegible]		

(1)

UNCLASSIFIED STATE 150452

Action RLA
Info FM

ACTION: AID INFO: AMB/DCM CHRON

F
SEVZCZCMBC327
RR RUEHMB
DE RUEHC #0452 1330511
ZNR UUUUU ZZH
R 130511Z MAY 86
FM SECSTATE WASHDC
TO RUEHTO/AMEMBASSY MAPUTO 1745
INFO RUEHMB/AMEMBASSY MBABANE 7886
BT
UNCLAS STATE 150452

LOC: 061 440
13 MAY 86 0516
CN: 14255
CHRG: AID
DIST: AID

AIDAC NAIROBI FOR REDSO MBABANE FOR RLA

E.O. 12356: N/A
TAGS:
SUBJECT: LIGHT VEHICLE WAIVER FOR MOZAMBIQUE

REF: STATE 86441

1. A WORLDWIDE BLANKET VEHICLE WAIVER COVERING SOURCE/ORIGIN REQUIREMENTS AND SECTION 636 (I) WAS APPROVED BY THE ADMINISTRATOR ON MARCH 7, 1986, TO PERMIT PROCUREMENT FROM CODE 935 COUNTRIES OF RIGHT HAND DRIVE (RHD) PROJECT VEHICLES UP TO 11,000 POUNDS IN WEIGHT AND MOTORCYCLES OF UP TO 125 CCS. THIS ACTION SUPERCEDES THE FORMER SOUTHERN AFRICA BLANKET VEHICLE WAIVER WHICH HAS BEEN ISSUED ON AN ANNUAL BASIS SINCE 1982, USING THE SAME JUSTIFICATION. THE LANGUAGE OF THE RECENT WORLDWIDE WAIVER REFERS TO PROJECT VEHICLES, ON THE ASSUMPTION THAT THERE WOULD BE NO NEED TO PROCURE VEHICLES FOR NON-PROJECT ACTIVITIES, SINCE PASSENGERS CARS ARE NORMALLY EXCLUDED FROM CIPS AS LUXURY ITEMS.

	Action	Info
DIR		
DD		
PRM		
APO		
FM		✓
RLA	✓	
RHDO		
ADO		
R/ECON		
IDI		
TRNG		
JAO		
CHRON		✓
RF		✓
Reply Due 5/20		
Action		
Taken		
Date		
File		

2. THE BUREAU HAS POINTED OUT THAT IN THE CASE OF THE MOZAMBIQUE PRIVATE SECTOR REHABILITATION PROGRAM, VEHICLES (ALL LIGHT TRUCKS, NOT PASSENGER CARS), ARE INCLUDED AMONG THE COMMODITIES TO BE PROCURED. THESE TRUCKS ARE NECESSARY TO CARRY OUT THE BASIC

OBJECTIVE OF THE PROGRAM, WHICH IS THE REHABILITATION OF THE LOCAL PRIVATE AGRIBUSINESS SECTOR. IN THIS INSTANCE, THE RATIONALE BASED ON THE PURCHASE AND MAINTENANCE OF RIGHT HAND DRIVE VEHICLES APPLICABLE TO NORMAL PROJECT PROCUREMENT IS DEEMED TO BE EQUALLY VALID, EVEN THOUGH A NON-PROJECT MECHANISM IS BEING USED. MOREOVER, THE REAL DISTINCTION WITH RESPECT TO AID SOURCE/ORIGIN WAIVER PROCEDURES IS NOT BETWEEN PROJECT AND NON-PROJECT ACTIVITIES, BUT BETWEEN PROJECT AND NON-PROJECT ASSISTANCE ON THE ONE HAND AND OE PROCUREMENT ON THE OTHER HAND, WHICH IS SUBJECT TO THE REQUIREMENTS OF HB 1B, CHAPTER 26.

3. ACCORDINGLY, THE ORIGINATORS OF THE WORLDWIDE RIGHT HAND VEHICLE WAIVER, SER/PPE AND GC/CCM, HAVE AGREED THAT THE PROGRAM IN MOZAMBIQUE FITS THE CRITERIA JUSTIFYING A

SOURCE/ORIGIN WAIVER FOR RIGHT HAND DRIVE VEHICLES, BASED ON NON-AVAILABILITY FROM CODE 000 AND LACK OF ADEQUATE MAINTENANCE CAPABILITY IN THE HOST COUNTRY. THE WORLDWIDE WAIVER WILL THEREFORE BE INTERPRETED TO INCLUDE CURRENT NON-PROJECT ASSISTANCE TO MOZAMBIQUE, IN ORDER TO PERMIT PROCUREMENT OF LIGHT RHD VEHICLES OF CODE 935 SOURCE/ORIGIN FOR MOZAMBIQUE NEEDED TO ACHIEVE SECTOR OBJECTIVES UNDER THE FY 1986 PROGRAM, WITHOUT THE NEED FOR FURTHER WAIVERS.

4. HOWEVER, BECAUSE OF THE CLASSIFICATION OF PASSENGER CARS AS LUXURY ITEMS NORMALLY INELIGIBLE UNDER CIP PROGRAMS, INCLUDING THOSE OF U.S SOURCE AND ORIGIN, PRIOR AID/W APPROVAL WILL BE REQUIRED, AS WITH ANY INELIGIBLE ITEM, IF THE MISSION WISHES TO PROCURE PASSENGER CARS UNDER THIS PROGRAM IN THE FUTURE, IN ACCORDANCE WITH HE 1B, CH 4 C2A(5)(A). SHULTZ
BT
#0452

NNNN

110

6-180 USAID MO
AID AFFAIRS OFFIC MAPUTO

ATTN: JUDY SHANE

TRANSPORTATION SOURCE WAIVER 86-043 AUTHORIZING REIMBURSEMENT OF OCEAN COMMON CARRIER CHARGES ON CODE 941 VESSELS UNDER MOZAMBIQUE FY 86 CIP (656-K-601B) APPROVED MAY 22, 1986.

REGARDS.

