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COUNTRY PROGRAM STRATEGIC PLAN

FY 1990-1992

MOZAMBIQUE

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SECTION I
OVERVIEW OF THE ENVIRONMENT FOR GROWTH

Mozambique became independent from Portugal in 1975, inheriting a bankrupt colonial economy. Since then, the country has been buffetted by drought and other natural disasters, suffered the spillover effects from armed conflicts in the Southern Africa region, and endured a vicious rural insurgency mounted by the South African-supported RENAMO guerillas. The violence has killed at least 100,000 civilians and displaced and affected several million others. Not surprisingly, in such a context, national economic development has been impossible to achieve. Rather, Mozambique has endured a dramatic unwinding of its economy, with GNP per capita in 1989 far below 1980 levels. Recent government reforms have helped stabilize the situation, reversing misplaced efforts of the first decade of independence to impose a centralized command-style economy, especially in the rural areas.

Economic decline in Mozambique began in the decade prior to independence and was further fueled by the abrupt departure of nearly 250,000 Portuguese residents, many of whom sabotaged the productive capacity of their farms and factories as they left. After a brief recovery in the 1978-81 period, the economy then began its steep decline. Between 1980 and 1986, per capita income dropped by 40 percent. Mozambique is now one of the poorest countries in the world, with a per capita income of less than $150 per year. It is estimated that perhaps as many as two-thirds of the country's 15 million people live in absolute poverty.

The continuing armed insurgency remains the main obstacle to economic development in Mozambique. The duration, extent and destructive nature of the RENAMO insurgency has placed much of the population at direct survival risk. The World Bank estimates that 50 percent of all households are food insecure. The war has disrupted the production and distribution of food to the point where nearly 90 percent of marketed food is imported, virtually all of it as food aid. Half of the primary school system is either paralyzed or destroyed. The rural health infrastructure has been similarly affected. Infant mortality is estimated at 200 per 1000 live births and under five mortality at 375 per 1000. The war has generated a sharp increase in rural to urban migration; the urban population is now about one-third greater than would have been expected without

the movement of displaced people. At the same time, the insurgency has severed most of the urban-rural economic linkages. Thus, the growing urban population is overwhelmingly dependent on food aid for its subsistence.

The civil war and the attendant economic deterioration has led the Government of Mozambique to a fundamental re-orientation of both its international relations and its domestic economic policies. Beginning with the negotiations leading up to the 1984 Nkomati Accords, the Government has consistently sought to promote a lessening of tensions in the volatile Southern Africa region, seeking a normalization of relations with the Republic of South Africa and fully supporting the regional diplomacy efforts of the United States. The Government has accepted the need to undertake negotiations with RENAMO in order to restore peace. Preliminary talks are now underway in Nairobi, sponsored by the Governments of Kenya and Zimbabwe.

Over the past several years, the Government of Mozambique, with support from the international community, has drastically reformed its economy. The Government has gradually but inexorably shifted away from its earlier Marxist-Leninist ideological orientation and close ties with the Soviet Union. At the ruling FRELIMO Party's Fourth Congress, in 1983, then President Samora Machel recognized that Mozambique had neither the resources nor the expertise to undertake a grandiose statist development strategy and stressed the need to create incentives for private peasant production. The Fifth FRELIMO Congress in July 1989 formally dropped Marxist-Leninism as a party tenet.

Mozambique joined the IMF and the World Bank in 1984 and initiated an IMF and World Bank supported Economic Rehabilitation Program (ERP) in 1987. The program has sought to stabilize the economy, to improve price incentives and to increase reliance on market signals rather than on centralized administrative controls. Mozambique's currency, the metical, has been sharply devalued, depreciating 95 percent in U.S. dollar terms. The real effective exchange rate has depreciated by two-thirds since early 1987, indicating substantial real adjustment. The rate of inflation has diminished from 150 to 30 percent as foreign assistance revenues and budgetary discipline have limited the government's need to borrow from the banking system to finance the budget deficit. The combination of policy change and donor support has allowed for substantial stabilization.

Major efforts have also been initiated to promote structural change. A major objective has been to integrate the official economy with the vast parallel economy that emerged in response to the imposition of controls. The number of commodities subject to price controls has been reduced from 46 to 20, while the remaining fixed prices have been increased considerably. The number of products subject to administrative allocation has been cut from 43 to 15. The private sector can now participate in most activities previously reserved for parastatals.

In support of private sector development, the Government is initiating an Open General Licensing system that will gradually shift foreign exchange from administrative to market-based allocation. The Government is also committed to directing a greater share of available credit to the private sector. In agriculture, the Government has substantially raised producer prices and continues to adjust controlled prices at the farm level in response to domestic international price developments. The Government has begun to divest state farms and distribute their lands to family and commercial farmers.

The ERP and donor resources in support of it have allowed Mozambique to stem its economic decline. The past three years have witnessed a return to economic growth averaging about four percent per annum. Agricultural output growth has been particularly strong. Nonetheless, the continuation of the civil war imposes sharp constraints on the ability of the ERP to generate economic recovery. Insecurity continues to restrict the responsivenness of agriculture and is a major obstacle to the restoration of production. It also places an extremely high risk premium on any potential private investments.

The development potential of Mozambique is, indeed, intimately tied to the question of ending the armed conflict that has engulfed the countryside. In the context of a peace settlement and the restoration of security, the long-range development prospects for Mozambique are bright. The country has enormous agricultural potential, the vast majority of which is yet to be tapped. With appropriate policies and investments in infrastructure, agricultural output could increase dramatically. The country also has substantial mineral potential. The Portuguese left behind the rudiments of a manufacturing sector

that would be the focal point for rehabilitation in a post-war environment. Given the new policies and attitudes expressed by the Government, post-war Mozambique could be an attractive target for foreign investment.

Optimism for the future must, however, be tempered with the realities of economic adjustment. Restoring agricultural output and creating income generating opportunities will inevitably be a lengthy process. Security-related urbanization is unlikely to be reversed, creating a large need for services and jobs while at the same time constraining the process of agricultural rehabilitation and recovery. Unemployment problems will be exacerbated by the likely decrease in demand for Mozambican labor by South African mines. Very low levels of income and consumption will necessarily limit Mozambique's ability to generate local resources to finance the needed development programs, so that continuing support from the international donor community will be imperative.

The most immediate development challenge facing Mozambique, whether or not a peace agreement is achieved in the near future, is food security. Lack of food and access to potable water are the principal health issues in the country. Improved food security would help improve infant and child survival rates. In the short-term, emergency relief will continue to be essential. Measures must be taken concurrently to increase domestic food production and improve the ability of the marketing system to distribute food from producers to consumers. Effective food demand must also be reestablished by creating income-generating opportunities for the urban poor.

Donor assistance has a crucial role to play in helping Mozambique to achieve both its food security and other long-range developmental goals. Contemporary Mozambique is unusually dependent upon donor support and is likely to remain so in the forseeable future. Exports provide only 15 percent of the cost of imports; the rest being covered by foreign assistance. As mentioned, food aid provides nearly 90 percent of marketed grains. Finally, donor support covers nearly half of budgetary expenditures. These figures are unlikely to improve in the short-run; indeed, the gaps may widen even further. While relief efforts obviously must take precedence in an emergency situation, donors have a responsibility to take a longer-term perspective, and must keep in mind the dangers of dependence and possible disincentive effects of such large-scale support.

The challenge facing the donor community is to combine critical emergency relief efforts with programs which are crucial to long-term, self-sustaining development. A program emphasis on food security allows just such a transitional approach by drawing attention to a range of issues including foreign supply, domestic supply and domestic demand. It will raise the sensitivity of both donors and Mozambican authorities to the need to utilize the large volume of food aid in a more developmental way, and it will give focus to the coordination efforts that such extensive donor involvement in Mozambique demands.

SECTION II

ANALYSIS OF KEY CONSTRAINTS TO GROWTH

A. Inadequate Economic Growth

During the decade and a half of its independence, Mozambique has experienced major upheavals which have depressed its standard of living, already one of the lowest in Africa, to probably the lowest level of any country in the world. The combination of many factors -- a flight from 1974-76 of most of Mozambique's skilled labor force, the economic disruption consequent to the introduction of a command economy model in the post-independence period, and the wholesale devastation resulting from a foreign-sponsored insurgency -- produced a precipitous decline in income and output. As a result, the level of real GDP fell by an estimated one-third between 1973 and 1983. The World Bank estimates that per capita GDP fell by one-half over the same period.

The severe deterioration of the Mozambican economy is particularly striking in view of the fact that the country is widely thought to have considerable growth potential. There is an abundance of good agricultural land receiving adequate rainfall. Mozambique is a key transportation corridor for Malawi, Zimbabwe, and northern South Africa. The Zambezi River offers enormous hydroelectric potential. Abundant mineral resources have gone virtually untapped.

1. Assessment of Macroeconomic Performance and Trends

Table II.1 summarizes macroeconomic performance from 1973-89 and demonstrates the sharp reversal from negative to positive growth under the ERP. Annex B provides a more detailed discussion of macroeconomic trends and potential.

In the three-year period just before and after independence, output fell at an annual rate of almost 10 percent. This decline was particularly felt in the manufacturing and service sectors as a result of the loss of skilled personnel and sabotage of plant by the departing Portuguese. Interestingly, the decline in output in the agricultural sector, which accounts for almost half of the total value of output, was relatively minor, despite personnel losses and sabotage of productive resources in the estate sector. In the subsequent period, 1976-80, the economy experienced some recovery, as the GOM reorganized production, in the rural areas in the form of state farms on former agricultural estates, and in the manufacturing sector in the form of state run, "intervened" enterprises. In one respect, the 2.5 percent estimated overall annual growth rate during this period is probably overstated since it was driven by rapid growth in the service sector due to expanded government employment.

The insurgency and the steadily worsening foreign exchange situation dominated developments in the 1980-86 period. Worst affected was the agricultural sector, whose output reportedly declined by almost ten percent per year. This was partly due to the unsettled security situation in the countryside, but also reflects the steadily deteriorating incentives to producers as real market prices fell and incentive goods became increasingly unavailable. During this same period, industrial production declined annually by almost eight percent. If the drop in agricultural production is probably overstated, the decline in industrial production is not. It is almost entirely attributable to the foreign exchange shortage which cut off supplies of both imported inputs and, most important, spare parts.

Introduction of the market-oriented ERP in 1987, together with massive donor assistance, produced significant economic recovery. Under the ERP, the GOM has:

TABLE II.1
EVOLUTION OF GDP BY SECTORS 1973-89
(PERCENTAGES BASED ON 1980 PRICES)

	GDP SHARES	AVERAGE ANNUAL GROWTH						
	1983	1973-76	1976-80	1980-83	1985-86	1987	1988	1989
GDP GROWTH	100%	-9.8%	2.5%	-6.3%	-6.2%	3.9%	5.7%	4.6%
AGRICULTURE	48%	-1.3%	1.1%	-9.5%	n.a.	6.2%	6.6%	3.0%
INDUSTRY	14%	-17.8%	3.2%	-7.8%	n.a.	0.1%	4.9%	7.9%
SERVICES	38%	-17.3%	4.7%	-0.7%	n.a.	1.9%	3.6%	5.3%
CONSUMPTION PER CAPITA	n.a.	n.a.	n.a.	n.a.	-8.6%	0.3%	0.7%	2.2%
FIXED INVESTMENT	n.a.	n.a.	n.a.	n.a.	n.a.	16.0%	20.0%	10.5%

SOURCE: IBRD, MOZAMBIQUE: AN INTRODUCTORY SURVEY, JUNE 6, 1985, TABLE 3.1
AND IBRD, REPORT TO THE CONSULTATIVE GROUP FOR MOZAMBIQUE ON
THE GOVERNMENT'S ECONOMIC REHABILITATION PROGRAM, OCT. 4, 1989, TABLE 3

a) devalued the real exchange rate by two-thirds,
b) introduced a non-administrative system of foreign exchange allocation for a limited range of raw materials and spare parts and stated its intent to broaden the system as foreign exchange availability permits,
c) reduced the fiscal deficit including grants from over 13.5 percent of GDP in 1985/86 to an estimated 4.8 percent in 1989,
d) steadily reduced the growth rate in banking system assets,
e) reduced the number of commodities subject to fixed consumer prices from 46 to 20 and set those prices with respect to border parity, and
f) reduced the number of products subject to administrative allocation from 43 to 15 so that private enterprises can now participate in most trading activities.

The ERP's initial impact was greatest in the agricultural sector, due to improved price incentives and relaxation of the foreign exchange constraint as a result of high levels of donor support. Three successive years of good rainfall also contributed. The industrial recovery has proceeded more slowly, but growth in industrial output has increased steadily as domestic demand has increased and as external assistance has made possible the rehabilitation of industrial plant.

2. Outlook for the CPSP Period

The macroeconomic outlook for the CPSP period depends on a number of factors, the most important of which are the level of external donor assistance and the security situation. Rather than attempt to make a single projection, this section will outline a number of "scenarios", the outcomes of which will be modeled based on basic macroeconomic relationships. These will clearly not be exhaustive but they will provide a sense of the importance of certain key variables and their interaction. The detailed methodology underlying these scenarios is explained in Annex B.

Table II.2 summarizes the results of four alternative simulations. The first is the "base case" which utilizes the levels of foreign assistance projected in the Government's Policy Framework Paper (PFP). Under the assumptions discussed above, this produces strong growth in 1990 with more moderate growth in the 1991-94 period. At the end of the five year period, real output is 24.4 percent

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TABLE II.2
EFFECTS OF ALTERNATIVE SCENARIOS
ON GDP LEVELS AND GROWTH
(GDP INDEX 1989=100, AND PERCENT CHANGE)

	1989	1990	1991	1992	1993	1994
BASE CASE	100.0	107.0	110.7	113.5	118.2	124.4
WAR CONTINUES		7.00%	3.45%	2.57%	4.14%	5.19%
EXTERNAL FINANCING						
AS PROJECTED IN PFP						
ALTERNATIVE SCENARIO #1	100.0	100.4	103.5	105.5	106.0	109.3
WAR CONTINUES		0.40%	3.06%	1.97%	0.49%	3.05%
EXTERNAL FINANICNG						
LEVELS OFF AT 1990						
LEVEL						
ALTERNATIVE SCENARIO #2	100.0	100.4	103.5	98.3	91.4	87.5
"DONOR FATIGUE"		0.40%	3.06%	-4.98%	-7.01%	-4.34%
WAR CONTINUES						
EXTERNAL FINANCING LEVELS						
OFF FOR TWO YEARS FROM						
1990 AND THEN DECLINES BY						
10% PER YEAR						
ALTERNATIVE SCENARIO #3	100.0	104.2	116.9	120.4	116.6	115.4
"PEACE"		4.15%	11.31%	3.85%	-3.14%	-1.02%
DONOR ASSISTANCE DECLINES						
STEADILY						

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greater than in 1989. Of course, since population growth over the same period will be 13.7 percent, the growth in real output per capita will be only 9.4 percent. This is a relatively respectable result but depends not merely on a continuation of present very high levels of donor assistance, but on their expansion.

