KDBBU 835

A.I.D. Project No. 656-0208
A.I.D Grant No. 656-T-604A

AMENDMENT NUMBER ONE

TO THE

PRIVATE SECTOR SUPPORT PROGRAM GRANT AGREEMENT

BETWEEN

THE UNITED STATES OF AMERICA

AND

THE PEOPLE'S REPUBLIC OF MOZAMBIQUE

FOR

PRIVATE AGRICULTURAL SECTOR REHABILITATION

DATE: JULY 4, 1990.

App: 72-1101014
BPC: GSSA-90-31656-KG32
All: 014-61-656-00-59-01
RCN: P900054

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A.I.D. Grant No. 656-T-604A

AMENDMENT NUMBER ONE

PRIVATE SECTOR SUPPORT PROGRAM

GRANT AGREEMENT

Date: July 4, 1990.

Between

The Government of the People's Republic of Mozambique ("Grantee")

and

The United States of America,
acting through
the Agency for International Development ("A.I.D.")

WHEREAS, the Grantee and A.I.D. entered into a Private Sector Support Program Grant Agreement dated August 30, 1989 (the "Agreement");

WHEREAS, the Grantee and A.I.D. desire to amend the Agreement to add an increment of additional funding and to make other necessary revisions;

NOW THEREFORE, the Agreement is hereby amended as follows:

1. Article 1 of the Agreement is deleted in its entirety and the following substituted in its place:

"ARTICLE 1

The Grant

A.I.D. agrees to grant to the Grantee, pursuant to the Foreign Assistance Act of 1961, as amended, an amount not to exceed Twenty-six Million and Fifty Thousand United States Dollars ($26,050,000) to finance the foreign exchange costs of certain commodities and commodity-related services to assist the Grantee in promoting the development of its private agricultural sector. One further obligation is anticipated in 1991 up to a cumulative total

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obligation of Forty-four Million and Fifty Thousand United States Dollars ($44,050,000), subject to the availability of funds, the mutual agreement of the parties named above ("Parties") and the terms of obligation and disbursement described in Article 2. Annex A to the Grant Agreement, as revised, further describes the program and sets forth an approved list of agriculture-related commodity imports. Elements of Annex A, and Annex C, the Letter of Intent, may be changed or amplified by written agreement of the authorized representatives of the Parties named in Section 7.2, without formal amendment of this Agreement, provided that the fundamental direction and pace of the policy program described therein are not substantially changed. Commodities and commodity-related services authorized to be financed hereunder are hereinafter referred to as "Eligible Items," as more fully described in Section 3.2."

2. Annex A to the Agreement, the Program Summary, is superseded by the attached Annex A, Revised Program Summary.

3. Annex C to the Agreement, the Letter of Intent, is superseded by the attached Annex C, Updated Letter of Intent.

Except as specifically amended herein, all terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representatives, have caused this Amendment to the Agreement to be signed in their names and delivered as of the day and year first above written.

FOR THE
GOVERNMENT OF THE
PEOPLE'S REPUBLIC OF MOZAMBIQUE

Jacinto Veloso

Jacinto Soares Veloso
Minister of Cooperation

FOR THE
GOVERNMENT OF THE
UNITED STATES OF AMERICA

Melissa Wells

Melissa F. Wells
Ambassador

Julius P. Schlotthauer

Julius Schlotthauer
USAID Director

A.I.D. Project No. 656-0208
A.I.D. Grant No. 656-T-604A

Annex A

Revised Program Summary

The purpose of the Private Sector Support Program is to improve incentives for private sector agricultural production in order to enhance the private agricultural sector's production and income. Specific policy impacts expected through the program are:

(1) increased agricultural productivity and strengthened competitive markets by utilizing floor prices that guarantee producers a fair return in cases where there may be only one buyer and by replacing floor prices with a liberalized market when conditions permit;

(2) clearly defined policies and an action plan leading to divestiture of selected state farms to private family and commercial farmers;

(3) demonstration of the viability and effectiveness of strengthening private sales and service networks for agricultural inputs in order to promote widespread outreach to commercial and family farmers; and

(4) tested policy and procedural options to both increase the access of private enterprises in the agricultural sector to foreign exchange and institutionalize market principles as a basis for foreign exchange allocations.