JAMES L. BERGER
AID/M/SER/OP/TRANS

TD

6-180 USAID MO
.....
MAY 23 1212 RESPOND TO 248766 COM UR

23 MAY 1986

TELEX USA 285130 FOR LATEST NEWS AND FINANCIAL REPORS

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/SWAZILAND

PROBLEM: Your approval is required to permit the change of Source/Origin Geographic Code for procurement of diesel fuel and lubricants from AID Geographic Code 000 (United States only) to AID Geographic Code 899 (Free World).

(A)	Cooperating Country:	Mozambique
(B)	Authorizing Documents:	PAAD, 656-K-601B
(C)	Program:	Private Sector Rehabilitation III
(D)	Nature of Funding:	ESF Grant 656-K-601B
(E)	Description of Commodities:	Approximately 4,000 tons diesel fuel and 35 tons lubricants
(F)	Approximate Value:	$900,000
(G)	Probable Source:	AID Code 899
(H)	Probable Origin:	AID Code 899

DISCUSSION: Included in the commodity list for the FY 1985 commodity import program (PSR II) was an allocation for diesel fuel and lubricants, which were to be sold via a ration system to private sector farmers for the effective operation of the tractors, trucks, irrigation pumps and motorcultivators that were imported under the FY 1984 and 1985 programs, in addition to equipment already in use by the private sector farmers in the program's designated target zones. The purpose of this allocation was to insure the supply of fuel and lubricants to power the equipment required to increase agricultural production.

Petromoc, the designated importer, issued a request for quotations to British Petroleum, Mobil, Caltex, Petronex and Solina (Antana Narivo). The only offers received were with a source and origin of AID Geographic Code 899, both commodity and transportation, as there was no fuel, nor transportation service, available from the authorized geographic code, for the amount to be procured.

Suppliers of fuel normally deliver to the port of Maputo on small tankers, with an average cargo capacity of about forty thousand metric tons. The procurement was estimated to be only about four thousand metric tons, or ten percent of a vessel's capacity. Therefore, the only way that a delivery could be arranged was as a partial shipment from a vessel that also scheduled to make deliveries for neighboring countries, such as Zimbabwe and South Africa. The normal suppliers for these countries were included in AID Geographic Code 899. A waiver was granted for the 1985 CIP to permit procurement and transportation services from these sources.

JUSTIFICATION: The only diesel fuel, with lubricants, available to Mozambique is from AID Geographic Code 899. Handbook 1, Supplement B, Chapter 5B4A(2) specifies that the authorized source and origin of commodities may be expanded when "the commodity is not available from countries or areas included in the authorized geographic code" given the unavailability of the required commodity from any other source, the test of Handbook 1B has been met. Under Delegation of Authority 140, as last revised on April 15, 1985, you have the authority to waive the source/origin requirements for commodities up to a value of $3,000,000 per transaction. This request, therefore, falls within your authority.

In addition, pursuant to Handbook 1, Supplement B, Chapter 7B4a, eligible vessels declined to accept the offered consignments, and the interests of the U.S. are best served by permitting financing of transportation services on ocean vessels under flag registry of free world countries other than the cooperating country and countries included in Geographic Code 941. Under Handbook 1, Supplement B, Chapter 7B4b(2), you have authority to waive flag eligibility requirements only for commodities for which you have approved a commodity source waiver and for which the cost of shipment does not exceed 25 percent of your authority to waiver commodity source requirements. Thus, you have authority to approve shipping of fuel and lubricants on Code 899 vessels provided that the cost of shipping on Code 899 vessels does not exceed $750,000.

RECOMMENDATION: That, by your signature below, you

(1) waive the source/origin requirements for diesel fuel and lubricants from AID Geographic Code 000 (United States only) to AID Geographic Code 899 (Free World) to the extent that they are not available from AID Geographic Code 941 Source/Origin,

(2) certify that exclusion of procurement from Free World countries other than the cooperating country and countries included in AID Geographic Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the Foreign Assistance Program, and

(3) waive flag eligibility requirements to allow shipping of fuel and lubricants on Code 899 vessels not to exceed a total shipping cost of $750,000.

Approved:__________________

Disapproved:__________________

Cleared:CM/EO:JShane
Cleared:RLA/SA:EJSpriggs
Concurrence:AAO/M:ASilva

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/SWAZILAND

PROBLEM: Your approval is required to permit the procurement of spare parts needed to rehabilitate trucks, tractors, and tractor-drawn implements, from AID Geographic code 000 (U.S. Only) to AID Geographic Code 899 (Free World).

(A)	Cooperating Country:	Mozambique
(B)	Authorizing Document:	Program Agreement
(C)	Program:	Private Sector Rehabilitation III
(D)	Nature of Funding:	ESF Grant 656-K-601B
(E)	Description of Commodities:	Spare parts for agricultural trucks, tractors, and tractor-drawn implements
(F)	Approximate Value:	$668,000
(G)	Probable Source:	AID Code 899
(H)	Probable Origin:	AID Code 899

DISCUSSION: The FY 1986 Commodity Import Program in Mozambique will continue the Agricultural Sector Support Grant that has been implemented during the past two years. Procurements will be financed under AID Regulation 1 rules.

Discussions with the Government of Mozambique have identified spare parts for agricultural trucks, tractors and farm implements valued at approximately $668,000 for financing under our CIP. One of the immediate objectives of the program is the rehabilitation of privately owned tractors and farm implements in the southern part of the country where our target areas are located. Much of the farm machinery in this area, which was originally imported from the United Kingdom, Holland, Sweden, Australia and Japan, is not operational due to a severe lack of spare parts on the commercial market. Although some of the needed parts may be interchangeable with parts manufactured in the United States, it is clear that these U. S. manufactured parts could account for only a small fraction of the total requirement. Moreover, it is virtually impossible to identify which U. S. made parts would fit tractors previously imported from other sources. Thus, to ensure the utility of the parts we would be financing, an expansion of the authorized source/origin to AID Geographic Code 899 is necessary.