Given recent events in Eastern Europe and elsewhere, it seems reasonable to explore the implications of a somewhat less robust level of external financing. In Alternative Scenario 1, external financing, official grants, disbursements on medium and long-term external borrowing, and extraordinary "below the line" financing are assumed to remain constant at their 1989 levels. The BOP is assumed to balance through a decline in imports with a consequent effect on real GDP. Although the growth rate never dips below zero, the impact of reduced financing on output growth is dramatic. Over the five year period, growth in real GDP would only be 9.3 percent. When combined with the forecast 13.7 percent rate of population growth, this implies a fall in per capita production of 3.9 percent. While this is not a catastrophic fall, its implication for the dire poverty prevalent in the country is serious. This outcome results from a mere leveling off of external assistance at current extraordinarily high levels. It still assumes a considerable improvement in the efficiency of the economy.

The second alternative has been labeled the "donor fatigue" scenario. This assumes a two year leveling off of external financing followed by a ten percent per year decline in all types of external financing. The implications of this are severe and particularly so on a per capita basis. The end result is a gross decline of 12.5 percent over the forecast period and a per capita decline of 23.0 percent.

The last scenario, an end to the insurgency followed by a decline in donor assistance to more "normal" levels for a country of Mozambique's size and level of income, is the most difficult to model. That is because it involves changes in two variables, the supply of tradeable goods produced by the Mozambican economy and the level of external financing, as well as some subtle changes in the underlying relationships.

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It is possible to arrive at some estimates, based on production levels of various agricultural products in the late 1970s, of what the external accounts of a post-war Mozambique would look like. Through a very speculative and subjective process, it has been estimated that, in the event of peace, overall merchandise exports would recover from the projected level of $200 million in 1990 to $353.5 million in 1994, merely through a recovery of past levels of export activity.

Offsetting this gain, of course, is a likely leveling off and eventual decline in donor assistance. Whether, when, and by how much this decline would take place is quite speculative. To facilitate comparisons, it has been assumed that the assistance levels would follow the same path as in the "donor fatigue" scenario. That is, external assistance would level off for two years at the 1989 level and then decline by 10 percent per year.

One final effect of peace would be the opportunity for domestic food production to replace donated food in domestic consumption. This leads to two questions, (a) how much and how rapidly will domestic food production recover, and (b) what will be the donor response? For modeling purposes, it has been assumed that domestic production could replace all donated commodities after a two year period and that donors would, initially, replace food donations with other forms of BOP assistance. Both these assumptions are undoubtedly optimistic.

The outcome of the "peace scenario" is shown in the last section of Table II.2. The initial impact of peace, even with an immediate leveling off of donor assistance levels, is a burst of increased output. Real GDP rises more than four percent in the initial year and more than 11 percent in the second. Growth then slackens in the third year as falling assistance levels begin to be felt and actually declines in years four and five. At the end, the economy is significantly worse off than in the wartime base case with its ever-rising assistance levels.

Clearly not too much credence should be placed in the specific outcomes of this exercise, which depend on the specific, highly arbitrary, values chosen for each variable. Two qualitative conclusions, however, are quite robust. First, as long as the war continues, the standard of living of Mozambicans is extremely sensitive to the levels of general donor support. Second, the advent of peace

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would substantially change the nature of the country's problems, but those problems would still require very high levels of external assistance for a long time to come. The alternative, an abrupt decline in assistance, would mean a decline in economic activity similar in nature although less severe in its impact to that brought about by the initiation of the widespread insurgency in the early 1980s.

B. Hunger

1. The Extent of the Problem

Food security problems in Mozambique are not new. Even before the emergency conditions of the 1980s, the country suffered from chronic food shortages. National food supplies during the period 1981-83 covered only 74 percent of FAO-established minimum daily caloric requirements; taking into account inequitable distribution of available supplies, the poor met only an estimated 63 percent of minimum requirements. For the majority of Mozambicans, access to food is neither timely, reliable, nor nutritionally adequate.

An examination of household food security indicates that the present nutritional situation is not simply the result of gravely deteriorated household economic circumstances. The widespread insurgency and natural disasters such as flood and drought have caused absolute breakdowns in the food supply system, and severely affected the compensatory support services the GOM has developed. During the 1983-84 drought and famine in the southern and central provinces, studies showed acute malnutrition rates among children under five years as high as 37 percent in Tete, 28 percent in Inhambane, 12 percent in Gaza and 24 percent in Sofala provinces. Studies of war-displaced populations arriving in reception centers give similar figures: 13 percent in Moatize, Tete, in February 1987; and 44 percent in Nicadine, Zambezia, in February 1988. Those displaced or affected by war or by natural disasters continue to be vulnerable until their food production or income generating capacity is restored. Clearly, every break in the household food chain further weakens a family's ability to recover, and worsens the already chronically low nutritional status of the population.

Using height-for-age as an indicator of chronic malnutrition among children aged 1-5 years, rates as high as 40 percent have been recorded in rural areas, and urban studies show rates are rising (for example, in Maputo in 1984, the malnutrition rate was between eight percent and 17 percent; in 1986 it was 30 percent; in 1988 it was 33 percent). Growth faltering studies in provincial capitals in 1987 showed levels between seven percent in Maputo and 31 percent in Inhambane. More recent studies in Maputo show this rate has almost doubled, while a recent survey in Tete indicated a level between 16 percent and 27 percent.

Low birth weight reflects the mother's nutritional status and thereby poor household nutrition over a long period, and is clearly linked to a high infant mortality rate during the first weeks of life. The Maternity Unit of Maputo Central Hospital recorded an increase in low birth weight babies from an already high 13 percent to 16 percent between 1987 and 1988. In Tete in 1988, the urban level was 13 percent. Data from rural areas is scarcer, but the information available paints an even worse picture. In Nhamantanda, Sofala, for example, the proportion of low birth weight babies surveyed between January and March of 1988 was 29 percent, with the average birth weight in April of 1988 at 2.25 kg. Upper arm circumference of the mother is also used as an indicator of the mother's nutritional status (and thereby the household's). The standard for this measure is set at 23.5 cms, with a normal incidence of 2.5 percent of cases falling below this. Measurements taken in Maputo in 1988 revealed that more than 10 percent of the mothers surveyed were below the standard.

The margin of food security is clearly very narrow and has been diminishing for the majority of households in Mozambique. The immediate cause is the war, which continues to disrupt the social structure and the economy and preclude traditional survival tactics. In Tete province, for example, a traditional response to drought in the area south of the Zambezi River was to increase the exchange of goods with the usually more fertile areas to the north; different agroclimates give these areas comparative advantages in different crops. But the insurgency has disrupted trade and made such responses impossible, causing famine south of the river.

This story is repeated throughout the country. Where better-off households traditionally might have assisted those worse off, or taken in orphaned children, this support system has collapsed and even the previously more "food-secure" households have been affected by the emergency conditions. Production falls, people migrate, and vulnerability increases even more. Today, food insecurity affects about half of all households to some degree, and severely affects at least 60 percent of these in both rural and urban areas. These households are at extreme risk of losing children and other family members through malnutrition caused by food shortages and disease. An example of this extreme vulnerability can be seen in the camps for displaced persons in Tete. New arrivals in 1986-87 showed rates of acute malnutrition between six percent and 13 percent. The levels stabilized with regular food aid distribution, and with the provision of land and inputs to help the displaced grow their own crops again, acute malnutrition declined to under one percent. In April of 1988, a measles epidemic quickly increased this figure up to 10.6 percent. Data obtained in the camps soon after showed a dramatic increase in growth faltering, reaching a rate of 28.3 percent.

2. Food Availability and Needs

Lack of food continues to be a serious national problem affecting a great part of Mozambique's population. Analysis of national food supply is hampered by the lack of good data on actual production of the largest single source of supply, family farmers. Table II.3 shows in aggregate terms the officially marketed production of principal food crops from the family sector. The table shows steep declines in the 1980s, with some increases in the last two years.

Table II.3
Marketed* Production in the Family Sector (000 tons)

Year	Manioc	Sorghum	Maize	Rice	Groundnuts	Beans
1970	9.44	2.14	59.23	7.46	n.a.	3.18
1980	8.76	0.43	25.07	7.27	5.77	8.30
1984	3.39	1.63	40.43	3.58	1.94	2.80
1986	5.87	0.59	11.68	5.88	0.86	1.92
1988	12.28	0.83	34.25	4.13	1.76	6.74
1989est.	10.68	1.13	39.15	9.90	2.45	6.18

*Marketed through official channels. Sources: World Bank, Mozambique Agriculture Sector Survey, May 1988, and Agricom statistics.

Unfortunately, the volume marketed is not a good indicator of overall production by small farmers. The percentage of the various food crops that is officially marketed is generally both very small and variable, both within crops and over time. It is estimated that less than one percent of cassava and sorghum production is marketed, and between four and 11 percent of higher value food crops such as maize, rice, groundnuts, and beans (World Bank 1988). Thus, increases and decreases in officially marketed production may not show simple net changes in production, but are also likely to include switches from unofficial to official marketing channels and vice-versa. Despite the absence of hard data, there is no doubt that the disruption of rural marketing and rural shops, the cornerstone of the family sector commercial chain, together with disruption of transport, has damaged both family and commercial farms. The result has been a sharp decline over the last decade in the availability of domestically produced food.

Between the mid-1950s and the late 1960s, total marketed production of cereals varied between 60,000 and 100,000 tons annually. Subsequently, until after independence in 1975, volumes of 100-200,000 tons were the norm, and for a brief period went even higher. From 1977 to 1985, the total barely exceeded, or fell below, 100,000 tons, dropping to between 40,000 and 70,000 tons between 1986 and 1988. This amount was less than 10 percent of the estimated requirements for the urban and emergency-affected rural populations during that period. Marketed production of beans and groundnuts shows similar trends, falling to a level of only 11,000 tons by 1987. Production of vegetable oil fell from some 18,000 tons in 1980 to some 6,000 tons in 1986, while sugar production (which suffered particularly from insurgent attacks on processing facilities) fell from 115,000 tons to 28,000 tons over the same period.

Two features stand out in an analysis of the limited data on food and particularly on cereal supply trends in Mozambique:

First, falling levels of internally produced supply per capita during the 1980s, associated with declines in subsistence food production; and

Second, rapidly increasing shares of total "marketed" food supply claimed by imports and, within imports, by food aid.

Furthermore, although improvements in internal marketing levels since the introduction of the economic rehabilitation program in 1987 have been significant in percentage terms, they are so far minor in relation to requirements.

Table II.4 projects overall food supply and demand for 1990/1991. Annex C provides a more detailed survey of food needs and availability over the CPSP period.

3. Agricultural Constraints*

It has been estimated that the family farm sector accounts for 90 percent of land under cultivation and produces about 86 percent of the total domestic food production, 51 percent of the marketed food crops, and almost 20 percent of the export crops. The agricultural sector employs about 80 percent of Mozambique's labor force. Because of this importance to the economy, recent Government policy statements indicate a reliance on the family sector to provide the bulk of the near-term increases in food crop production. However, a number of factors continue to constrain production by the family farm sector and, in turn, the ability of Mozambique to provide for itself.

a. Security -- The security situation is qualitatively different from the other agricultural constraints listed here, and eclipses them all. The rural insurgency is an absolute barrier to normal agricultural activities. Its economically devastating effects are felt in all districts of the country, not only as attacks are made on persons and property but also as expectation of attack becomes the overriding factor in decisions on economic activity. Some improvements in production and marketing will certainly continue to occur despite continuing insecurity, since secure "pockets" exist and some farmers and entrepreneurs will take the risks; however, investments will be be tentative, sparse, and small until security improves.

b. Land Tenure -- While the most productive lands, especially those with access to transportation routes, markets, and water for irrigation, belong to the state farming sector, much of the land being distributed to displaced

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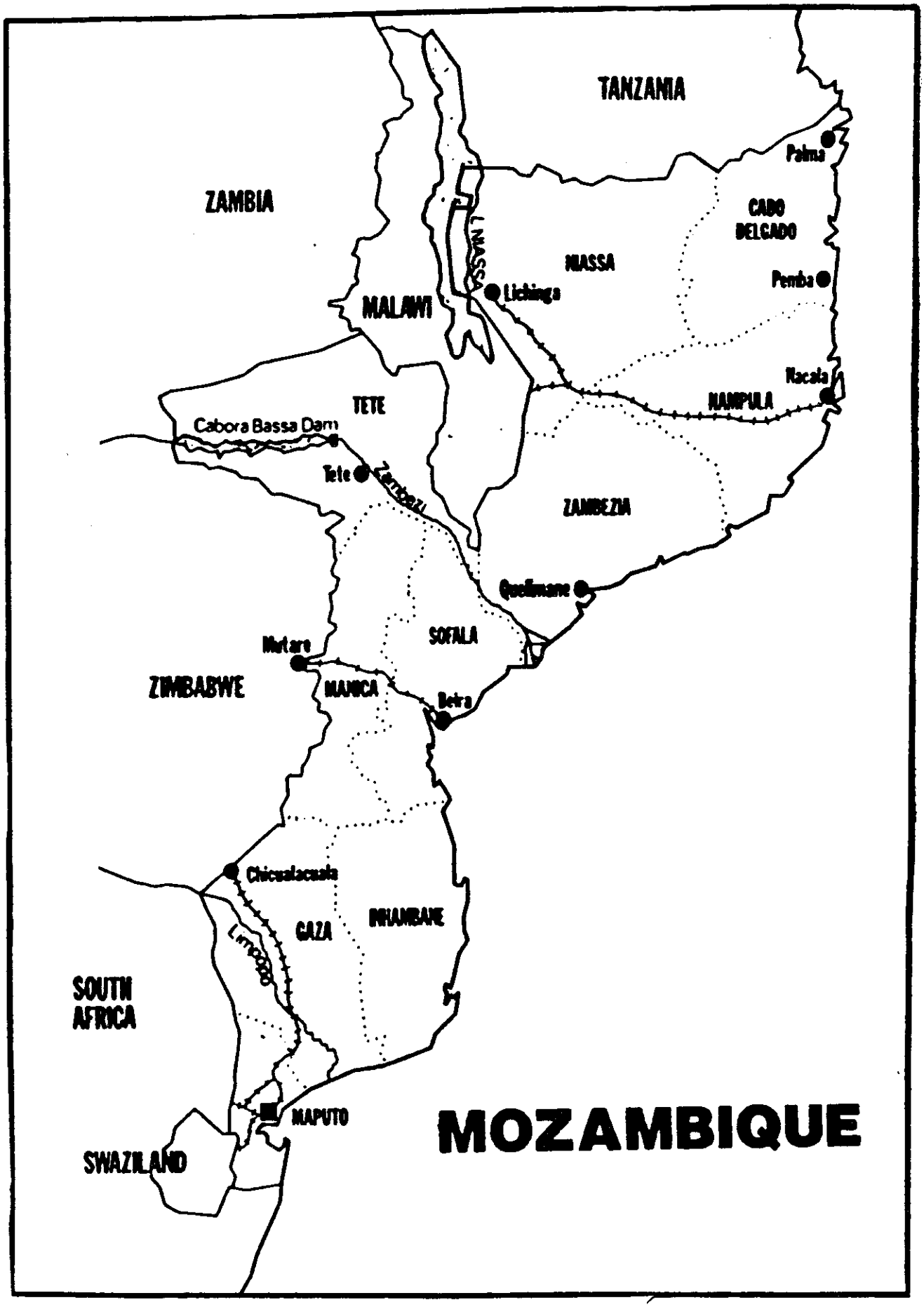
* See the USAID/Mozambique Private Sector Support Program PAAD, August 1989, for a more detailed analysis of the agricultural sector.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MAPUTO
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COUNTRY PROGRAM STRATEGIC PLAN

EXECUTIVE SUMMARY

In FY1990, U.S. economic assistance to Mozambique -- development assistance, food aid, and SADCC funds — will total approximately $100 million, making this A.I.D.'s largest program in sub-Saharan Africa. The scope of this program reflects U.S. support for the Government of Mozambique's commitment to economic reform as well as our concern for the vast human suffering engendered by war. The country program strategy presented below covers the three-year period from FY 1990 to 1992. It assumes that the insurgency will continue to disrupt normal economic activity and exacerbate already vast social problems during this period.