In A.I.D.'s 1989 and 1990 fiscal years, the program will provide to the Government of the People's Republic of Mozambique $26,050,000 to import commodities needed to increase agricultural production. It is anticipated that a further $18,000,000 will be provided over the life of the program, subject to the availability of funds, the mutual agreement of the Parties, and satisfactory progress towards achieving the objectives which the Grantee has defined in a Letter of Intent included as Annex C. The anticipated total value of the program is, therefore, $44,050,000.

The following is a list, subject to modification in writing by the Parties without formal written amendment to this agreement, of the types of commodities that might be imported under the program.

(1) Farm Equipment: tractors, tractor spare parts, implements, harvest equipment;
(2) Transport Equipment: trucks, truck spare parts;
(3) Irrigation Equipment: pumps and spare parts, irrigation pipe;
(4) Fertilizer: NPK, Urea, ammonium sulfate, potassium sulfate; and
(5) Seeds: potatoes, garlic, groundnuts, butter beans, maize, sunflower, vegetables, etc.

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Local currency will be generated under the program as specified under Article 5, Section 5.5 and will be deposited in a special account at the Banco de Mocambique. Seven percent of the total local currency generations will be allocated to the A.I.D. trust fund account with Banco Standard Totta de Mocambique. The balance of the counterpart funds will be used in support of the food and agriculture sector, which is defined to include commodity marketing. Most funds will be used for general budget support in this area, with particular priority given to the items identified below, although it is recognized that these items are not likely to draw down the full counterpart fund budget. Procedures for the deposit and disbursement of local currency funds are outlined in the Memorandum of Agreement of October 18, 1988, which is made part of this Agreement by reference in Section 5.5(d).

- Purchases from private traders of domestically produced cereals and beans in surplus areas for DPCCN and NGO emergency distribution in deficit areas.

- Ministry of Commerce contracts with private transporters to ensure efficient marketing of domestic food production.

- DPCCN emergency assistance budget, particularly contracts with private transporters for internal transport of emergency commodities.

- Road reconstruction and rehabilitation in order to reduce marketing constraints.

- Ministry of Agriculture data collection activities, particularly for the collection of price and production data.

- Costs associated with the titling and registration of state farm lands divested to family farmers.

The only off-budget item will be limited support for U.S. non-governmental organizations and international organizations for activities to reduce the dependency of displaced and affected people, assess food needs and distribute emergency assistance. Actual funding levels will be carefully coordinated with the Ministry of Finance to avoid conflicts with the Grantee's fiscal and monetary targets being implemented in coordination with the IMF.

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Amendment Number One, PSSP Grant Agreement

Drafted:PRM:J.Born:4/11/90
Cleared:PRM:C.Pascual
CMO:E.Kelly (draft, 4/23/90)
CON:M.Rocha 6/1/90
DD:D.Mutchler DEM 6/21/90
RLA:T.Riedler (draft, 4/20/90)

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Annex C

República Popular de Moçambique
Ministério da Cooperação

Maputo, July 3, 1990

Mr. Julius Schlotthauer
Director
USAID Mozambique
Maputo

Dear Mr. Schlotthauer:

The Government of the People's Republic of Mozambique greatly appreciates the continuing assistance of the United States, particularly your support for the development of Mozambique's food and agriculture sector. The purpose of this letter is to update the Government's policies and objectives in the food and agriculture sector, in order to ensure the continuing timely and effective integration of USAID's economic assistance with the Government's Economic and Social Rehabilitation Program.

This letter builds upon its forerunner of August 31, 1989, and upon the agreements reached between USAID and the Government of the People's Republic of Mozambique on the P.L. 480 Title II Section 206 Programs for 1989 and 1990. All measures of those agreements remain in full force and, together with this letter, constitute the full range of policy issues agreed upon by USAID and the Government in the food and agriculture sector. The joint Government of Mozambique - USAID Working Group on Food and Agriculture Policy which was established pursuant to those agreements continues to provide a forum for coordination and regular review of progress toward achieving the Government's objectives in this sector.