Handbook One, Supplement B, Chapter 5B4A (2) provides that the authorized source/origin of commodities may be expanded when, "the commodity is not available from countries or areas included in the authorized Geographic Code". Given the assumed lack of interchangeability of U.S. parts and the impossibility of assuring the utility of U.S. made parts for tractors made in other countries, the test of Handbook 1B appears to have been met. Under

Delegation of Authority 140 as last revised on April 15, 1985, you have the authority to waive the source/origin requirements for commodities up to a value of $3 million per transaction. This request, therefore, falls within your authority.

RECOMMENDATION: That, by your signature below, you

(1) waive the source/origin requirements for spare parts from Code 000 (United States only) to Code 899 (Free World), to the extent they are not available from Code 941 source/origin, and

(2) certify that exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

Approved:____________________

Disapproved:____________________

Cleared:CM/EO:JShane
Cleared:RLA/SA:EJSpriggs
Concurrence:AAO/M:ASilva

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/SWAZILAND

PROBLEM: Your approval is required to permit the procurement of irrigation equipment from AID Geographic code 000 (U.S. Only) to AID Geographic Code 899 (Free World).

(A)	Cooperating Country:	Mozambique
(B)	Authorizing Document:	Program Agreement
(C)	Program:	Private Sector Rehabilitation III
(D)	Nature of Funding:	ESF Grant 656-K-601B
(E)	Description of Commodities:	Complete Motor Pump Sets, and Accessories
(F)	Approximate Value:	$500,000
(G)	Probable Source:	AID Code 899
(H)	Probable Origin:	AID Code 899

DISCUSSION: The FY 1984 and 1985 Commodity Import Programs financed irrigation pump sets from Code 899 countries, after waivers were granted by the Director, REDSO/ESA and the AAO/Maputo, respectively.

During recent discussions, the Acting Secretary of State for Agricultural Hydraulics again emphasized that, in order to obtain the best results possible from the equipment being financed, it is not practical to introduce a new brand of equipment at this time. The Secretariat had neither the resources to stock a new line of spares nor the personnel to receive training on new equipment and distribute spare parts for yet another brand of pump set. The standardization plan that has been followed needs to be maintained for another agricultural cycle so as to maximize limited financial and personnel resources.

The Commodity Management Officers of REDSO/ESA and USAID/Harare surveyed the U.S. and regional market for potential suppliers and manufacturers of pump sets that might be suitable for the southern Mozambique market. However, the GPRM has reasonably required that a responsible vendor have dealer representation in-country, with a dependable workshop and trained personnel to support the imported equipment. None of the identified sources within Africa meet this test. In addition, the Commodity Management Officer continuously monitors dealer representation within Maputo, but, to date, no new reliable dealerships meeting the Secretariat's requirements for service have been established.

Handbook 1, Supplement B, Chapter 5B4A(2) specifies that the authorized source and origin of commodities may be expanded when "the commodity is not available from countries or areas included in the authorized Geographic Code". Given the lack of dealer representation and service from manufacturers of irrigation equipment from the U.S. and Code 941 in Mozambique, the test of Handbook 1B has been met.

Under Delegation of Authority 140, as last revised on April 15, 1985, you have authority to waive source/origin requirements for commodities up to $3 million per transaction. This request, therefore, is within your authority to grant.

RECOMMENDATION: That, by your signature below, you

(1) waive the source and origin requirements from Code 000 (United States only) to Code 899 (Free World), to permit procurement of approximately $500,000 of irrigation equipment, and

(2) certify that exclusion of procurement from Free World countries other than the Cooperating Country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and the objectives of the foreign assistance program.

Approved: ____________________

Disapproved: ____________________

Cleared:CM/EO:JShane
Cleared:RLA/SA:EJSpriggs
Concurrence:AAO/M:ASilva

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/SWAZILAND

PROBLEM: Your approval is required to permit the procurement of seeds from AID Geographic Code 000 (U.S. Only) to AID Geographic Code 899 (Free World).

(A)	Cooperating Country:	Mozambique
(B)	Authorizing Document:	Program Agreement
(C)	Program:	Private Sector Rehabilitation III
(D)	Nature of Funding:	ESF Grant 656-K-601B
(E)	Description of Commodities:	Seeds
(F)	Approximate Value:	$937,000
(G)	Probable Source:	AID Code 899
(H)	Probable Origin:	AID Code 899

DISCUSSION: The FY 1986 Commodity Import Program will continue the agricultural sector support grant initiated two years ago. Procurements will be financed under AID Regulation 1 rules. One of the immediate objectives of the program is to provide necessary inputs, including seeds, to private farmers in the target areas and in other areas impacted by the recent prolonged drought. The government import enterprise specializing in seeds, Interquimica, E.E., solicited quotations and ound that certain varieties of the required seeds were not available either from the United States or from other AID Geographic Code 941 sources. These same varieties of seeds, namely kale (galega), potato (BP 1), maize (Kalahari white), butter beans, black-eyed peas and chick peas, will be required again under this year's program. This waiver authority will be exercised only to the extent that these varieties of seeds will be unavailable from the authorized source/origin at the time of solicitation.

Handbook 1, Supplement B, provides that the authorized source/origin of commodities may be expanded when "the commodity is not available from countries or areas included in the authorized Geographic Code." Given the past and projected unavailability of the required varieties of seed from the United States or Code 941 countries, the test of Handbook 1B appears to have been met.

Under Delegation of Authority 140, as last revised on April 15, 1985, you have authority to waive source/origin requirements for commodities up to $3 million per transaction. This request, therefore, is within your authority to grant.