Mozambique presents one of the most difficult development challenges in Africa. Government reforms and massive donor assistance since 1987 have stabilized the economy and permitted a return to economic growth averaging about four percent per annum. Key to the reform process have been improved exchange rate management, imposition of fiscal and monetary discipline, and significant liberalization of pricing and distribution policies. Given the country's strategic location and enormous natural resources, long-range prospects are bright. Yet economic development will depend finally on an end to an armed conflict which has raged for more than a decade. Even when peace is achieved, restoring agriculture and other productive sectors to permit broad-based, sustainable economic growth will be a lengthy process.

The constraints to growth are staggering. Per capita income in 1988 was less than $150, and about half of all households, urban and rural, cannot meet minimum daily caloric requirements from their own resources. The continuing insurgency prevents most rural inhabitants from taking advantage of improved economic incentives to increase production and marketing, and also limits access to raw materials which might attract investment. Millions of rural people have been driven into cities, towns, and refugee camps, where they lack access to land, potable water, health or education services, employment, or secure food supplies. Infant mortality (200/1,000 live births) and under-five mortality (375/1,000) are among the highest in the world. Starting from a minimal economic base, the progress marked during the past three years has had little qualitative impact on the lives of most Mozambicans.

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The emergency in Mozambique is not transitory. Each year, emergency needs become more difficult to address as roads, bridges, and health posts are destroyed faster than they can be rehabilitated, urban unemployment and overcrowding rapidly increase, and the human and institutional resources for dealing with the emergency grow more and more overstretched. Substantial emergency assistance will be necessary until there is some settlement of the conflict, and afterwards throughout a lengthy period of reconstruction. No less critical will be considerable -- and increasing -- investment, including heavy donor support, to lay the groundwork for growth by revitalizing productive sectors in an increasingly market-based economy.

Mozambique's dependence on foreign aid cannot be overemphasized. The World Bank estimates that, to maintain GDP growth at four to five percent per annum, external financing requirements will average $1.4 billion annually for the 1990-94 period. Should foreign aid simply stay at current levels, GDP growth will slow to about two percent per annum, causing a decline in per capita income. In one economic projection which assumes a peace settlement in 1990 with a rapid return to 1980 production levels and a subsequent 10 percent annual decline in foreign aid, growth slackens after an initial burst and actually declines after three years. Indeed, an abrupt downturn in economic assistance, even under conditions of peace, would cause a decline in economic activity similar in nature although less severe in impact to that brought about by the initiation of widespread insurgency in the early 1980s. All major donors pledged, at the November 1989 Consultative Group meeting in Paris, to maintain or increase their already remarkably high levels of assistance to Mozambique.

The challenge for both the GOM and its donors is to continue to mitigate the worst effects of the emergency and, where security permits, to begin the transition toward self-reliance. In assisting Mozambique to meet this challenge, USAID's long-term program goal is to promote food security -- ensuring access for all Mozambicans at all times to sufficient food for a healthy and productive life. In today's crisis environment, the food issue dominates, cutting across all sectors and affecting the country's political viability; attention to emergency needs runs parallel to the absolute necessity to regenerate productive infrastructure. The emergency and developmental

dimensions of food security lead to two subgoals for the program: first, to meet the subsistence food and basic health requirements of the absolute poor; and second, to increase food supplies through production and trade to levels that meet domestic consumption requirements.

USAID has identified four strategic objectives for the 1990-92 period that will contribute significantly to these longer-term goals:

- One: Sustain an effective food safety net for the urban poor and those displaced and severely affected by war.
- Two: Reduce, among target population groups, dependence on external food aid to meet subsistence requirements.
- Three: Establish a policy environment conducive to private agricultural production and marketing.
- Four: Increase the role of the market in allocating productive resources to private producers.

Targets, subtargets, and benchmarks of progress have been developed to guide and measure progress in achieving each of these strategic objectives.

Program objectives will be attained through the implementation of a portfolio comprising: emergency food aid; other emergency assistance; monetized food aid; non-project assistance supporting policy reform in food and agriculture; commodity imports for agriculture and transport; project assistance in health and basic services; policy dialogue and technical assistance in support of policy reform; donor coordination; and the programming of local currency counterpart funds. In addition, SADCC resources will finance activities to improve transport infrastructure and to explore targets of opportunity to encourage productive investment. Implementation of both emergency and developmental activities will rely increasingly on private sector operators, including private and voluntary organizations as well as commercial enterprises. Mission staffing and organization will be centered on the issues critical to pursuing the food security strategy described above.

Policy reform is central to the country assistance strategy. Because of the program's size and focus, USAID has played and can continue to play a pivotal role in encouraging, guiding, and supporting the Government to pursue

growth-oriented policy reforms in food security and agriculture, within the macroeconomic Policy Framework Paper negotiated by the GOM, the World Bank, and the IMF. In the short run, an improved policy environment will encourage the rehabilitation of production and marketing in the country's secure zones, although the impact will likely remain small relative to national needs. The intent for the long run is to create a sound base for sustainable and broad-based growth.

Monitoring progress and measuring impact of the program will be difficult given insecurity which constrains travel and extremely weak institutional capacity to collect and analyze data. USAID will maximize the usefulness of data available from the Government of Mozambique and other donors, facilitate limited sample surveys when appropriate, and incorporate into individual project and non-project activities monitoring components that will help assess progress toward program objectives.

Total U.S. economic assistance for the Mozambique country program is proposed at $102,365,000 in FY 1990, $90,000,000 in FY1991, and $92,000,000 in FY1992. These resources will provide crucial humanitarian assistance to millions displaced and affected by war while encouraging a policy environment that will support market-based growth.

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Table II.4
Estimated Food Supply/Demand Situation for 1990/1991
Cereals (metric tons)

Item/Commodities	Maize	Wheat	Rice	Total
Supply				
a) Opening Stocks (4/30/90)	48,234	23,158	12,500	83,892
b) Domestic Marketed Prod.	73,511	0	16,181	89,692
Total Available	121,745	23,158	28,681	173,584
Demand				
c) Requirements	549,354	145,879	66,417	761,650
-- Commercial Sales	(275,257)	(145,879)	(66,417)	(487,553)
-- Emergency Distribution	(213,150)	(0)	(0)	(213,150)
-- Food Bank	(60,947)	(0)	(0)	(60,947)
d) Ending Stocks (4/30/91)	91,559	24,313	11,069	126,941
Total Demand	640,913	170,192	77,486	888,591
Surplus(Deficit)	(519,168)	(147,034)	(48,805)	(715,007)
Import Requirements	519,168	147,034	48,805	715,007
-- Commercial	0	0	0	0
-- Food Aid	519,168	147,034	48,805	715,007

Note: All figures for maize and wheat are in unmilled terms; figures for rice are in milled terms.

a) Estimate, Department of Food Security, December 1989.

b) Estimate, USAID.

c) Requirements are based on the following formulas:

	Population	Ration - Kg/year		
		Maize	Wheat	Rice
Market Population				
urban & peri-urban	2,599,475	65.9	56.1	25.6
affected rural	1,350,000	77	-	-
Emergency Population				
displaced	2,000,000	89	-	-
affected	450,000	77	-	-
Food Bank	477,074	127.8	-	-

Population figures are based on most recent estimates. The Government of Mozambique and donors will make new estimates for the 1990/91 emergency appeal in February - March 1990.

d) Minimum carryover stock requirements are estimated to equal two months consumption.

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persons is marginal farmland with limited potential for producing surplus food for the market.

c. Agricultural Technology — Modern mechanical technology introduced on state farms yielded generally dismal results, chiefly due to the absence of skilled management and technical personnel. While private (and especially family) farmers still use a modest level of technology, which depends on basic entrepreneurial skills, high unskilled labor investments, and minimal access to purchased inputs (seeds and fertilizers), questions of improved technology will require attention in the medium term to move families from subsistence into surplus production.

d. Production Inputs -- From independence to 1984, only parastatal enterprises were authorized to import agricultural inputs; as a result, few were available for private commercial and family farmers. Largely due to U.S. commodity import assistance since 1984, private importers and distributors now provide agricultural inputs to private sector farmers in nearly all provinces. However, a large number of small farmers, displaced by the rural insurgency, have no means to procure the inputs which are now available. Donor-supported seed and tool distribution programs only partially address the problem.

e. Access to Foreign Exchange -- Few agricultural inputs are produced locally, so foreign exchange is needed to obtain them. Earlier, the GOM allocated virtually all foreign exchange for agricultural investment to the public sector. Although this policy is changing, continued scarcity of foreign exchange earnings means the private agricultural sector is dependent upon donors for foreign exchange. Although private sector producers account for about 50 percent of agricultural exports, they generally cannot qualify for foreign exchange retention schemes because they do not export directly. A "system for the non-administrative allocation of foreign exchange" (essentially an Open General License System), begun in 1989, does not yet apply to agricultural inputs.

f. Financing -- About 90 percent of private farmers depend upon some credit mechanism to finance the purchase of commodities imported through donor-financed commodity import schemes. The main source of credit is the GOM Development Bank (BPD), which requires farmers to provide 20 percent equity and

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to pay 22 percent interest for agricultural loans. A medium-term subsidized credit program for agricultural producers, introduced by the GOM in 1988, requires only a deposit of one percent equity and the payment of six percent interest for loans up to Mt 35 million (about $45,000); however, this program has not been well received by the private farmers, who claim that it is available only in certain provinces and that the loans are not allocated impartially. The extent to which financing may become a constraint in the agriculture sector is not clear, although under the credit restriction of the GOM-IBRD-IMF Policy Framework Paper it could become a problem.

g. Pricing -- The GOM continues to review and revise agricultural producer prices. Floor prices, rather than fixed administrative prices, are now in place for the principal cash crops and beans, thereby allowing the market to determine actual prices above the floor. Floor prices are set annually and take into consideration import/export parity. Maize and rice are the only staples whose producer prices are still fixed, but even these reflect import parity. While current pricing policy provides greater incentives to producers than ever before, marketing constraints mitigate the production impact.

h. Marketing and Transportation -- The rural marketing system collapsed at independence with the departure of Portuguese traders. Support for marketing, and in particular for transportation, was subsequently concentrated on government and parastatal operations; the Government still remains the sole importer and distributor of cereal imports. With the start of the ERP, the GOM recognized that re-establishment of the rural marketing network depends on increasing competition among greater numbers of private operators. Beginning in 1985, the marketing of certain agricultural commodities was opened to private operators; although anyone may now buy and sell domestic agricultural produce at the retail level, there are still restrictions on trade and transport. Official trade and transport margins are inadequate, and parallel channels handle a sizeable portion of food commodities. The absolute insufficiency of available transport in particular restricts improved marketing. Road transportation, once quite efficient, has suffered from war-related destruction of both vehicles and roads, decreased road maintenance, and shortages of trucks, spare parts, and fuel. All transporters are severely restricted by continuing security problems, with no means of covering the extremely high risks of vehicle and cargo damage and loss.

4. Food Imports and Distribution

As a result of the decrease in domestic food production and marketing as well as acute shortages of foreign exchange for food imports, Mozambique has become increasingly dependent upon external food aid to feed a significant share of the population. Imports of cereals grew slowly from 1956-71 until they exceeded some 100,000 tons per year, and then began to rise rapidly. By 1978, cereal imports exceeded 300,000 tons and have remained above this level ever since. More important, however, is the increasing share of food aid relative to commercial imports within total cereal imports, especially since 1980. Related to the increasing share of food aid in marketed totals, there has been increasing instability of both quantities imported and overall supply (net of subsistence production), especially in the 1985-89 period. Food aid has become the most important element of the food supply chain, especially given the massive inflex of people to urban areas as a result of the insurgency. (See Section II.E.)

In 1988, food aid cereal imports were in excess of 500,000 metric tons, which represented almost 90 percent of the total supply of cereals either marketed commercially in urban/peri-urban areas, or distributed free throughout the country to needy persons. During the 1989-90 crop year, domestically produced and marketed cereals have increased significantly, but the GOM still estimates that over 900,000 metric tons of external food aid will be required. A similar reliance on food aid for non-cereals was reflected in the supply position during the late 1980s. The 1988-89 emergency appeal called for 20,000 tons of oil, 73,000 tons of pulses and 96,000 tons of sugar. These requests represented 137 percent, 815 percent and 137 percent respectively of total wholesale commercial sales in the country during the prior year, 1987. (See Annex C for a detailed breakdown of food requirements.)

International donors have been responsive to the emergency appeals, but the receipt and distribution of food has been just as limited by internal logistics constraints as by overall supply. Food distribution in Mozambique is extremely difficult due to a large number of transportation and logistical problems, i.e., insurgent attacks; poor condition of the road and bridge network; shortages of

trucks and coastal vessels; lack of port facilities and equipment in the smaller ports; lack of foreign exchange or other delays in obtaining fuel and spare parts; insufficient repair facilities and trained techicians. Included in the 1989-90 emergency appeal was a request for over $62 million to support food and relief distributions; to date, donor pledges for distribution total less than $12 million.