The Government's Economic and Social Rehabilitation Program (ESRP), as described in the Policy Framework Paper for 1990-92, sets forth the Government's development strategy for the next three years. The strategy focuses on the recovery of the agricultural sector, particularly the family sector where poverty is severe and the potential for growth is high. Key elements of the strategy are continued improvement of price incentives to producers, improved agricultural support services and markets for their products, and efficient marketing of consumer goods in rural areas. To achieve these objectives, the Government will seek to revitalize the commercial distribution system, particularly private trade networks, and to rehabilitate transport infrastructure. Overall, the Government is working to create an economic environment that favors an increased role for the private sector, imposes financial discipline on public enterprises, and gives the exchange rate, prices, and interest rates the central role in resource allocation.

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This letter focuses on four areas of agricultural policy that support the overall ESRP framework, and which were established as a basis for USAID cooperation with the GPRM in the Government's letter of August 31, 1989. These areas are: marketing and pricing policy, restructuring of state farms, private sector networks for agricultural inputs sales and services, and foreign exchange allocation mechanisms. Following is a summary of progress made in these areas in the past year, and of intended policy measures for 1990 and 1991.

In the area of agricultural marketing and pricing policy, our objectives remain to increase agricultural productivity and strengthen competitive markets. Policy changes in 1989/90 significantly increased the role of the market in sending price signals to producers. Nearly all agricultural products have moved from fixed producer prices to a producer floor price system, retaining fixed prices only for maize, rice, and sugar. Both floor prices and the remaining fixed prices reflect import/export parity, and were announced in advance of the planting season. The impact of these measures is being reflected in reports of good harvests in secure zones throughout the country, although erratic rains have caused disappointing crops in some areas, particularly for rice.

During 1989/90, the Government and USAID had jointly undertaken to conduct a comprehensive analysis of production factors in the agricultural sector. Through extensive discussions in our joint Working Group, it was agreed that the most useful approach to completing such an analysis would be in the context of a longer-term research effort. A detailed analytic program has now been defined with Michigan State University. Research work is expected to begin by October 1990. The Government will nominate at least three counterparts to participate in each stage of the research and analysis program.

In 1990/91, the Government intends to proceed with phased price deregulations. Domestically produced maize was moved in June 1990 from a fixed producer price to a producer floor price. In September 1990 the Government will also introduce a minimum producer price for rice. All other producer floor prices will be readjusted based on import/export parity. The new agricultural price regime will be announced in September 1990, so farmers can make planting decisions which take price incentives into account.

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To reinforce improved production incentives, the Government will emphasize complementary changes in marketing policy in 1990/91. A key measure announced in June 1990 is the liberalization of the consumer price of domestically produced maize, leaving the producer floor price as the only administratively determined price in the production and marketing chain for maize. This policy change effectively eliminates financial disincentives under the earlier fixed price regime to private participation in maize marketing, and will encourage competition among traders to the benefit of producers and consumers. The Government, with USAID support, will evaluate by June 1991 the impact of deregulated domestic maize prices, taking into consideration: the effect on prices throughout the production and marketing chain, incentives provided for private commercial trade, the extent of reduced budgetary burden on AGRICOM, and, to the extent that they can be obtained, indicators of quantities marketed. Should the results prove positive, the GPRM plans to extend its experience with maize liberalization to beans and eventually rice.

Planned relaxation of administrative restrictions on agricultural trade will further encourage marketing of agricultural commodities and help revitalize private trade networks. The Government will, by September 1990, eliminate administrative regulations hindering free inter-district and inter-provincial movement of agricultural commodities, and will open district-level wholesaling opportunities to any licensed trader desiring to compete. These measures, to be enacted and announced through the appropriate Government legal channels, will facilitate the flow of commodities from surplus to deficit areas, allow new entrants to compete in supplying consumer goods to the rural population, and improve the competitive environment for rural trade. In addition, the Government will analyze licensing requirements for private marketing agents (transporters, wholesalers and retailers) to assess potential barriers to entry. The Government will review this analysis with USAID by February 1991, allowing agreed upon recommendations to simplify licensing requirements to be implemented later that year.