RECOMMENDATION: That, by your signature below, you

(1) approve the source/origin waiver to permit procurement of approximately $937,000 worth of seeds from code 899 source/origin and

(2) certify that exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

Approved:____________________

Disapproved:____________________

Cleared:CM/EO:JShane
Cleared:RLA/SA:EJSpriggs
Concurrence:AAO/M:ASilva

ACTION COPY

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Department of State

ANNEX I

INCOMING TELEGRAM

PAGE 01 MAPUTO 00395 130744Z 4123 000849 AID6948
ACTION AID-00

ACTION OFFICE AFPD-04
INFO AAAF-02 AFSA-03 AFDP-06 FPA-02 AFTR-05 FVA-01 PPPB-02
GC-01 GCAF-01 GCFL-01 C-02 CALI-02 CMGT-05 CPP-01 CPS-02
PVC-02 AFDA-02 AGRI-01 RELO-01 /046 A1 1113

INFO LOG-00 AF-00 CIAE-00 EB-08 DODE-00 /008 W
------------------006055 130745Z /38

P 130500Z FEB 86
FM AMEMBASSY MAPUTO
TO SECSTATE WASHDC PRIORITY 7802
INFO AMEMBASSY MBABANE PRIORITY1046

UNCLAS MAPUTO 0395

AIDAC

AID/W FOR AFR ENVIRONMENTAL OFFICER

E. O: 12356 N/A
SUBJECT: MOZAMBIQUE PRIVATE SECTOR REHABILITATION III (656-0201B): IEE

REF: STATE 018076 (PAAD GUIDANCE CABLE)

OM REQUEST AFR ENVIRONMENTAL OFFICER CLEARANCE OF THE FOLLOWING INITIAL REVIRONMENTAL EXAMINATION FOR SUBJECT PROGRAM:

WM QUOTE

A. COUNTRY: MOZAMBIQUE

B. PROJECT TITLE: PRIVATE SECTOR REHABILITATION III, COMMODITY IMPORT PROGRAM (656-0201B)

C. FUNDING FY 86 ESF (UP TO DOLS. 14,355,00 - INITIAL OBLIGATION DOLS 9,570,000)

D. IEE PREPARED: BY WILLIAM HAMMINK, USAID SWAZILAND

E. ACTION RECOMMENDED: CATEGORICAL EXCLUSION

3. DISCUSSION: THE PURPOSE OF THE PROGRAM IS TO SUPPORT THE PRIVATE AGRICULTURAL SECTOR THROUGH THE PROVISION OF COMMODITIES. UNDER THE COMMODITY IMPORT GRANT, AID WILL NOT NECESSARY HAVE, PRIOR TO APPROVAL OF THE IEE, ACTUAL KNOWLEDGE OF THE SPECIFIC COMMODITIES TO BE FINALLY PURCHASED. ASSISTANCE REQUIRED NEITHER AID KNOWLEDGE, AT THE TIME OF AUTHORIZATION, NOR ITS CONTROL DURING IMPLEMENTATION OF THE COMMODITIES OR OF THEIR USE IN THE HOST COUNTRY, EXCEPT THAT THE ULTIMATE RECEIPT OF THE COMMODITY MUST BE THE MOZAMBICAN SMALL OR COMMERCIAL PRIVATE FARMER, INCLUDING COOPERATIVES. PESTICIDE PROCUREMENT IS NOT PLANNED FOR THE FY 86 CIP. IF SUCH PROCUREMENT IS LATER CONSIDERED AN IEE WILL BE PREPARED FOR A THRESHOLD DECISION TO BE APPROVED BY AID/WASHINGTON. ACCORDINGLY, THE DESIGN TEAM HAS DETERMINED THAT THIS PROJECT IS CATEGORICALLY EXCLUDED FROM THE REQUIREMENT FOR AN ENVIRONMENTAL ASSESSMENT OR ENVIRONMENTAL IMPACT STATEMENT IN ACCORDANCE WITH REG. 13 SECTION 216.2 (C) (2) (IX). APPROVED: ALAN SILVA, AID AFFAIRS OFFICER, CLEARED RLA/SA, G. BISSION UNQUOTE. DE VOS

Concurrence: AFR Environmental Officer
AFR/TR/SDP:BBoyd B Boyd Date 2/19/86

Clearance: GC/AFR:MA Kleinjan MA Kleinjan 2/19/86

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TRUST FUND AGREEMENT
between the
GOVERNMENT OF THE PEOPLE'S REPUBLIC OF MOZAMBIQUE
and the
UNITED STATES OF AMERICA, acting through the
AGENCY FOR INTERNATIONAL DEVELOPMENT

WHEREAS, the Government of the People's Republic of Mozambique (hereinafter known as the "GPRM") and the Agency for International Development (hereinafter known as "A.I.D.") have entered into an Agricultural Sector Import Grant Agreement No. 656-K-601, dated September 29, 1984, and an Agricultural Sector Related Commodity Imports Program Agreement No. 656-K-601A, dated August 27, 1985, and they desire to express their mutual agreement concerning the establishment and operation of a trust fund to implement Section 5.5 of said agreements, with respect to the portion of local currency generations to be set aside for use by A.I.D.;

THEREFORE, the Parties hereby agree as follows:

I

The GPRM will make deposits of local currency to a trust fund account in the name of the United States Disbursing Officer upon the request of A.I.D. Such deposits may be made from the Special Account established pursuant to Section 5.5 of the Grant Agreements. The total amount of such deposits shall be two (2) percent of the total local currency generations for Agreement 656-K-601 and three and one-half (3-1/2) percent for Agreement 656-K-601A, except as the Parties may otherwise agree in writing.

II

Disbursements from the trust account may be made on behalf of the GPRM by the Government of the United States of America to cover the local currency costs of operating the A.I.D. Program to Mozambique, as may be agreed upon in writing by the Parties. These include:

- the purchase or lease of supplies, equipment, and office and residential space, including the rental of such space from the GPRM;
- the purchase of utilities and other locally-procured goods and services;
- the payment of salaries and other expenses of Mozambican personnel of the A.I.D. Mission; and
- any other expenses (such as domestic airline tickets) payable in local currency.

III

Funds transferred under this Agreement shall be held in trust for the GPRM and interest earnings, if any, on funds so held shall be added to the trust fund account. An accounting shall be rendered annually by A.I.D. (or at such other intervals as are agreed to by A.I.D. and the Banco de Mocambique) of the uses made of all funds deposited under the Agreement.

IV

This Agreement shall terminate upon termination of the United States assistance program to Mozambique or upon the mutual agreement of the GPRM and A.I.D., whichever occurs earlier. Any balance remaining in the trust fund account upon termination of this Agreement shall be returned to the GPRM by A.I.D.