In the rural areas, about 3.8 million displaced and affected persons depend upon the ability of the Ministry of Cooperation's Department for the Prevention and Control of Natural Calamities (DPCCN) to distribute relief food; yet many districts are accessible only by armed convoys, several can only be reached by airlifts, and a few are completely inaccessible. In 1988, the DPCCN food distributions met only about 50 percent of the estimated needs of the displaced and affected rural population. With continuing insurgent actions limiting farm production and marketing, and with insufficient transport means, widespread lack of consumer purchasing power, and residual disincentive policies limiting the market, the Government's role in food supply and distribution is still paramount.

In the principal cities of Maputo and Beira, the main mechanism for supplying food to most consumers is an urban ration system which provides staple commodities at subsidized prices. However, the food security of poor urban households is endangered by many factors, principally insufficient household income, given recent increases in consumer food prices vis-a-vis wages and employment conditions. However, a stable food supply for low income urban dwellers is also complicated by the ration system itself, which is characterized by extreme fluctations in food stocks, occasional supply disruptions for some commodities, insufficient transport services, an unwieldy allocation system, complicated procedures for registration, and a still-common practice that users purchase the entire monthly food basket at one time.

C. Health Deficiencies*

As Mozambique enters the 1990s, the most vulnerable groups -- those running the highest risk of mortality and morbidity -- are children under two years of age,

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*Chapter 4 of "The Situation of Children and Women in Mozambique" (UNICEF, November 1989) provides a comprehensive current discussion of the health sector. This section is based on that analysis.

and pregnant and nursing women. Within this category (which numbers about four million), especially vulnerable are the 300,000 women and small children who have been displaced by the war.

TABLE II.5

Vulnerable Population Groups:

Women and Children in Mozambique - 1988 Estimates

AGE GROUP		DISPLACED	NON-DISPLACED	TOTAL
CHILDREN	0-11 mo.	40,374	470,826	511,200
CHILDREN	12-13 mo.	39,283	454,417	493,700
WOMEN	15-45 yrs.	237,882	2,757,818	2,995,700
Total		317,539	3,683,061	4,000,600

Sources: Health Section, UNICEF-Maputo; Ministerio da Cooperacao,R.P.M./UNICEF, September 1988; UNHCR, WFP Oslo Conference, "Report on Food Emergencies," August 1988.

The health of Mozambican children is closely linked to that of their mothers. Maternal malnutrition is a strong predictor of infant deaths within the first weeks of life. Women displaced by war are the most vulnerable to malnutrition, since they are seldom in a position to adequately provide for their own food needs or those of their children.

Large numbers of pregnancies with short intervals between births also take a toll on maternal health and contribute to high levels of maternal mortality (estimated at 260-300 per 100,000 births.) Most first births are to adolescent mothers, since the median age at first union is 17 years of age. Only an estimated four percent of all women of reproductive age use modern contraception. Births and abortions often take place in unhygienic conditions and without the assistance of health professionals or experienced midwives. Inadequate prenatal care also contributes to high maternal mortality. Sexually transmitted diseases are especially prevalent in centers of displaced people and pose an additional threat to both maternal and child health.

Since mothers are the most important health providers for their children, Mozambique's high maternal malnutrition, morbidity and mortality rates directly contribute to high levels of infant and child mortality. Mozambique has one of

the highest infant mortality rates in the world. In 1984, UNICEF calculated an IMR of 200 per thousand. The mortality rate for children under five years of age is estimated at between 325 and 375 per thousand — among the highest child mortality rates in Africa. In 1988 the principal causes of death among children less than one month old were premature births, asphyxiation and infections. For infants under twelve months, a large proportion of neo-natal deaths are caused by infectious diseases. Malnutrition, malaria and acute respiratory illness are the prime causes of death for children between one and four years of age.

All the major causes of morbidity and mortality in the youngest children are preventable or curable given access to timely and appropriate care. With regard to specific illnesses, the current situation is as follows:

Malnutrition

Malnutrition is the most common factor in child deaths in Mozambique today. Low birth-weight infants, frequently born to malnourished mothers, are especially vulnerable to peri-natal and neo-natal mortality. In some regions of Mozambique, 50 percent of children suffer serious nutritional deprivation. In Maputo City, more than a third of children are estimated to be suffering from chronic malnutrition. Studies in some rural areas indicate that 20 percent of families have no food reserves at all. Children from displaced families, those living in affected or recently liberated zones, and those in areas hit by drought or other natural disasters, are most likely to be malnourished. Malnutrition obviously weakens the child and complicates treatment of diarrhea, measles, malaria, acute respiratory infections and other disease.

Diarrheal Disease and Parasitic Infections

The greatest risk of death from diarrheal disease is for malnourished children under two years of age. Diarrhea is particularly prevalent in centers for the displaced, peri-urban areas without latrines, and newly liberated areas where water and sanitation services have been destroyed. The most vulnerable children are those without ready access to health services or whose mothers cannot provide effective oral rehydration therapy. Small-scale surveys of displaced households in several areas of the country show diarrhea as the main cause of death for children under one year of age.

Measles

Children of displaced families are especially vulnerable to measles, since they are more likely to be malnourished and suffering from diarrhea and vitamin A deficiency, and less likely to have been effectively vaccinated prior to displacement. The high population concentrations of camps for the displaced increase the risk of epidemics.

Malaria

Between 1985 and 1987, between two and ten percent of child deaths in Maputo Central Hospital were attributed to malaria, with a death rate of 7.3 percent during this period. A study carried out between 1986 and 1988 in Maputo showed that in areas not previously treated to control mosquitoes, half of the deaths of children under five years of age were attributed to malaria. Conditions are undoubtedly worse outside Maputo, but data are insufficient to form accurate estimates. Chloroquine resistance, documented in Mozambique since 1983, complicates treatment and raises the number of fatal cases.

Acute Respiratory Infections

Pneumonia and other respiratory infections are more likely to occur in areas of high population concentration, again seriously affecting children already weak because of malnutrition or other illnesses. For children under one year of age, the principal cause of death in Maputo Central Hospital is acute respiratory infections. The case fatality rate for acute respiratory infections, based on data from three provincial hospitals in 1987, was 38.5 percent.

D. Education*

At independence, Mozambique had one of the world's lowest literancy rates. In 1975, the GOM began to transform the national education system to undo colonial policy which had denied access to education to most of the country's indigenous population. Under the new Government, first level primary school attendance rose from 670,000 in 1975 to 1.4 million in 1980 -- a yearly increase of almost

*This section draws heavily upon UNICEF analysis, chapter 5 of "The Situation of Children and Women in Mozambique," November 1989.

16 percent over the period (compared to seven percent annual increases in other African countries). The net enrollment rate rose to over 50 percent by the early 1980s.

The rural insurgency brought this progress to a halt in 1984 and has eroded it gravely since then. About 45 percent of the primary school network has been paralyzed or destroyed. More than 2,600 schools have been closed. Half a million primary pupils and nearly 7,000 primary school teachers are immediately affected. The pupil/teacher ratio is now at least 60:1, and the educational level of teachers themselves is low. The net enrollment rate for second level primary education is only three percent. Educational expenditures, which averaged more than four percent of GDP from 1980 through 1984, fell to 2.3 percent of GDP in 1987 and probably lower since then. (See Tables II.6 and II.7.)

This downward trend will deteriorate further given the expanding numbers of school age children. The median age of the population is currently 17.4 years (compared with 18.5 years in 1960). In 1988, the school age population (7-13 years) represented 18 percent of the total population, about 2.5 million children. By 1995, the school age population will have risen beyond 32 percent of the total population, over 3.3 million children.

In 1990, about three million children under the age of 15 (about half the age group) are suffering from the immediate effects of war. Of these, 200,000 are considered seriously affected and are officially classified as "children in difficult circumstances." They include: handicapped children, traumatized or abused children, children in institutions, orphans or abandoned children, and street children. Only about 2,000 of these children are looked after in orphanages and provisional treatment centers. Government policy is to avoid institutional solutions as far as possible by placing children with families who can provide adequate food and shelter.

Because of the war, many children have witnessed violence, including the murders of their own families, or have in some cases even been forced to carry out such acts themselves. Security problems preclude assessing the real extent and dimensions of this problem, much less providing appropriate social and health

Table II.6

Key Education Indicators

Primary school enrollment rate:	52%
Primary school enrollment (boys):	60%
Primary school enrollment (girls):	44%
Completion of 4 years primary school:	10%
Adult Literacy:	38%
Adult literacy (male):	55%
Adult literacy (female):	22%

Table II.7

Expenditure on Education as a Percentage of State Recurrent and Capital Expenditure and GDP (1980 - 1987)

Expenditure/GDP	1980	1981	1982	1983	1984	1985	1986	1987
Recurrent	17.9	17.5	19.0	17.6	17.8	17.0	17.6	8.7
Capital	4.0	1.6	1.2	1.8	2.4	3.1	1.0	0.3
GDP	3.7	4.0	4.2	4.5	4.0	3.0	3.0	2.3

services. USAID assistance through the Save the Children Federation has been successful in treating over 540 traumatized children and reuniting over 2,400 children with their families over the past two years.

Female literacy, a GOM priority, has seen substantial improvement over the past fifteen years. At independence, female literacy among the African population was under five percent. By 1980, female literacy rates were still only half those of men (15 percent compared with 31 percent), but younger women were already more literate than older age groups. By 1985, female adult literacy had reached an estimated 22 percent, while male literacy stood at about 55 percent. Female literacy improves as one moves from north to south. Urban women generally are more literate than rural women (43 percent versus 11 percent); most rural women are not fluent in Portuguese and are therefore require instruction in traditional languages.

Adult education programs, a high education priority, taught nearly 500,000 Mozambicans to read and write between 1979 and 1987. However, because of the war, enrollments have dropped sharply in recent years, reaching a peak of 450,000 in 1981 and falling to only 83,000 in 1987. Other constraints are the difficulties created by a wide variety of traditional languages and the harsh conditions in which most rural women and men involved in subsistence agriculture live.

Government financing of education is clearly unsustainable. As in the health sector, real expenditure on education has fallen dramatically since 1981 (see Table II.7). Although over 60 percent of education expenditure is for teacher salaries, from 1980 to 1986 teachers and other staff saw the purchasing power of their incomes fall by almost 70 percent. In 1984, the cost of training one teacher was approximately seven times greater than the average national per capita income. The cost of a university education was 32 times more.

Mozambique's only university has significant numbers of high level non-teaching personnel, creating high central administrative costs, particularly in the Arts and Sciences. Attendance fees are very low in real terms. Given that most university students come from better-off families, this effectively represents a large subsidy to those considerably less vulnerable than the urban and rural

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poor. However, the country urgently requires skilled manpower in all sectors; and some disproportionate level of financing for the university is inevitable. It will be impossible to extend primary education, train more teachers and rebuild the schools system, without strengthening higher education as well.

E. Population Pressures*

1. The Current Demographic Profile

1989 population estimates show a young population, growing rapidly in spite of high death rates and what may be a somewhat depressed birth rate, due to the war and the unsettled conditions in the countryside. Nationally representative population data has not been collected in Mozambique since 1980. The 1990 census will be delayed at least until the end of 1991.

Mozambique faces a serious population problem, not because of the absolute size of the population (which has potential access to 15 million hectares of arable land), but because of the rapid rate of population growth and the "artificial pressure" created by the RENAMO insurgency which has displaced millions of the rural poor into cities, towns and refugee camps -- depriving them of access to land, potable water, social services, employment and secure food supplies -- so that they must survive in conditions of absolute poverty and dependence.

In 1980, when the population of Mozambique was three million less than current estimates, the population profile showed concentration in the younger age groups, yielding a high dependency ratio and exerting strong pressure on basic health and education infrastructure. Even with a gradual decline in birth and death rates, the population will grow exponentially -- doubling in size within 27 years. Half of the population will remain under the age of 18 through the year 2000. The profiles in Figure II.1 graphically represent these projections. (See Annex D for assumptions underlying Figure II.1.)

Since 1980, widespread rural insurgency has distorted demographic patterns in a number of ways: increasing infant mortality to unprecedented levels (UNICEF

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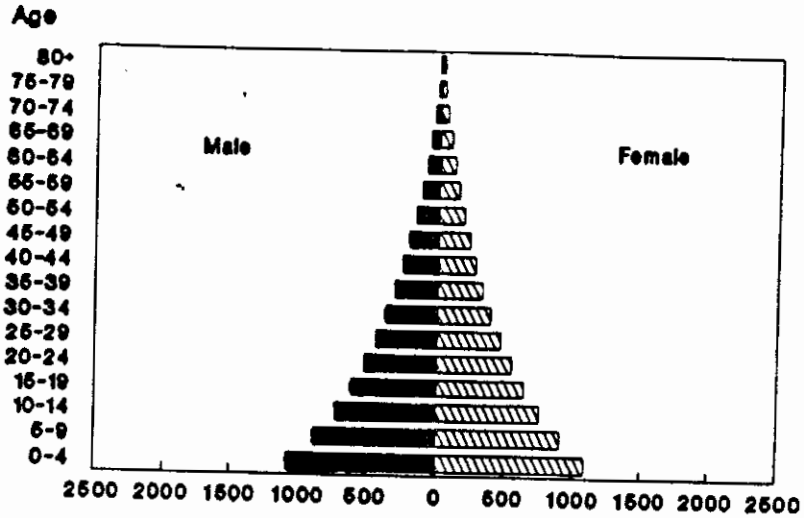
*This analysis draws heavily on work by the Population Reference Bureau (Washington, DC), the U.S. Census Bureau and M.L. Rodriguez for UNICEF.

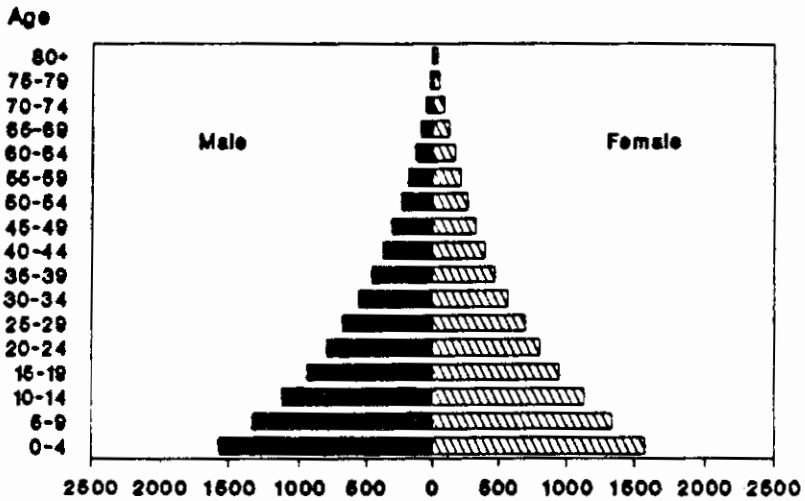
FIGURE II.1

Population of Mozambique, by Age and Sex: 1980



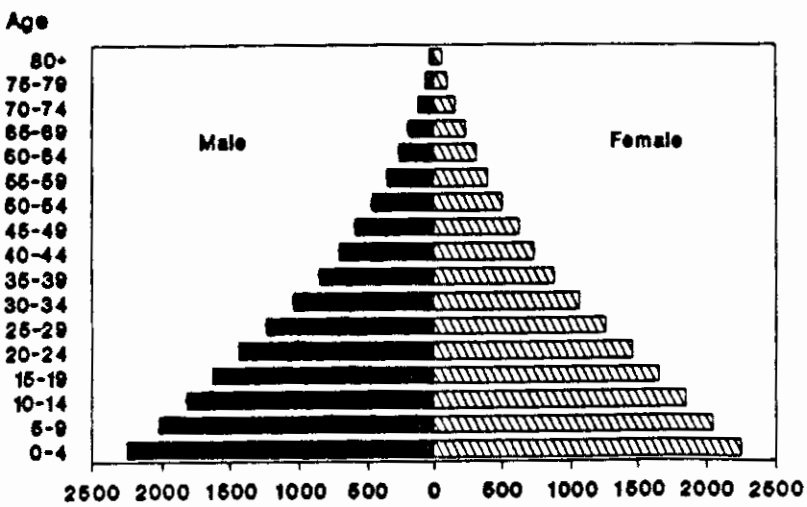
Source: U.S. Bureau of the Census, International Data Base, table 94.