Government policies in land distribution and tenure security have undergone rapid evolution during the past year, and continue to develop. Our objective is to increase the economic use and productivity of agricultural lands by developing land use policies and constitutional reforms which will enhance land tenure security overall and encourage investment in agriculture. In the context of this objective, the Government reaffirms its intent to restructure state farms where appropriate and to divest other state farm holdings to family and commercial operators.

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In 1989/90, work on an Action Plan for state farms restructuring and divestiture advanced. On a case-by-case basis, many divestitures of state farms were authorized and have been implemented. At present, the total number of state farms is just 72, having been reduced from a total of 150 in 1987. In 1990/91, the Government, with USAID assistance, will deepen the analysis of divestiture issues through further study of land tenure security in general, and through the detailed planning and implementation of at least one pilot divestiture of state farm land to family farmers. Through the joint GPRM USAID Working Group, a research and analysis plan has been developed for the Land Tenure Center at the University of Wisconsin. Field work is expected to begin in October 1990. Also in 1990/91, the Government intends to complete a statement of policies and guidelines for encouraging land use in support of increased agricultural productivity, as guidance for the various authorities involved in land allocations and particularly divestitures.

Another objective of the Government's agricultural development strategy is to enhance the reach, competitiveness, and viability of networks providing agricultural inputs and services to farmers nationwide. The Government recognizes that implementation of the USAID Commodity Import Program through private importers and distributors has effectively supported this objective. In 1989/90, the Government ceased to administratively allocate USAID-financed imports to end users, allowing participating importers and distributors to determine the types and quantities of various commodities needed by their eligible clients. To ensure wider distribution of the program's benefits a limit was retained of one tractor and truck per client. In 1990/91, the Government intends that private import and distribution channels will handle all USAID-financed commodity imports, again retaining the annual limit per client. As a step in further encouraging the development of effective agricultural support services, the Government also intends in 1990/91 to identify and analyze a number of agriculture-related parastatal enterprises for possible divestiture to private operators. Depending on the technical requirements for the analysis, the Government may request USAID support for technical assistance.

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It should, finally, be noted that foreign exchange allocation policy has evolved to complement and reinforce the emergence of productive private enterprises and trade networks. Our principal objective in this area continues to be to expand and ease access to foreign exchange for necessary imports for productive enterprises and activities. The mechanism for pursuing this objective is a market-based system under which foreign exchange and import licenses are automatically available to any enterprise working in eligible sectors. In this way, the demand for foreign exchange will be increasingly influenced through adjustments in the exchange rate, tariffs, and taxes, including customs duties, eliminating the need for administrative restrictions.

Experience under the system for non-administrative allocation of foreign exchange (SNAAD) established by the Government in 1989 has been generally positive. The enterprises utilizing the SNAAD to date have been overwhelmingly private sector ones. Sales to end users are market driven rather than administratively determined. Some adjustments in the program have already been made based on early applications, such as the discontinuation of the dollar ceiling per client. The Government is seeking additional donor resources to permit the planned expansion of this system to additional productive sectors. In May 1990, the Government announced the expansion of the SNAAD to include agricultural inputs such as selected parts and spare parts as described in the Ministerial Decree dated May 14, 1990. Further expansion to include other agriculture inputs and other sectors will depend on the level of donor resources mobilized for the SNAAD and on a rigorous evaluation of the SNAAD's performance to be conducted in June-August 1990.

In conclusion, the Government confirms its intention to pursue the food and agriculture sector policy objectives identified in the PFP and in the specific USAID agreements cited above. We intend to take significant steps in 1990/91 toward achievement of these objectives. These actions will in large part depend on USAID's continuing support, both financial and technical, in this sector. We look forward to continuing our close and productive collaboration.

Sincerely,

Jacinto Veloso

Jacinto Soares Veloso
Minister of Cooperation