For the Government of the People's Republic of Mozambique	For the United States of America
Gil Martins Deputy National Director for Finance	Alan A.Silva A.I.D. Affairs Officer (Acting)
August 27, 1985	August 27, 1985

REPORT ON FY 1986 AND 1987 AUTHORIZATION CIP CRITERIA

The FY 1986 and FY 1987 AID Authorization (Sec. 801) contains specific criteria which all CIPs in Africa must follow. Also, the Authorization (Sec. 813) contains specific language pertaining to all bilateral assistance to Mozambique. This Annex briefly discusses these criteria and ascertains that they are being fully complied with in the proposed PSR Phase III CIP program for FY 1986.

The CIP criteria for Africa are as follows:

(1) "Spare parts and other imports shall be allocated on the basis of evaluations, by the agency primarily responsible for administering part I of that Act, of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way."

- Since the commodities under the FY 1984 program have recently arrived, an evaluation is scheduled for January, 1985, to assess the impact of the commodities. However, preliminary observations show that the spare parts and other imports of farm equipment and agricultural inputs are being used by the recipient small and commercial private farmers in a very productive and efficient way. These farmers have not had any new equipment or spare parts for ten years and they are most likely fully utilizing the new equipment and spare parts. Since the FY 1986 CIP will include importation of similar agricultural commodities for private family and commercial farmers, the PAAD will further describe the evaluation findings with regard to this criteria.

(2) "Imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. The agency primarily responsible for administering part I of that Act shall assess such plans to determine whether they will effectively promote economic development."

- The GPRM's Economic Action Program for 1984-86 calls for greater attention and resources to be directed at the smallholder family and private commercial agricultural sector. The GPRM was directed by the 4th National FRELIMO Congress to mobilize resources for the private agricultural sector, guarantee the marketing of production, and establish producer prices that would provide a real financial return to the farmer. Also, reflecting the focus on the private agricultural sector, industrial priorities have been changed from heavy industry to emphasize production of basic consumer goods.

The proposed CIP program directly supports these policy changes and program emphases of the GPRM which should lead to increased production and national income in the agricultural sector.

(3) "Emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products."

- The proposed CIP includes commodities which will directly expand agricultural production (i.e. agricultural equipment, seeds, fertilizers, hand tools, fuel) as well as some commodity support to industries producing agriculturally important consumer items (tires, boots, PVC irrigation pipes and zinc sheets).

(4) "Emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions."

- The Fy 1986 CIP will continue to focus on the agricultural sector and will target the commodities to three areas, with a possibility of a small pilot activity in a fourth area. The program includes a wide range of agricultural commodities which will assist different types and sizes of private farmers. AAO/Mozambique believes that in the short-term, commodity assistance exclusively in the agricultural sector will have the most production leverage for this relatively small CIP program. Also, the World Bank has just approved a Rehabilitation Program ($45 million) aimed mainly at the industrial and transport sectors. AAO/Mozambique will arrange for a team of industrial experts in the next year to find specific targets of opportunity in non-agricultural areas for future programs where the infusion of commodities would have a significant production response.

(5) "In order to maximize the likelihood that the imports financed by the United States under such chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses."

- The GPRM basically has no foreign exchange reserves and with an estimated debt service ratio of 174 percent, it will not have excess foreign exchange for many years. The AID agricultural commodities are basically the first such commodities to be available to the private agricultural sector since Independence in 1975. Thus, since

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AID is supporting the GPRM shift in support to the private farms and away from the state farms, the historical pattern of foreign exchange uses is important only to show what has failed in the past.

(6)(A) "Seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the Foreign Assistance Act of 1961 and which are the types of activities for which assistance may be provided under sections 103 through 106 of that Act."

- All of the local currency generated from the FY 1984 and FY 1985 CIP programs are being deposited into a special account with the exception of a small percentage for the AID Trust Fund. The local currency funds generated from the FY 1986 CIP will likewise be deposited into this special account. These funds will be allocated to agricultural development activities, especially those that have a high impact on the program's target farmers. Funds are released from the special account for expenditures mutually agreed upon by AID and the GPRM.

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

- The GPRM has agreed that two percent of the local currency generated from the FY 1984 CIP and three and one-half percent from the FY 1985 CIP be deposited into a Trust Fund for AAO/Mozambique administrative expenses. The agreement for the FY 1986 CIP will include the same provisions for deposits into the Trust Fund as was true in the FY 1985 CIP.

Section 801 requires that "the agency primarily responsible for administering part I of the Foreign Assistance Act of 1961 shall conduct annual evaluations of the extent to which the criteria set forth in this subsection have been met". Annual evaluations are scheduled for the Commodity Import Programs as a matter of course and the evaluations for the FY 1986 and FY 1987 CIPs will include an analysis of the extent to which the above criteria have been met in the CIPs.

In addition, Section 813 of the AID Authorization requires that funds authorized to be appropriated for bilateral assistance to the People's Republic of Mozambique in Fy 1986 and FY 1987 be used "solely for assistance to the private sector of the economy of Mozambique to the maximum extent practicable." Also, to the maximum extent practicable, such funds shall be channeled to non-governmental entities in Mozambique. The proposed FY 1986 Private Sector Rehabilitation program - Phase III CIP is directed exclusively to the private sector and all commodities are channeled to the private sector. Some parastatals act as the importers and distributors of the commodities since private importers and distributors for most products do not exist in Mozambique. If a technical assistance and training component is included in the FY 1986 overall program, the PAIP amendment will include specific criteria upon which technical assistance and training activities can be judged to be "private sector" as related to the Congressional mandate and the proposed FY 1986 activities will fit within these criteria.

FY 85/CIF

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

.. I. D. AFFAIRS OFFICE
EMBASSY OF THE UNITED STATES OF AMERICA

ANNEX L

U.S. Postal Address:
MAPUTO (ID)
Department of State
Washington, DC 20520

International Postal Address:
Caixa Postal 783
Maputo, Mozambique
Telephone: 26051/2/3
Telex: 6-143 AMEMB MO

August 22, 1985
Ref. 85/135

Dra. Luisa Capelao
Bank of Mozambique
Maputo

Dear Dra. Capelao:

During the past two weeks we have been discussing the use of AID Direct Letters of Commitment as financing documents for the 1985 Commodity Import Program, No. 656-K-601A, as an alternative to bank letters of credit.