Population of Mozambique, by Age and Sex: 2000



Source: U.S. Bureau of the Census, International Data Base, table 94.

Population of Mozambique, by Age and Sex: 2020



Source: U.S. Bureau of the Census, International Data Base, table 94.

estimates 200/1000); greatly increasing child mortality (UNICEF estimates the mortality rate at 375/1000 for children under five -- one of the highest rates in the world); increasing the maternal mortality rate to between 200 and 300 per 100,000 births; and depressing the birth rate an unknown amount by separating families for long periods of time.

Overall, the insurgency has displaced about a third of the population both internally and into neighboring countries (see Tables II.8 and II.9). The effect has been to:

- expand the urban population by at least 30 percent (1,000,000) more than would have been otherwise expected;
- flood the unskilled labor market, draining government resources for basic services;
- create chaos in every province so that, on average, 30 percent of the population has either been uprooted or otherwise directly affected by the war; and
- force over 1.2 million people into exile in neighboring countries.

2. The Near Future: 1995

Assuming no improvement in security conditions and assuming refugees do not return to Mozambique, the most vulnerable population groups will continue to include large numbers without access to health care, education and other social services. UNICEF estimates that by 1995 there will be:

- 605,200 children aged 0-11 months (3.7 percent of the total population);
- 2,805,200 children aged 0-4 years (17.3 percent of the total population);
- 2,982,600 school-age children (7-13 years, 18.4 percent of the total population);
- 3,127,400 young people (15-24 years) entering the workforce (19.3 percent of the total population); and
- 3,536,800 women of reproductive age (15-44 years, 21.8 percent of the total population).

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TABLE II.8

Resident Population (1,000 inhabitants)

PROVINCE	1980	1988		1990		1995		AREA
		N	E	N	E	N	E	
MAPUTO - CITY	755.3	929.8	1,047.4	979.4	1,143.8	1,425.4	1,425.4	602
MAPUTO - PROV.	491.8	605.4	420.7	637.9	441.6	873.7	498.4	25,756
GAZA	990.9	1,219.8	1,043.0	1,284.6	1,094.8	1,409.7	1,235.6	75,709
INHAMBANE	997.6	1,228.1	1,095.7	1,293.7	1,150.1	1,447.1	1,298.1	68,615
SOFALA	1,065.2	1,311.3	1,259.1	1,381.6	1,321.6	1,543.3	1,491.6	68,018
MANICA	641.2	789.3	723.6	831.2	759.5	923.7	857.3	61,661
TETE	831.0	1,023.0	867.1	1,076.9	910.1	1,213.9	1,027.2	100,724
ZAMBEZIA	2,500.2	3,077.8	2,594.6	3,241.8	2,723.3	3,619.5	3,073.7	105,008
NAMPULA	2,402.7	2,957.8	2,869.1	3,117.4	3,011.4	3,493.4	3,398.8	81,606
CABO DELGADO	940.0	1,157.2	1,122.8	1,219.8	1,178.5	1,372.9	1,330.1	82,625
NIASSA	514.1	632.9	479.3	666.6	503.1	751.4	567.8	129,056
COUNTRY TOTAL	12,130.0	14,932.4	13,522.4	15,730.9	14,237.8	18,074.0	16,204.0	799,351
URBAN AREAS	1,600.0	2,009.0	2,981.2	2,126.8	3,255.5	4,057.0	4,057.0	
RURAL AREAS	10,530.0	12,923.4	10,541.2	13,604.1	10,982.3	13,817.0	12,147.0	

Note: N = Normal
E = Estimates discounting refugee and displaced movements and estimated war-related deaths (Gersony Report)

TABLE II.9

Distribution of Affected, Displaced, and Refugees (1988)

PROVINCE 1	POPULATION 2	AFFECTED 3	DISPLACED 4	REFUGEE 5	SUB-TOTAL 6=(3+4+5)	% (6/2) 7	% 8
MAPUTO	1,618.1	205.0	124.0	139.8	468.8	29.0	10.4
GAZA	1,190.0	379.3	65.2	129.8	574.3	48.3	12.7
INHAMBANE	1,221.6	505.3	61.6	108.3	675.2	55.3	14.9
SOFALA	1,302.8	143.0	83.6	24.9	251.5	19.3	5.6
MANICA	779.7	168.5	74.5	44.8	287.8	36.9	6.4
TETE	1,024.7	228.5	65.5	142.8	436.8	42.6	9.7
ZAMBEZIA	3,055.4	164.3	381.8	416.7	962.8	31.5	21.3
NAMPULA	2,948.9	281.1	117.5	37.3	435.9	14.8	9.6
CABO DELGADO	1,158.9	106.0	88.0	19.5	213.5	18.4	4.7
NIASSA	634.2	38.0	29.5	145.9	213.4	33.6	4.7
TOTAL	14,932.4	2,219.0	1,091.2	1,209.8	4,520.0	30.3	100.0

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Should there be an end to the war, the subsequent return of refugees will cause the vulnerable population groups to increase further. For example, if returning refugees were included, there would be 3,302,400 children aged between seven and 13 years in 1995. The return process has, in fact, already begun. Between April 1988 and September 1989, 200,000 refugees returned to Mozambique from neighboring states, including: 100,000 to Tete from Malawi, 25,000 to Maputo from South Africa 20,000 to Niassa, 10,000 to Zambezia, and 20,000 to Manica, Gaza and Sofala provinces.

3. Population Policy

There is some indication that the Government has begun to consider rapid population growth a serious problem. In July 1989, the Fifth Party Congress discussed the need for a national population policy, citing the pressure of displaced people on urban food supplies and social services as well as growing unemployment levels and social disorganization. The Congress remarked that absence of a population policy is, in itself, a policy, with consequences which include acceptance of a doubling of the population every two to three decades with increasing poverty.

In the absence of current census or national survey data, it is difficult to begin policy planning. Without widespread availability of family planning services supported by mass media and community-based education programs, it is difficult to affect high fertility rates. However, the government seems ready to consider the broad outlines of a national population policy with perhaps some experimentation with pilot approaches to child spacing and fertility reduction.

F. Implications for Sustainable and Broad-Based Growth

1. Growing Dependency and Poverty

As long as the war continues in Mozambique, there is little prospect for sustainable and broad-based growth. Although economic reforms and donor assistance have reversed previously negative growth rates, the base levels are so low that even growth of four percent has had little impact on the quality of

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life for most Mozambicans. Security problems preclude the rural majority from taking advantage of improved economic incentives and limit access to raw materials, a key attraction to potential foreign investors. Annual population growth rates of 2.6 percent mean that government resources will be increasingly unable to meet the demand for education and health services. Import requirements to maintain positive growth are high and growing, yet so are requirements for emergency assistance. Dependency on foreign aid, at least for the foreseeable future, is likely to increase.

Meanwhile, the income of both the urban and rural poor has declined in real terms over the last few years, as prices have risen, unemployment increased, and the security situation adversely affected rural production and marketing potential. The net result is that over half of the population is facing serious food deficits in relation to need, and almost 35 percent of the population currently depends on foreign aid for subsistence. Latest available data indicate that per capita income in 1988 was less than $150 per year, and that about 65 percent of the population is living in absolute poverty.

As can be seen by the statistics given throughout Section II, the quality of life for both the urban and rural poor has worsened as access to education, employment, basic health and other social services has declined. General living conditions have deteriorated as shelter, sanitary facilities and clean water become harder to find, and access to preventive and medical services decreases. Controllable diseases, such as diarrhea, measles, malaria and intestinal parasites are rife, and infant and childhood malnutrition remain at seriously high levels. At least 20 percent of residents in urban areas do not have access to any form of sewage system, and only 35 percent of urban dwellers have access to safe water. The situation is somewhat better in rural areas, where access to some form of clean water is greater, and population densities less, but serious problems are faced in overcrowded accommodation centers and informal peri-urban centers. In addition, quality of life has been seriously eroded by trauma of war and by the stress of living in life threatening conditions.

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Natural resource sustainability and biological diversity have hitherto not received the attention they deserve, largely due to the emergency situation which has necessitated concentration of attention and resources on meeting humanitarian needs. Mozambique has abundant land, natural resources and mineral deposits, and an extensive coastline. However, development of these resources must be cautiously regulated if they are not to be over exploited. Access to many areas has been limited due to the security situation, and thus environmental problems have not yet arisen. There is, however, a real danger of deforestation and land overuse around settlements and accommodation centers, and any resettlement of displaced persons and returning refugees must be carefully planned to minimize land degradation.

2. Deteriorating Urban Conditions

The World Bank estimates that during the period 1970-1985 the urban population grew by 175 percent to 2.2 million, and that the annual growth rate in Maputo is eight percent. Current estimates of urban populations are imprecise, but indicate a possible three million inhabitants in the greater Maputo area, and possibly as many as 400,000 in Beira. The majority of recent arrivals lack marketable skills for an urban environment and few, if any, resources to fall back on.

The urban poor have suffered a decline in real incomes as price increases since 1987 have outstripped rises in income, making more households vulnerable to absolute poverty and food insecurity. In the period from January 1987 to February 1989 prices of rice, maize meal, maize and sugar rose by between 1500 and 2000 percent, forcing people to spend more of their income on food, placing such staple foods beyond the access of the poorest, and increasing the numbers of absolutely poor urban households. The 1988 Maputo household survey found that average household food expenditures amounted to over 60 percent of income, and that, when fuel and water costs were added, the lowest income groups spent approximately 85 percent of income meeting nutritional requirements. In 1989 a GOM/UNICEF sponsored study indicated that a median monthly salary of Mt 32,000 (about $16 at the parallel exchange rate) was required to sustain an urban family of eight above the absolute poverty level. Figures from the GOM Ministry of Commerce indicate that in late 1988 the median monthly salary of Maputo workers was Mt 20,468, while the minimum wage was Mt 17,000 per month.

Table III.1

1989 Food Aid/Emergency Requirements and Pledges

	Requirements	Pledges
Cereals	816,000MT	440,000MT
Non Cereals	151,000MT	41,000MT
Logistics	$62.8million	$11.9million
Road Rehab	8.7million	0.2million

TABLE III.2

Financial Gaps & Donor Assistance
(millions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991
A. Current Account & Amortization	-801	-814	-719	-958	-1060	-1209	-1273	-1351	-1397
B. Loans and Grants	429	433	378	497	605	722	817	912	1005
- Disbursements:									
Grants	90	168	139	213	304	372	443	511	576
[illegible]	[illegible]	[illegible]	[illegible]	284	301	350	374	401	429

Given such disparity between incomes and necessary expenditures, access to a vegetable plot, informal income or remittances are often the only chance households have of alleviating a precarious food security situation. The ration system which operates in Beira and Maputo was designed to ensure equitable access to staple commodities, but often the very poor are the least able to benefit, as they lack sufficient income to purchase allotted quantities, and the most vulnerable, newly arrived displaced persons, are outside of the system.

Although the urban poor face chronic poverty, those persons on the outskirts of urban centers are probably worse off. They encounter many of the problems of both the urban and rural poor without access to the limited means of support available to either of those groups. Some communities in the green zones surrounding urban centers at least have access to land and hence food and income, but the poorer segments of such communities and recent arrivals generally lack either sufficient land or adequate inputs to contribute significantly to household requirements.

Accurate data on urban unemployment and participation in the economy do not exist, but it is clear that employment in the formal sector has decreased markedly in recent years as the formal sector has itself shrunk, while participation in the informal sector has increased. The extent of employment or income generated by the informal sector is unknown but people generally do not have access to credit or inputs to establish sustainable ventures. Massive influxes of largely unskilled and poorly educated people have resulted in a sharp rise in the number of unemployed. Recent estimates in Maputo indicate a 48 percent unemployment rate among the available working age population (18 years and over). A survey conducted in 1988 by the GOM Ministry of Labor found that only 46 percent of the survey population was employed in either the formal or the informal sector and that the situation was worse in female-headed households. Given the lack of opportunities for self-provisioning in urban areas, such high levels of unemployment present a grave socioeconomic problem.

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3. Rural Poverty

In rural areas, off-farm employment opportunities have always been limited, but both these and agricultural employment have declined drastically, largely due to the insurgency, but also because of the breakdown in transport and trading networks. Decreased opportunities for employment in South Africa as a result of cutbacks in the number of Mozambicans employed in the mines since 1985 and expulsions of agricultural workers since 1986 have primarily affected rural populations in the south of the country. Drought and the insurgency have devastated areas where livestock was a major income source. Marketing of cotton and cashews declined over 50 percent in the period 1980-1986, and income generation opportunities from production and sales were adversely affected by the breakdown of trading networks.

The lack of a functioning market economy in most rural areas has exacerbated the food security situation of the rural poor, as the insurgency and natural disasters have also reduced the capacity for self-provisioning. It is estimated that 30 percent of the population who in normal conditions would be self-reliant are now dependent on food aid or commercial channels for 60-70 percent of food needs. In addition, given the size of land holdings in the family sector (estimated at less than two hectares) it is likely that many rural households are net purchasers rather than net producers of food and that a large percentage of household income is spent on subsistence. Those living in accommodation centers and displaced persons living in informal settlements close to secure zones are probably in the worst situation, as most often their means of earning a living are entirely gone, and they are dependent on free food. Although some displaced people have access to about a half hectare of land, and therefore can grow food, they generally do not have adequate land or inputs to meet their requirements.

4. Implications for an Assistance Strategy

The potential achievements of any assistance strategy will be limited under the constraints to sustained growth which currently exist in Mozambique. In the long term, sustained development depends both on the reconstruction of the agricultural base in order to produce food and cash crops, and curtailing rapid population growth, particularly in urban areas. However, this is impossible as long as the insurgency continues. Substantial emergency assistance will be

necessary until there is some settlement of the conflict, and afterwards throughout the period of reconstruction. Under current conditions modest growth could continue for some time. Labor-intensive job creation schemes and improved production and marketing opportunities could, in secure areas, contribute to revitalizing the economy. However, none of these will be possible without considerable and increasing donor support. The following section provides an analysis of donor assistance programs and levels in Mozambique.

SECTION III

DONOR AND GOVERNMENT RESOURCES ADDRESSING DEVELOPMENT CONSTRAINTS

A. Overview of Donor Activity

For the period 1990-1993, the World Bank estimates the gross external financing requirements for Mozambique to average about $1.4 billion per year. This projected level of financing would support annual GDP growth of four to five percent and would allow for a modest increase in per capita consumption of about one percent per year. Grant inflows would have to increase from $468 million in 1990 to $560 million in 1993, averaging $532 million per year over that period. Concessional, medium and long term loan inflows would grow from $397 million in 1990 to $460 million in 1993, or about $430 million per year on average. In summary, grant and loan disbursements should amount to about $960 million per year on average during the 1990-93 period. In addition, annual debt relief would average about $310 million. This leaves an annual financing gap of about $130 million.

Financing requirements for the emergency programs (including monetized food aid) are not included in the above estimates. However, it is clear that emergency requirements affect the Government's overall financial position. Both the emergency program and the Economic Rehabilitation Program finance imports,

and shortfalls in financing one program would affect the other. Donor pledges for the 1989-90 emergency program (as of 15 December 1989) are running far behind the Government's estimated food import and logistics requirements, as shown in Table III.1.

Between 1980 and 1988 Mozambique received approximately $1.4 billion in grants (disbursed) and $3.2 billion in loans (disbursed). As shown in Table III.2, grant assistance increased consistently during this period. Total concessional assistance is estimated to have increased further in 1989 to approximately $818 million. The grant component of this amount, $440 million, represents more than a doubling of grant assistance since 1986, the year before the Economic Rehabilitation Program was launched.

1988 is the last year for which donor and sector specific details (compiled by the U.N.) are available. Bilateral donors accounted for the largest portion of grant aid ($207.3 million or about 56 percent). As in prior years, Italy, the Soviet Union, the United States and the Nordic countries were the largest donors -- followed by the Netherlands, the United Kingdom, Canada and France. (See Annex I for a summary of bilateral assistance programs.) Multilateral grant assistance was approximately $130.3 million. Non-governmental organizations provided approximately $34.4 million.

Technical assistance amounted to $167.7 million as compared with $159.3 million in 1987 and $109.2 million in 1986. Technical assistance was concentrated mainly in the following sectors: agriculture, forestry and fisheries (23.4 percent); transport and communications (21.2 percent); education (17.2 percent); and industry (9.2 percent).

Capital assistance totalled $195 million, representing 19.3 percent of total aid. Bilateral donors provided $191 million of the total. The major bilateral donor of capital assistance was Italy, followed by Sweden, Norway, the Federal Republic of Germany, the United Kingdom and Denmark. Most bilateral capital assistance was provided in grant form. The World Bank was responsible for 91.4 percent of the multilateral capital flows.

Capital assistance was concentrated mainly in the agriculture, industry and transport sectors. In order to stimulate agricultural recovery, external assistance was used to provide essential machinery, equipment, spare parts, tools, seeds, extension services and rehabilitation of infrastructure. In the industrial sector, external capital support concentrated on rehabilitation of physical productive facilities and increase of capital utilization by provision of imported inputs. In the transport sector, the overriding concern was with rehabilitation of ports and railways linking Mozambique with neighboring countries.

Program aid and balance-of-payments support amounted to $359.6 million in 1988. Again, bilateral donors provided the major portion (81.8 percent of the total). Leading contributors were the Federal Republic of Germany, Sweden, the World Bank, the Netherlands, the United Kingdom and the United States.

Emergency relief contributions amounted to $287.8 million in 1988. Major bilateral donors included the United States, the European Community, Italy, Canada and Sweden. Multilateral assistance was provided by the WFP, UNICEF, UNHCR and FAO. Commodity assistance during 1988 amounted to $295.4 million, of which 82.3 percent was provided by bilateral donors and 10.0 percent by multilateral organizations. The food aid component of this amount totalled $192.2 million.

B. Overview of Government Budget Priorities

The security situation dominates the GOM's own budget priorities. Of a total of Mt 222.1 billion budgeted for 1989 recurrent expenditures, almost half, Mt 94.9 billion was allocated to defense. Of the remainder, Mt 33.1 billion was required for wages and salaries, Mt 32.1 billion for purchases of goods and services, and the remainder on interest on public debt and consumer subsidies. At this point, the GOM's investment budget is entirely funded by donors and thus, to a considerable extent, reflects donor priorities rather than the Government's own. Nonetheless, it is possible to discern a pattern of GOM priorities in its selection of projects and other activities.

In the transportation sector, the GOM has given highest priority to the rehabilitation of railroads. These were a major foreign exchange earner in the pre-independence period and the Government's severe shortage of foreign exchange undoubtedly accounts for the high priority accorded to them now.

In agriculture, the Government has moved quite far from its position at the beginning of the decade, when state farms received all attention and the private sector was tolerated at best. However, the GOM still accords considerable priority to the support of "efficient" state farms, while recognizing that these may be few in number. Investment ideas are still oriented around the kind of irrigated, "high tech" agriculture which the state farms represented. As a consequence, the GOM is still considering a number of large irrigation programs for eventual financing, even as existing systems are falling into ruin due to lack of maintenance.

Immediately after independence, the GOM devoted major efforts to the expansion of basic health and education services to the bulk of the population. One consequence of the insurgency has been the inability to sustain this expanded system. The GOM has had to choose between repair of damaged facilities and the meeting of recurrent costs. In fact, funding for neither activity has been adequate.

There is a final group whose potential activities could become important determinants of growth -- private investors, especially foreign private investors. Although new foreign investment has been minor because of the insurgency, certain foreign concerns have expressed continuing interest in investing in Mozambique. These have included the British-owned Lonrho Group as well as various groups of South African and Portuguese investors. Other foreign direct investors are potentially interested in export processing zones. The potential scale of any of this activity is difficult to judge but, in the event of an end to the insurgency, could be substantial.

SECTION IV
A.I.D.'S EXPERIENCE IN ADDRESSING THE CONSTRAINTS TO GRWOTH

USAID is a recent entrant in the Mozambique development process. There were PL-480 Title I Sales Agreements in the early 1980s, but little is known about their development impact. A cyclone (Desmonia) in 1982 resulted in the destruction of the Maputo Water Plant, and an OFDA grant made to restore it helped improve the political climate between Mozambique and the U.S. When, in 1984, the first grant for the Commodity Import Program was signed, the Mozambican economy was at its nadir, the drought was in its early stages, and the Government had just begun a process of political and economic liberalization that included membership in the IMF and IBRD and a move away from Marxist-Leninist philosophy.

The U.S. strategy at the time was not articulated in current A.I.D. terminology, but the seeds of the present strategy can be seen. Beginning in 1984, the CIP provided a wide range of agriculture sector inputs, including rural incentive goods, for Gaza and Maputo provinces. These inputs, together with liberalized pricing and marketing of vegetables, led to a rapid revival of the volume, quality and variety of agricultural produce to reach the market place in Maputo city. The success of this effort was thoroughly documented in an evaluation done by the World Bank and published in their Agricultural Sector Survey (1988).

At about the same time as the CIP began, a virtually nationwide drought decimated rainfed agriculture, and hunger and starvation led to a multi-donor emergency program, in which the United States characteristically took about a third of the food gap burden, and encouraged (and funded) U.S. PVOs to take an active part in alleviating the suffering. Effective response to the emergency was severely impeded by the armed conflict between RENAMO and the Government.

The insurgency is characterized by brutality, pervasiveness, and rapidly shifting "fronts" or foci of attack. Human rights abuses, predominantly by RENAMO, were documented in the Gersony Report (1988), which details murder, mayhem, mutilation, rape, abduction, and starvation. RENAMO also inducted

children into its cadres, and often forced them to kill family members and others. Those that managed to escape were found to be severely traumatized, requiring extensive pyschological treatment.

Words on paper cannot begin to convey the state of near continuous convulsions now experienced throughout Mozambique. Only the provincial capitals retain some sense of normalcy, and even they have been afflicted by massive overcrowding and unemployment due to war-induced immigration. Development efforts are hunkered down. The costs and risks of war have distorted locational and design decisions. The urban population has doubled in half a decade as people flee there to find relative security.

FFP, OFDA and scores of other donors have been generous in providing food, seeds and simple implements, and curative health services, and more normal rainfall has helped deslocados eke out some home grown food to supplement emergency rations. While the outlook for peace is now better than at any time since 1984 (when the last GOM/RENAMO talks broke down) there must be no misunderstanding the fact that the plight of millions of human beings in rural Mozambique is desperate, and that the human as well as financial costs of merely achieving the status quo before the war will be staggering.

Of course, A.I.D. is just one of many donors in Mozambique. Even if the program is A.I.D.'s largest in Sub-Saharan Africa (counting food, ocean transport, SADCC and DFA), A.I.D. is only the fifth ranking donor to Mozambique. Nevertheless, USAID's leadership is significant, not only in the private sector and agriculture, but in terms of the U.S. response to the emergency and the provision of monetized urban food supplies, to poise the country for market-based recovery when security so permits. A pilot child survival project is testing how to add a preventive dimension to curative health delivery systems, which will continue to dominate health services even after the insurgency ends. Through CARE, USAID has helped establish a government emergency response agency virtually from scratch. It is a system still being extended but gradually getting controls and accountability grafted on to an emergency response machine that grew out of rapid, ad hoc multi-donor infusion of food, transport, and other goods. The major U.S. food PVO, World Vision, is now shifting from sheer emergency food provision to targeted feeding, together with health and small works components, in the pivotal Zambezia Province.

USAID's experience to date has demonstrated that, even with the vast constraints facing the Government, donors and the private sector, foreign aid has helped save untold human lives in Mozambique. However, the lasting nature of these contributions must be qualified given the inevitable orientation to emergency needs and Mozambique's profound dependence on donor assistance. The extent of impact is, furthermore, virtually impossible to quantify as there are no means to measure lives saved and, with the insurgency and massive population movements, even assessing impact on nutrition is dubious. For the future, it is certain that efforts must continue to address the emergency. Two lessons that can be built upon are:

1. emergency interventions can be made more developmental in nature by rethinking the means of program implementation and the incentives they give to private producers and traders. In the past, such analysis was an unaffordable luxury that drained non-existent time from emergency implementation; and

2. when there are minimum conditions of security, the policy environment strongly influences economic behavior.

The following section seeks to apply these lessons to a strategy that is mindful of reality yet strives to take the program forward in making a long-term contribution to sustainable and broad-based growth in Mozambique.

SECTION V
PROPOSED COUNTRY ASSISTANCE STRATEGY

The A.I.D. program in Mozambique reflects U.S. support for the GOM's commitment to economic reform as well as our concern for the vast human suffering engendered by war. Total U.S. economic assistance to Mozambique in FY1990 is estimated at $100 million. This includes development assistance, food aid and SADCC funds. At present, Mozambique is A.I.D.'s largest program in Sub-Saharan Africa.

Mozambique faces one of the most difficult development challenges in Africa. Severe financial pressures and frank assessment of failed past policies led the Government to implement economic reform programs with World Bank and IMF support. Like other African states, Mozambique has suffered the inevitable austerities associated with stabilization and the political consequences of shifting power balances in the course of structural adjustment. Its efforts have reversed the negative growth rates that characterized most of the 1980s.

Mozambique also endures the compound effects of a decade-long insurgency that has cost hundreds of thousands of lives, destroyed physical and economic infrastructure, and created social dislocation that will plague the country for decades after it achieves peace. The emergency in Mozambique is not transitory. Each year, emergency needs become more difficult to address as roads, bridges and health posts are destroyed faster than they can be rehabilitated, urban unemployment and overcrowding rapidly increase, and the human and institutional infrastructure dealing with the emergency grows more and more overstretched.

This section outlines A.I.D.'s assistance strategy in Mozambique. It first establishes a "programming framework" which specifies underlying assumptions. Immediately following is a discussion of the program goal and strategic objectives. Each strategic objective is then presented in further detail, including a discussion of the targets and sub-targets that will lead to its attainment and benchmarks that reflect program progress. Subsequent sections consider targets of opportunity -- activities outside the program's strategic framework which the Mission has pursued or proposes to explore further. The section closes with a brief analysis of how the program strategy would change with improvement or deterioration in the security situation.

A. Programming Framework

1. Time and Policy Assumptions

This strategy paper covers the three-year period from FY 1990 to 1992. The volatile security situation precludes further extrapolation. The strategy also assumes the GOM will continue to implement an economic reform program with the World Bank and IMF. An Enhanced Structural Adjustment Facility is currently under negotiation for the 1990 - 1993 period and should be approved in April 1990.

2. Security

The security situation is assumed to remain unchanged during the planning period. Specifically, this means the current insurgency will continue to disrupt normal economic activity and exacerbate the vast social problems discussed in Section II. Even if a formal peace agreement is reached in 1990 or 1991, a major share of the population will remain dependent on imported food aid for some time to come. Physical infrastructure will continue to deteriorate. Transportation will be difficult. The strategy also assumes, however, that, under any foreseeable scenario, secure pockets conducive to productive private investment will persist and that provincial and some district capitals will remain accessible and secure. It also assumes USAID staff will be able to travel by air to district capitals to monitor program impact and implementation.

3. Manageable Interests*

The insurgency makes it difficult to predict which strategic objectives will remain within the Mission's manageable interest. In the past two years, for example, unpredictable security shifts have required a major investment in food airlifts, draining scarce resources from other more lasting rehabilitation activities. Deteriorating security could also diminish the impact of policy reforms and preclude meaningful analysis of appropriate policy directions. The proposed strategic objectives reflect an attempt to recognize real constraints without fixating on a set of manageable activities which do not address real needs or their root causes. The objectives take into consideration the Mission's full range of resources: development assistance, food aid, and extensive staff time devoted to donor coordination and policy reform. By definition, both donor coordination and policy reform require dialogue and persuasion and elude direct control, yet this is a necessary tradeoff in developing a program that attempts to achieve significant socioeconomic change in an unstable environment.

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*The concept of manageable interest is taken from 89 State 283555 and is applied solely to strategic objectives. The program goal and sub-goals are outside of the Mission's manageable interest.