During the 1984 program, direct letters of commitment were issued by the Agency of International Development in Washington for the procurement of fertilizers and related services, and for some of the vegetable seeds. In addition, direct L/Coms were issued by the Controller in Mbabane for two seed procurements.

AID/Washington can be called upon again this year to issue direct L/Coms for commodities procured in the U.S., which will include nylon, fertilizer, zinc sheets, and possibly vegetable seeds. The Controller in Mbabane is prepared to issue direct L/Coms this year for the balance of the procurements for the 1985 program.

Your concerns relate to control of the transactions, proper documentation, and assurance that specifications have been met. If you review the direct L/Coms that were issued for the 1984 program, you will see that the supplier must meet the same documentation requirements as those for a bank letter of credit. Regarding control, I propose the following steps:

1. After evaluation of quotations, which is done jointly by the importer, the Ministry of Agriculture, and AID, the importer obtains an import license.

2. The importer presents to the Bank the following:
   A. The import license
   B. A letter from AID concurring in the award
   C. A request from the importer to issue a direct letter of commitment to the supplier.

3. The receipt of the documents in paragraph 2, above, allows the Bank of Mozambique to reserve the meticais equivalent of the CIF value of the transaction from the importer's account.

4. The BM forwards a copy of the importer's request to AAO/Maputo, indicating concurrence, so that I can request issuance of the direct L/Com. This can be indicated simply by initialing and stamping the letter, if you wish.

5. AAO/Maputo will request issuance of the direct L/Com by either AID/Washington, or USAID/Mbabane, as appropriate. The terms and conditions of each direct L/Com will require special documentation, such as for seeds, AID Form 11, vouchers, invoices, and all related shipping documents. The Bank of Mozambique will receive the original copies, and the supplier and AAO/Maputo will receive copies of the documents. The Direct L/Com will outline the requirements for payment, which will be effected by the Controller. There will be no banking charges, and the Controller can be reached fairly easily by either telex or telephone, should any questions arise.

Please let me know if you have any questions about this proposed procedure, or if additional steps are required in the process.

Best regards,

JShane

Judi Shane
Commodity Management and
Executive Officer

xc: AAO, A.A. Silva
USAID/Mbabane Controller
Chron Letters
FY 1985 CIP

DRAFT 03/17/86

DRAFT SCOPE OF WORK

FOR MOZAMBIQUE FY 1985 PSR II CIP EVALUATION

Drafted by James Dempsey, REDSO/ESA

I. EVALUATION ISSUES

With no CDSS for Mozambique and practically no data available on either the economy or the private agricultural sector, the CIP evaluations are being viewed as a means of answering the many issues surrounding the USAID/Mozambique Program. Additionally, a recent decision on the part of AID/Washington to begin to evaluate the impact of CIPs makes the scope of the next evaluation much broader than previous ones. The FY 1985 CIP evaluation is scheduled for October/November 1986 and as the next evaluation has been identified as the vehicle to answer some program issues as well as those on the development impact of the program.

According to the FY 1985 PSR II PAAD, the CIP II evaluation will require the following:

> On a sample basis, private commercial farmers will be surveyed to determine the impact of inputs on their productivity and the increased availability of produce in the Maputo market area. (p. 34, PSR II PAAD)

AID/Washington, in the FY 1986 CIP PAIP approval cable from the Executive Committee Program Review (ECPR), expanded the scope of the FY 1984 CIP evaluation, which was completed in February, 1986. The ECPR cable stated:

> At best, the efficiency and equity of the current commodity allocation process is questionable. During the upcoming evaluation and PAAD design, an attempt should be made to test the hypothesis that we are reaching producers who are responding to the increased availability of capital equipment and other inputs. While direct correlations will be impossible to establish, we should be able to get some idea about the uses to which CIP commodities are being put. Likewise, we should be able to determine if areas receiving CIP assistance have experienced increased aggregate production. (STATE 018076)

Then the ECPR cable goes on to state:

> We see the January evaluation as an opportunity to get a quick look at the use of CIP commodities and production responses and to identify possible improvements for future programs. Hopefully, some idea of the efficiency of the allocation process can also be gleaned and some information can be obtained on the feasibility of using the CIP as a leveraging mechanism. In this regard, we think that farmer interviews should be an integral part of the evaluation methodology. Among other things, these interviews should cover such points as how farmers obtain equipment and other inputs,

how commodities are being used, and what farmers would have done without the CIP. In addition, some private sector distributors and retailers should be interviewed to find out more about the allocation and pricing process.

The evaluation of the FY 1984 CIP was able to provide only a cursory review of the issues and questions raised. Time and logistic problems limited the number of interviews that could be completed and data collected.

The ECPR viewed the January review as the first step in a more comprehensive undertaking to be part of the FY 1985 CIP evaluation. The same ECPR reported that:

> An important feature of the January evaluation should be the development of a set of issues and questions for a more comprehensive FY 1985 CIP evaluation, including definition of data requirements, evaluation methodology to be used, and a mechanism for collecting the needed data. This information should be incorporated into the evaluation plan in the FY86 PAAD, in order to do justice to the January evaluation and still have the time to plan for the August effort.

Finally, the FY 1986 CIP PAAD Amendment, in responding to the ECPR guidance presented previously, identified the following special issues for evaluation:

> Success of the allocation process, production response due to the AID-financed equipment and inputs, productive use of the CIP commodities, effect of freed output prices on farmer's decisions, and comparison of final equipment prices to other prices and to potential profits; as well as the confirmation that the commodities are getting to the intended beneficiaries.

The PAAD design team economist also prepared an expanded list of the different types of information needed and issues affecting the FY 1985 CIP. This list is attached to this document.

II. EVALUATION PLAN

A. Special Data Requirements

Given the special issues discussed in the previous section and the normal implementation review required in a CIP evaluation, the evaluation of the FY 1985 PSR II CIP is much larger and more complex than usual. Clearly there is a need to do some pre-evaluation data collection and processing if the evaluation is to address meaningfully the special issues.