4. Necessary and Sufficient Conditions

USAID has analyzed the necessary and sufficient conditions to achieve the proposed strategic objectives in the context of current economic realities. Mozambique is well within its production possibility frontier -- partly due to war, partly due to a legacy of misguided policies that led to economic centralization and financial bankruptcy. Under these circumstances, basic policy changes and the supply of production inputs can, in the strategy timeframe, significantly push the country closer to its productive capacity. The current conditions necessary and sufficient for growth are elemental. Over time, interrelationships among policies, technologies and institutional capacities will grow more complex, requiring tighter analysis based on more precise information on social and economic behavior. During the strategy period, the Mission will have to develop greater information gathering and monitoring capacity in order to continue to support a process of sustainable and broad-based growth.

5. Benchmarks

Current information gaps often preclude establishing quantitative program benchmarks. Mozambique has only rudimentary statistical capabilities. The war further obstructs systematic data collection. The Ministry of Agriculture, for example, does not have systems to collect price data, forecast production or assess farmer income. Recently, the Ministry of Commerce, in conjunction with UNICEF and EEC, conducted small-scale household surveys in five provinces. Analysis is still underway, but, given the sample size, extrapolation will be difficult. Health data are generally linked to specific projects, and even these are difficult to interpret given massive and continual population shifts. In the emergency programs, rapid delivery has understandably taken precedence over data collection and analysis. In light of the above, some program benchmarks can be specified solely as topics or indicators to be monitored, rather than as specific changes expected from the program. Section VI discusses plans to develop data collection capacity and provide a basis for increasing the quality of assessment and planning.

B. Program Goal and Objectives

Figure V.1 summarizes the interrelationships among the program goal, two subgoals, and the strategic objectives that support these subgoals. It also indicates the program targets and sub-targets which the Mission will pursue to achieve its strategic objectives.

USAID's program goal is food security:

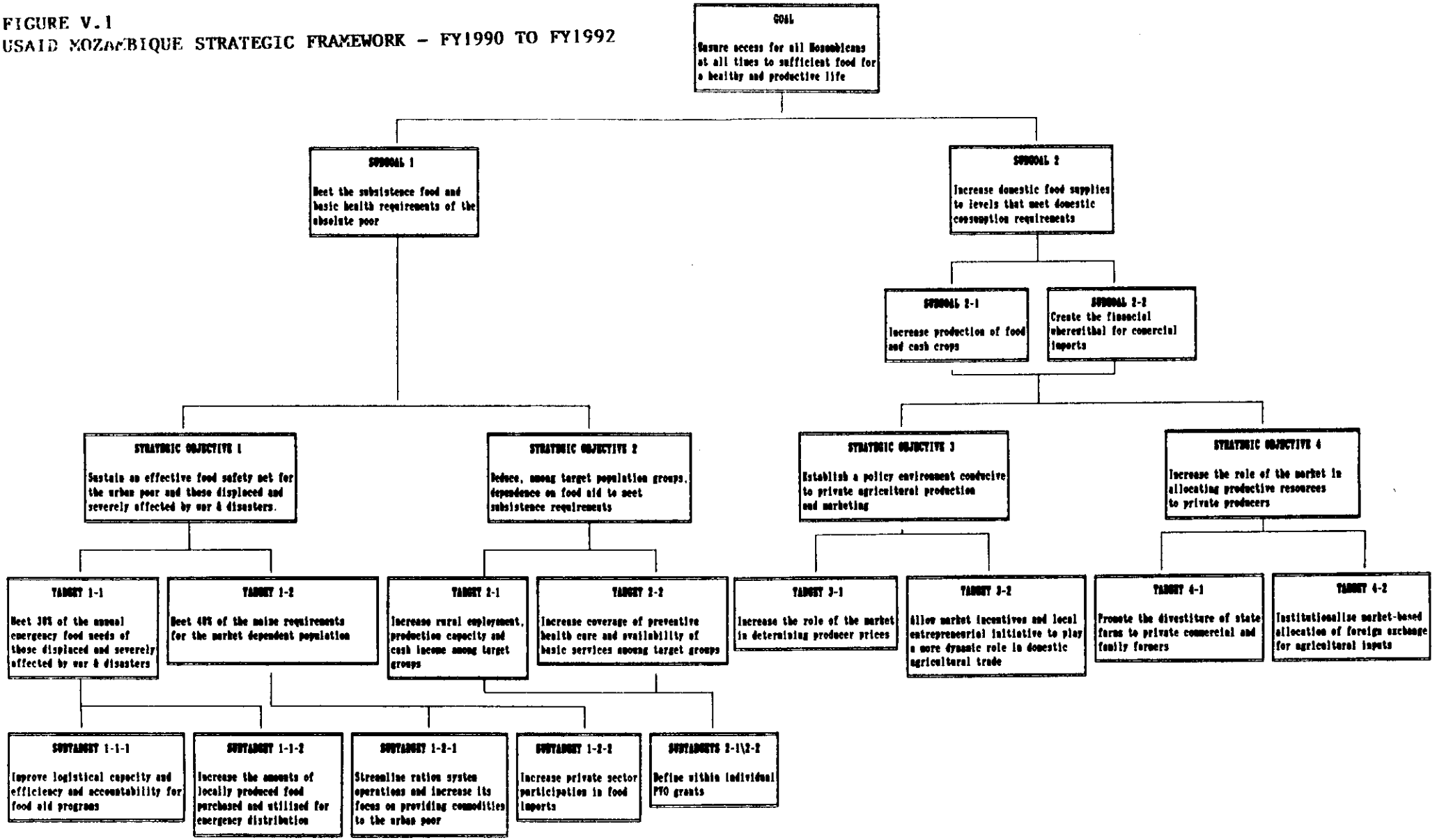
> **Program Goal:** Ensure access for all Mozambicans at all times to sufficient food for a healthy and productive life.

In Mozambique's crisis environment, food dominates other issues, cutting across all sectors and affecting the country's political viability. Many donors have joined to help meet Mozambique's vast food deficits. The United States can and has played a pivotal role with obvious immediate impact on human life and with hopes of contributing to a viable, market-based economy.

Achieving food security will take decades and require the concerted efforts of the Government of Mozambique and its donors. At present, war profoundly affects the scale of human needs and the strategies that can be taken to address them. If widespread insurgency were not driving urban and rural poverty, a food security strategy would revolve around increasing domestic food supply and resuscitating effective demand. Indeed, the relationship among food needs, availability and consumer purchasing power are central to the food security equation in Mozambique. Yet it is primarily the insurgency -- not technology, land and policy -- that currently precludes Mozambicans from feeding themselves, either through their own production or by purchasing food. Once Mozambique is at peace, the binding constraints on production and income will assume a more developmental nature, requiring a refocusing of food security strategies.

USAID's food security strategy for the CPSP period explicitly recognizes that the insurgency is the principal cause of poverty and food insecurity throughout most of the country. Until the war can be resolved, and for a period afterwards, direct relief efforts will be essential. When security conditions

FIGURE V.1
USAID MOZAMBIQUE STRATEGIC FRAMEWORK - FY1990 TO FY1992



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permit, relief programs must phase into rehabilitation and development initiatives -- both to induce production throughout secure areas, and to establish a sound base for sustainable growth in a post-insurgency period. Two program subgoals reflect these dual demands of a food security strategy:

Subgoal 1: Meet the subsistence food and basic health requirements of the absolute poor.

Subgoal 2: Increase food supplies through production and trade to levels that meet domestic consumption requirements.

Subgoal 1 provides the focus of USAID's emergency programs. The GOM has defined absolute poverty as the level of income below which growth faltering in children is common or at which the cost of the basic monthly food ration (60-70 percent of caloric requirements) accounts for 50 percent of income. Whether in rural or urban areas, the absolute poor lack the income or productive means to provide for themselves and are highly susceptible to malnutrition and disease. The war, moreover, precludes migration to areas of greater opportunity. Two strategic objectives seek to address rural and urban food needs and facilitate the transition to social and economic rehabilitation:

- **Strategic Objective 1:** Sustain an effective food safety net for the urban poor and those displaced and severely affected by war or natural disasters; and

- **Strategic Objective 2:** Reduce, among target population groups, dependence on external food aid to meet subsistence requirements.

Subgoal 2 has a development focus. The emphasis is on increasing food supplies through market channels. This can take two mutually reinforcing tracks: increasing production of food and cash crops, and creating the financial wherewithal for commercial imports. Neither of these is a realistic strategic objective for the three-year strategy period. The past two years have demonstrated that, although marketed food crops have doubled, total production

under prevailing security constraints will remain insignificant relative to market demand. (See Annex C.) The issue of production and trade is presented here to help trace the logic in the Mission's development strategy.

Increased food production has a direct and obvious impact on food supplies. Research shows that increased production of cash crops, at the farm level, provides income to invest in inputs that improve food productivity. On the national scale, both cash crop and food exports contribute foreign exchange critical to improving creditworthiness and commercial capacity to import either food or production inputs. As commercial import capacity improves, moreover, production capacity can also increase if foreign exchange is efficiently allocated for productive inputs.

Two strategic objectives will contribute to food and cash crop production and, in the very long term, help establish the wherewithal for commercial imports:

- **Strategic Objective 3:** Establish a policy environment conducive to private agricultural production and marketing; and

- **Strategic Objective 4:** Increase the role of the market in allocating productive resources to private producers.

Both of these objectives rely heavily on policy dialogue and establishing with the GOM a collaborative process of policy analysis. Although these are A.I.D.'s objectives in Mozambique, the impact and durability of the reforms will require that the GOM adopt these objectives as its own.

The following sections discuss the linkages among strategic objectives, targets and sub-targets, as well as established and planned activities that support the strategic framework. (See Annex A for a detailed listing of all objectives, benchmarks, and means of verification.)

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C. Strategic Objective 1 -- A Food Safety Net

The Government's long-term food security strategy is to create sustained supply and demand for food at the household level by increasing smallholder production and generating public and private employment. Other strategies are needed for the short term. The security crisis will continue to displace people and disrupt trading and communications networks essential to production and trade. In secure areas, limited and drained institutional capacities in both the public and private sectors constrain rapid emergence of employment and income-generating enterprises. Even as new employment opportunities arise, it will take a largely unskilled labor force time to adapt.

As an intermediate measure, the GOM and the donor community have developed the concept of a food safety net to reduce the food insecurity of the poor. The safety net has different rural and urban dimensions addressed under two program targets:

- **Target 1-1:** Meet 30 percent of the annual emergency food needs of those displaced and severely affected by war or natural disasters; and

- **Target 1-2:** Meet 40 percent of the maize requirements (about 25 percent of total food needs) for the market dependent population.

The rural safety net (Target 1-1) provides free food to people who have no income. The urban safety net (Target 1-2) works through commercial sales channels. Food is subsidized, but is not free in order to discourage additional migration that would exacerbate urban poverty.

USAID is the largest single guarantor of the food safety net, contributing 30 percent of emergency food needs and 25 percent of commercialized requirements. Along with the World Bank, USAID is a key actor in helping the GOM formulate food policy. USAID will track the following benchmarks to assess the effectiveness of food assistance and policy dialogue in creating an effective safety net:

- rural and urban levels of malnutrition disaggregated by gender;
- rural and urban rates of infant mortality; and
- national food requirements relative to domestic production plus total imports.

Target 1-1
The Rural Safety Net

USAID proposes to meet 30 percent of the food requirements of Mozambicans displaced or severely affected by war. (See Annex C, Table C.4 for supporting calculations.) Displaced people have been uprooted completely. Affected populations remain in their traditional homes but have had their villages and farms destroyed or burned. As the war shifts, new people enter the ranks of displaced and affected, on the whole off-balancing progress in meeting the needs of earlier victims.

The displaced and affected populations have at least two common characteristics -- the war has temporarily precluded them from earning money or growing food, and it has wiped out most or all of their savings. There are no official records on the composition of the displaced and affected, but upwards of 75 percent are estimated to be women and children. Until they can find work or plant and harvest new crops, they depend almost completely on food aid.

USAID will track the following **benchmarks** to determine whether the rural safety net target is met and whether target levels remain adequate and relevant:

- free food distribution requirements relative to donor pledges and to actual deliveries;*
- stability of supply in the emergency food aid pipeline; and
- increased percentage of designated beneficiaries in PVO target areas who receive full rations 100 percent of the time.

Two subtargets will contribute to establishing the rural safety net:

- **Subtarget 1-1-1:** improve logistical capacity and efficiency as well as accountability for food aid programs; and

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*This benchmark reflects both the importance of USAID's own performance in meeting shipping schedules and the integral role of donor coordination in maintaining the rural safety net.

- **Subtarget 1-1-2:** increase the amounts of locally produced food purchased and utilized for emergency distribution.

Subtarget 1-1-1
Logistics and Accountability

A total of 16 bilateral and six multilateral donors, as well as 22 NGOs, contribute to the emergency programs in Mozambique. Such multidonor assistance is essential to meet prevailing needs, yet in itself entails complications. Food shipments are difficult to coordinate, pledges are not always met, bureaucratic and fiscal year cycles cause significant supply gaps, and regulatory requirements differ. Logistical complications are also enormous. The total annual emergency food transport requirement is 223,000 MT, but the government's established capacity is estimated at only 160,000 MT. To date, the private sector has been used sparingly, adding just 10,000 MT of capacity in 1989. Many areas are accessible only by air. Even more require convoys with military escort. Road conditions make rapid delivery impossible. Areas may simply become inaccessible after delivery plans are made.

The Ministry of Cooperation's Department for the Prevention and Control of Natural Calamities (DPCCN) is the GOM agency responsible for implementing emergency activities. Its functions include assessing food needs and availabilities, receipt and handling of donated imports, transport and distribution, and accountability to donors. Nongovernmental organizations work in conjunction with DPCCN, principally as logistics advisors and importers of food and relief material. Since early 1989, donors have worked to increase the role of NGOs in program implementation and monitoring. Having started with virtually no accountability systems in 1983, DPCCN now can account for approximately 95 percent of commodities to the provincial warehouse level. The war and lack of management capacity have frustrated efforts to track to the district and local level. In one seriously war-affected province, World Vision established that DPCCN systems are now tracking 40 percent of commodities to the final distribution point, which is quite an improvement although there is a long way yet to go.

Benchmarks that will be monitored in accessible target areas to reflect progress during the planning period are:

- percentage of unsigned waybills for commodity deliveries from ports to district warehouses and distribution centers reduced from 60 percent to 40 percent;* and
- emergency food transport contracted to the private sector increased from 10,000 MT to 20,000 MT;

Subtarget 1-1-2
Local Contributions to the Rural Safety Net

Because of shifting security, emergency food programs and normal commercial markets often coexist in secondary towns. Through 1988 when domestically produced grain for commercial sale was negligible, free food aid did not significantly discourage local production. Producer pricing reforms in the 1988/89 agricultural season, however, have stimulated commercial production in secure zones throughout the country. In some districts, producers and traders cannot find buyers because of ineffective demand due to lack of income among displaced people. In such cases, free distribution of donated food fails to utilize local surpluses and, in effect, will discourage local producers the following season.