The addition of a CIP Field Monitor to the USAID/Mozambique staff in early March is timely. His data collection for the October/November evaluation will increase AID's understanding of the impact of the CIP.

The data collection task requested of the Field Monitor is great. The monitor's first task is to sort out priorities based not only on what is needed but also on what can be done given security and transportation problems in the target regions.

To help set out those priorities and following from the question and issues raised in Section I, the following are the writers' perceptions of evaluation priorities:

1. <u>Impact of CIP Inputs on Private Producers</u>

   a. Determine the "additionality" of CIP-financed goods to the Mozambique economy.

   b. Confirm that the commodities are getting to intended beneficiaries.

   c. Estimate the number of beneficiaries by commodity received.

   d. Examine farmer use of the CIP provided commodities.

   e. Estimate the production response to the provision of the AID inputs (Are the farmers producing more because of AID inputs?).

   f. What would farmers have done without the CIP mechanism?

2. <u>Increased Understanding of Private Farming Operations and Environment</u>

   a. How does the CIP allocation process work? Who is benefitting, especially for the expensive equipment?

   b. What and where is the farmer marketing? What prices are the farmers receiving? Some estimation of surplus would be useful.

   c. Determine the effects of free market prices on the incentive to produce.

   d. What does the farmer perceive as his priority needs? What are his most serious constraints?

3. <u>Marketing and Transport</u>

   a. Sample the prices and quantities of produce in the Maputo markets.

   b. Analyze the retail prices, that is, trace the retail price back to the farmer, indicating costs of transport and wholesale markups.

c. Determine use of trucks (mileage, items transported, rates, etc.) for farmers and transporters who received AID financed equipment.

d. Estimate transportation costs for movements of food to major market areas.

B. Methodology for Data Collection

Given the amount of data required, there needs to be a survey or a series of surveys from a sample of farmers (both those receiving AID assistance and others who are not) and transporters. Interviews with government and parastatal officers to discuss the issues will also be required to verify and explain or amplify survey results. The evaluation of the impact of only the FY 1985 CIP-financed commodities would provide limited data. Only one growing season will have passed by the time of the evaluation and there will be very little production data available. To gather meaningful information, the evaluation should cover the impact of the FY 1984 CIP-financed commodities as well. Essentially the same type of commodities were ordered under both programs and went to farmers which are similar in nature and size. Also, it will be much easier to collect data from the Green Zones where many inputs were distributed under the FY 1984 program.

The first step is to prepare questionnaires to provide data to answer the issues raised in relation to (1) impact of CIP inputs, (2) farming operations and environment, and (3) marketing and transport. At least two questionnaires will be needed -- one for farmers, another for transporters. A survey of farmers not participating in the program would broaden the base for understanding the farming environment. Clearly, all farm interviews and surveys should include basic questions on farm size, operations, production, labor, etc.

The data collection task has to be set in the context of what can be achieved between now and October. A travel and interview schedule should be worked out in the context of what surveys are needed to gather the necessary data. Again, security concerns have to be factored into the decision. Given the need to work in three areas -- Xai-Xai, Chokwe and Maputo Province -- it seems likely that 2-3 interviewers will need to be hired. A simple data processing computer program will be needed to manipulate the survey results. Preliminary conclusions should be set out before the arrival of the evaluation team. With the preliminary conclusions in hand the team can begin immediately to conduct interviews to clarify results and their implications for CIP implementation and success.

In addition, some of the farm data collected might be useful to the question of the impact of PL 480 food imports on farmer production and incentives.

C. Statement of Work for Evaluation Team

1. General Objectives

a. Assess the impact on agricultural production of the CIP-financed agricultural inputs.

b. Determine the extent to which the CIP has contributed to private sector development, including improvements in the policy environment.

c. Provide lessons learned and recommendations for all specific tasks and evaluation issues.

2. Specific Tasks and Evaluation Issues

a. Production and Marketing Impacts

(1) Using data collected by the CIP Field Monitor and evaluation interviews, evaluate:

- impact of CIP inputs on private farm production and farming systems;

- impact of CIP inputs on private sector, transport and marketing; (Issues related to points (1) and (2) are listed in Section II A of this paper).

- impact of CIP inputs on private factories receiving inputs under the CIP.

(2) Recommend CIP modification or additions that will increase the impact of the programs on private sector development and food production and distribution.

b. CIP Management

(1) Assess AID/GPRM procurement procedures and distribution system, including advertising, bidding/selection, transport and payment to determine their effectiveness and timeliness and to recommend any changes that could improve the operation and monitoring of the Commodity Import Program.

(2) Review the organization and functioning of the CIP functions of the AID Affairs Office.

(3) Evaluate the role and function of the Mozambican institutions participating in the CIP (primarily the Ministry of Agriculture, Bank of Mozambique, and Regional Agricultural Units).

(4) Have the commodities met the specified standards?

c. Policy and Political Impacts

(1) Evaluate the extent to which the conditions and reforms that are part of the policy dialogue have been implemented.

(2) Determine Mission, Embassy and, if possible, GPRM views on the contribution of CIPs to policy reform.

(3) Determine Mission, Embassy, and GPRM opinions on the importance of the CIP to improvements in U.S./Mozambique relations.

d. Drought Relief and Rehabilitation Impacts

(1) Were CIP seeds and handtools sold to drought affected farmers in target areas?

(2) What impact did the inputs have on rehabilitation?

e. Local Currency Impacts

(1) Determine if Metical generations have followed approved procedure and are available for use.

(2) Evaluate allocation use and progress of local currency projects.

D. Evaluation Team

The evaluation team members, their qualifications, major tasks, and duration of assistance are as follows:

1. Evaluation Officer (4 weeks)

This individual will be the team leader and will be responsible for the scheduling and assignment of evaluation tasks. S/He will ultimately be responsible for the submission of a draft final document before the team departs Mozambique. Along with the GPRM counterpart, s/he will be responsible for keeping government officials informed of evaluation progress and will have daily contact with the AID evaluation coordinator, the Commodity Management Officer (CMO). In addition to providing a review of all chapters of the evaluation, s/he will be directly responsible for the sections of the evaluation on (1) the policy and political impact, (2) the local currency program, and (3) the lessons learned and recommendations. S/He should have a minimum of eight years experience with development program design, implementation and evaluation. Good writing skills, fluency in Portuguese, and experience with CIPs are required.

2. <u>Economist (3 weeks) and Agricultural Officer (3 weeks)</u>

The Economist and Agricultural Officer will work together to evaluate the production and marketing impacts of the program. They will be required to review and analyze the data collected by the Field Monitor. They will also be responsible for the review of the CIP drought rehabilitation assistance. Both will have masters level academic training and at least eight years of experience in their respective fields. Both should have experience in survey techniques and data analysis. At least one should speak fluent Portuguese.

3. <u>Commodity Management Officer (1 week)</u>

This officer will be responsible for the review of the operation and management of the import of commodities. S/He should be an experienced AID Officer with at least five years experience as a CMO. Fluency in Portuguese is desirable but not required.

E. <u>Counterpart and Resource People</u>

The GPRM should provide a senior officer to act as a counterpart or participant on the evaluation. The CMO, who will act as AID evaluation coordinator, will work with the GPRM to identify the counterpart at least four weeks prior to the start of the evaluation. The CMO and counterpart should set out an initial schedule and plans for staff support assistance prior to the arrival of the evaluation team.

To provide background and special assistance to the team, all professional staff in the AAO/Mozambique, as well as the Director and regional staff in USAID/Swaziland, will contribute to the evaluation as required.

<u>Information Needed for the FY 1985 CIP Evaluation</u>

<u>and Continued Policy Dialogue</u>

1. Analysis of the determination of retail prices, that is, trace the retail price back to the farmer, indicating costs of getting the product to market and mark-ups.

2. There is not consistent collection of data on prices and quantities of fresh produce in the Maputo market, nor from where it is coming. Someone on the AAO staff should regularly collect and report this information.

3. We lack accurate information on the operation of the direct allocation scheme used for commodities, both equipment and inputs. The economist on the evaluation team should collect data on the people who received equipment to determine, ex post facto, what variables appear to be the most accurate explanators. This will require field interviewing, the development of a simple questionnaire, and the ability to do simple statistical analysis.

4. Information is needed on the relationship of inputs and outputs in farming. What different inputs were used by farmers, and what were the results?

5. Information on where the farmer is selling the produce, what price is being received, where the sale is required by government order or is done because it is perceived as best by the farmer. Who pays transportation? For those farmers who received trucks, where did they sell before and where after receiving the truck? How many trips did they make, and what is their reaction to wholesale selling?

6. The evaluation should determine the nature and age of the equipment owned by private transporters, monthly tonnage, and type of products moved and destinations. The data also ought to include some interviewing of the people using the private transporters.

7. If possible, the evaluation team should lay the foundations for a Household Budget Survey, that is, an indication of sources and uses of farmer income. This could be a limited sample to provide some tentative magnitudes, or the foundations for a more detailed study.

Information Needed for the FY 1985 CIP Evaluation and Continued Policy Dialogue

1. Analysis of the determination of retail prices, that is, trace the retail price back to the farmer, indicating costs of getting the product to market and mark-ups.

2. There is not consistent collection of data on prices and quantities of fresh produce in the Maputo market, nor from where it is coming. Someone on the AAO staff should regularly collect and report this information.

3. We lack accurate information on the operation of the direct allocation scheme used for commodities, both equipment and inputs. The economist on the evaluation team should collect data on the people who received equipment to determine, ex post facto, what variables appear to be the most accurate expanators. This will require field interviewing, the development of a simple questionnaire and the ability to do simple statistical analysis.

4. Information is needed on the relationship of inputs and outputs in farming. What different inputs were used by farmers and what were the results?

5. Information on where the farmer is selling the produce, what price is being received, where the sale is required by government order or is done because it is perceived as best by the farmer. Who pays transportation? For those farmers who received trucks where did they sell before and where after receiving the truck? How many trips did they make and what is their reaction to wholesale selling?

6. The evaluation should determine the nature and age of the equipment owned by private transporters, monthly tonnage, and type of products moved and destinations. The data also ought to include some interviewing of the people using the private transporters.

7. If possible, the evaluation team should lay the foundations for a Household Budget Survey, that is, an indication of sources and uses of farmer income. This could be a limited sample to provide some tentative magnitudes, or the foundations for a more detailed study.

ANNEX N

UNCLASSIFIED

ACTION: AID INFO: AMB/DCM CHRON

adm : ? : >

VZCZCMB0666
RR RUEHMB
DE RUEHC #2182 1550446
ZNR UUUUU ZZH
R 040445Z JUN 86
FM SECSTATE WASHDC
TO AMEMBASSY MBABANE 8065
BT
UNCLAS STATE 172182

LOC: 076 589
05 JUN 86 0511
CN: 16458
CHRG: AID
DIST: AID

AIDAC

FOLLOWING STATE 172182 DTD MAY 31, 1986 SENT ACTION MAPUTO, BEING REPEATED FOR YOUR ACTION:
QUOTE:
UNCLAS STATE 172182

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: MOZAMBIQUE PRIVATE SECTOR REHABILITATION PROGRAM FY 1986 - AD HOC DELEGATION OF AUTHORITY

REF: (A) 85 STATE 293905

1. AA/AFR HEREBY DELEGATES AUTHORITY TO THE DIRECTOR, USAID/SWAZILAND, TO APPROVE AN AMENDMENT TO THE MOZAMBIQUE PRIVATE SECTOR REHABILITATION ("PSR") PROGRAM IN AN AMOUNT NOT TO EXCEED DOLS. 9.75 MILLION. THIS AMENDMENT WILL BRING THE CUMULATIVE TOTAL FOR THE PSR PROGRAM FY 1984-1986 TO DOLS. 30.75 MILLION. THIS AD HOC DOA SHALL BE EXERCISED IN ACCORDANCE WITH ALL THE TERMS AND CONDITIONS OF DOA 140 AND REF A, WITH THE EXCEPTION OF THE DOLLAR AMOUNT LIMITATION. SHULTZ
UNQUOTE SHULTZ
BT
#2182

NNNN