A more productive alternative is to purchase local food surpluses and use them in the emergency program, thereby reconstructing normal consumer demand. On an ad hoc basis, the GOM and donors have already "swapped" locally produced maize intended for urban sale with emergency food aid warehoused in coastal cities. The local maize is then used for emergency assistance, thus linking local supply with demand and replicating the functions of a normal market without incurring unnecessary transport costs. Moreover, similar objectives could be met even more efficiently by using proceeds from commercial food sales to purchase locally produced maize for emergency distribution. This would require shifting donor food aid increasingly away from free distribution to commercial sales programs, improving information flows on domestic production and food requirements,

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*An unsigned waybill does not indicate that a commodity has been diverted, nor does a signed one confirm that it has reached the designated end point. However, given current travel restrictions and institutional limitations, the signing of waybills is the best proxy that exists for commodity accountability. PVOs spot check waybills to verify their authenticity.

improving GOM internal budgeting, and drawing private traders into supplying emergency food programs. Even with progress in these areas, imported emergency food aid will still be needed during the CPSP period.

USAID will, during the planning period, work with the GOM, PVOs and other donors to establish systems to report on food stocks in surplus areas that could be tapped for emergency distribution. **Benchmarks** that will be tracked to monitor progress toward increased use of domestic food for the rural safety net are:

- increased percentage of domestically produced food used for free food distribution; and
- increase in the local currency budgeted (or generated in PVO programs) and expended for domestic food purchases for emergency distribution.

USAID Rural Safety Net Programs

Emergency food programs have been funded by PL480 Title II and Section 416 of the Food Security Act of 1985. Both these sources will continue to be utilized to provide approximately 70,000 MT of foodstuffs per annum. Food will be consigned to the World Food Program, PVO cooperating sponsors (at present World Vision and ADRA) and, to a lesser extent than previously, DPCCN. The intent is to increase the share handled by PVOs, but this will depend on the distribution of needs throughout the country and the ability of PVOs to mount programs in those areas.

Of particular importance is the World Vision pilot program being implemented in FY1990 that includes food for both emergency distribution and monetization. The emergency food will go through DPCCN channels. World Vision will help plan, distribute and monitor end uses of food. Funds generated from the commercial sale program will finance emergency food distribution, labor-intensive rehabilitation projects, and local grain purchases for the emergency. Lessons learned from this pilot venture will strongly influence the design of Title II activities in FY1991 and 1992.

The CARE Logistics Support Project is the Mission's focal activity to increase DPCCN's logistics capacity and improve accountability. Initially funded by OFDA, the CARE project focused on providing technical assistance to the DPCCN to establish and implement systems for meeting food requirements, managing

logistics, and maintaining commodity accountability. In FY1989, the program was transferred to DFA financing and reoriented to improve DPCCN's capacity as a manager of NGO, donor, private sector and other domestic resources rather than as an implementer of programs. Strong emphasis has been and will continue to be given to increasing the share of transport contracted out to the private sector.

USAID will continue to request OFDA to play a significant role in emergency programs. Although long-term activities previously funded by OFDA are being transferred to a bilateral PVO umbrella project (see Strategic Objective 2), the war makes short-term emergency needs inevitable. Such needs will include funding for airlifts, emergency transport and other related activities which cannot be anticipated and funded under the development rubric of the DFA.

Improving linkages between emergency food aid and development objectives will require policy dialogue, donor coordination and technical assistance. Self-help measures to reorient emergency food aid policy will be included in the Mission's PL480 Title II, Section 206 program. Although this is a commercial sales and not an emergency program, the topic is central to the Section 206 program's developmental objectives. Technical assistance in formulating appropriate strategies and monitoring production will be funded through the project portion of the Private Sector Support Program (see Strategic Objectives 3 and 4 for a discussion of the PSSP). Specifically, USAID would like to buy into the AFR/TR and ST/RD Food Security cooperative agreement with Michigan State University, but this will depend on satisfying MSU's concerns regarding security constraints. The principal partners in donor coordination will be the World Bank, EEC, WFP, Canada, Italy and the Swedish International Development Agency, all of which have expressed interest or invested resources in the food aid/development linkage.

Target 1-2
The Urban Safety Net

Urban food insecurity stems directly from the rural insurgency. Although deteriorating real income due to economic stabilization measures has exacerbated matters, the key issue is that the insurgency has increased the urban population by a third while severely contracting rural productive capacity. To help reduce the food insecurity of the urban poor, USAID proposes to supply yellow maize at a subsidized price to meet 40 percent of market maize requirements, or about 25

percent of estimated commercial food needs. (See Annex C, Table C.3 for supporting calculations.) To effectuate the urban safety net, assistance will be focused on key urban centers: Maputo, Beira and selected other major cities.

The principal urban staples are imported yellow maize (all grant-funded from the U.S.) and domestically produced white maize. Yellow maize is not produced in Mozambique. In both Maputo and Beira, yellow maize is sold principally through a ration system (see Subtarget 1-2-1), although leakages have created a significant parallel market. Monthly rations on average meet less than half of household requirements.

Subsidizing yellow maize is both an effective and efficient way of supporting the food security of the urban poor.* Household surveys in Maputo have indicated that the poor spend 60 percent of their income on food, making the price of food a major determinant of real income. Moreover, the poor tend to eat principally yellow maize, both because they can buy it at a subsidized price in the ration system and because it sells for about half the price of white maize on the parallel market. Preliminary results from household surveys in five northern provinces suggest that, after reaching a modest income level, people will switch from yellow to white maize and then add to rice to the diet.

The strong consumer preference for white over yellow maize also allows yellow maize to be subsidized without creating a major production disincentive. Clearly, there is some elasticity of substitution between white and yellow maize, and a high yellow maize subsidy will cause some substitution. However, the large and growing price premium for white maize on the parallel market suggests that, at the current subsidy level for yellow maize, the demand for white maize remains strong and gives a positive price signal to producers.

Commercial food aid will be focused on Maputo and Beira, with secondary priority given to other urban centers. Maputo and Beira are Mozambique's two largest cities, have the largest concentrations of urban poor, and have historically

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*Questions may arise as to whether yellow maize is an efficient commodity to subsidize if mid-level and upper income groups might resell their rations. In practice, an eight-person household would make just a $4 monthly profit if it sold its ration on the parallel market. For mid- and upper-income groups, the profit is insignificant and is likely to be outweighed by the transaction costs. For lower income groups, the incentive is to sell ration system rice in order to maximize yellow maize (and thereby calorie) consumption.

depended more on food imports as a share of total market requirements than other urban centers. The limited data that exist on parallel market prices indicate, in fact, little difference between parallel and official maize prices outside the broader Maputo and Beira areas, suggesting that donated imports and domestic production roughly meet demand. In both Maputo and Beira, however, frequent food shortages due to interrupted supplies of imported food and domestic production quickly result in rising parallel market prices which directly affect the poor.

USAID will monitor the following **benchmarks** to assess the effectiveness of the yellow maize subsidy in reducing the food insecurity of the urban poor:

- decreased percentage of household income required to meet household food needs in lower income groups within sample areas;
- total maize supply from all sources (food aid, domestic production and commercial imports), relative to national market requirements; and
- stability of yellow maize supply in the Maputo and Beira ration system and in other urban centers.

Two subtargets will contribute to achieving commercial food aid objectives:

- **Subtarget 1-2-1:** Streamline ration system operations and increase its focus on providing commodities to the urban poor; and

- **Subtarget 1-2-2:** Increase private sector participation in food imports.

Subtarget 1-2-1
Streamlining and Focusing the Ration System

The ration system in Maputo and Beira is intended to ensure that the poor have access to basic staples during a period of general scarcity. Food commodities subject to rationing are maize, rice, vegetable oil, and sugar. Rations are sold principally through private shops, but at controlled amounts and prices. Because the Government does not have the capacity to administer means tests, all residents of Maputo and Beira can apply for ration cards.

Many inefficiencies have been documented in the ration system. Acquiring a ration card can be difficult for newcomers who are often in greatest need.

Poor consumers may not have adequate income to purchase commodities in authorized amounts. Subsidies on many items principally benefit mid-level and upper-income groups. In addition, maintaining an equal fixed price for both white and yellow maize has driven white maize to the parallel market.

Despite these inefficiencies, maintaining some form of ration system in Maputo and Beira is justified given increasing urban poverty and higher dependency on food imports in these cities than other urban centers. In particular, the ration system keeps the price of yellow maize in Maputo and Beira relatively close to white maize prices paid in cities closer to production zones. System operations must, however, be made more efficient and increasingly focused on the needs of the poor. The following **benchmarks** will be monitored to assess progress toward this objective:

- removal of white maize from the ration system and liberalization of its consumer price; and
- completion and implementation of an action plan to eliminate regulations that reduce the access of the poor to the ration system, shift the focus of the ration system to commodities that primarily benefit the poor while decreasing the allocation of commodities that primarily benefit upper income groups, allow greater flexibility in the ration mix, and adjust the ration size to actual consumer needs.

Subtarget 1-2-2
Private Sector Food Imports

With the departure of most Portuguese traders at independence, the GOM assumed virtually all import functions and has never relinquished its role as exclusive importer of foodstuffs. The present parastatal food import system is characterized by inefficiency and poor accountability and is heavily subsidized. For the long-term, the lack of private import capacity in the food sector will work against a national, trade-based food security strategy.

Since virtually all food imports are donor financed, a primary financial concern is generating the local currency needed to pay counterpart requirements. In theory, food sales should generate the necessary local currency, but payments are never fully collected throughout the entire system

of importers, millers and distributors. IMBEC, the sole importing agent, does not have the cash flow to pay counterpart requirements within donor-specified timeframes and, in practice, receives interest free loans from the Ministry of Finance. Since IMBEC's selling price to the mills is too low to repay the loans, the unpaid portions in effect become a subsidy. The mills, on the other hand, are allowed a relatively wide margin for processing and resale of maize, but they have accumulated large accounts receivable and are undoubtedly tempted to seek more reliable payment from parallel market traders. Various donors, particularly the EEC, have attempted to increase IMBEC's efficiency, but with little success. Rather than continue on the path of reinforcing parastatal participation, USAID will work to privatize food imports, focusing attention on cereals, beans and vegetable oil. Benchmarks that will be monitored to assess progress are:

- authorization of the private sector to import maize, beans and vegetable oil;
- 100 percent private importation of USAID-financed beans and vegetable oil for commercial sale;
- initiate private importation of USAID-financed maize for commercial sale; and
- reduction in real terms of subsidy levels to parastatals involved in food imports and processing.

USAID Urban Safety Net Programs

USAID's commercial food programs in Mozambique are financed by PL480 Title II, Section 206 and, depending on the availability of commodities, Section 416. For FY1990, USAID has proposed a combined Section 206/416 program of 155,000 MT consisting of 140,000 MT of yellow maize, 10,000 MT of wheat and 5,000 MT of rice. This will meet 40 percent of national commercial needs for maize or 25 percent of total market food requirements. Commodity mix and import levels are reassessed annually.

USAID has negotiated the Section 206 and 416 programs as a combined food aid and policy package in order to maximize policy leverage. There is presently a three-year Section 206 program covering FY 1989-91. The program includes three self-help measures designed to improve the food security of vulnerable groups, promote long-term increases in productivity and strengthen commercial markets, and improve management of commercial food assistance programs. Specific

benchmarks have been established to identify vulnerable groups and the extent of their vulnerability, analyze the interrelationships between consumer and producer pricing policies, streamline and focus the ration system, analyze maize marketing and production constraints, and improve accounting and efficiency in commercial food programs.

The GOM and USAID have established a joint Policy Working Group to monitor progress on policy reforms for both the PL480 and Private Sector Support Programs. The GOM members of the Working Group report to the Minister of Finance and are themselves senior government officials from the Ministries of Agriculture, Commerce, Finance, Planning and Cooperation. Policy recommendations and issues therefore receive high level attention, as reflected in the GOM's adoption of a yellow maize safety net program as the central component of its short-term urban food security strategy.

Technical assistance in support of food and agriculture policy reforms is financed under the Private Sector Support Program and its predecessor, the Private Sector Rehabilitation Program. A long-term advisor based in the Ministry of Commerce will focus on ration system reforms and monitoring urban food security. Early in 1990, another long-term position will be filled in the Ministry of Finance to strengthen local currency management. As indicated earlier, a long-term agreement is being pursued with Michigan State University that will consider both the consumer and producer dimensions of food security. Program Development and Support (PDS) funds will continue to be used to fund short-term analyses that improve understanding of specific marketing and production issues.

Three new activities focused on privatization of food imports will also be explored during the strategy period. USAID has executed a cooperative agreement with Agricultural Cooperative Development International to carry out a feasibility study of importing PL480-financed edible oil through the private sector, using local currency proceeds to support, among other things, domestic oilseed production. Early in 1990, the Mission will further analyze the viability of private sector bean imports. Privatization of cereal imports will also be pursued, although it will prove more complex than other commodities due to GOM sensitivity to cereal shortages and the range of donors involved. Again,

PDS funds will be an important resource to finance a diagnostic analysis of food import systems.

Donor coordination will be essential, both to achieve the above policy objectives and ensure consistent commodity flow. In addition to the U.S., key suppliers are Canada, Italy, France, the EEC, Australia and WFP. The EEC is particularly active in assessing food requirements, integrating import and production policy, and introducing private participation in food imports. The World Bank is key in formulating overall food security strategy, although its inability to supply food aid to facilitate implementation of liberalization measures limits its leverage and accentuates the importance of an active USAID role. Virtually all food donors are concerned with local currency generation and programming. It was decided at the November 1989 Consultative Group meeting that USAID would chair a donor group on this topic. (See Annex E for a discussion of local currency.)

Extensive staff time devoted to policy dialogue, donor coordination, program implementation, and privatization is an essential component of USAID assistance. Two Food for Peace Officers and local professional staff work full time on the commercial and emergency programs. A Project Development Officer will spend at least half time working with the Food for Peace Office to translate the privatization strategy into an expanded role for the private sector in food imports. The Director, Deputy Director and Program Office staff devote a large share of their time to policy analysis and negotiation, donor coordination, and liaising with the Policy Working Group.

D. Strategic Objective 2 -- Reducing Dependency on Food Aid

Provision of food aid is a necessary first response to the emergency but can, if continued over a prolonged period, inculcate a sense of dependency and reduce the capacity for self-reliance. This has been mitigated in urban areas by the use of commercial channels to provide a food safety net for the poor, but is a danger in rural areas where free food has been essential. The problem is exacerbated in rural areas as the breakdown of the economy has reduced opportunities to earn income.

Both the GOM and donors realize that dependence on food aid to meet the subsistence requirements of the poor cannot continue indefinitely, and that displaced persons must be assisted to become self-reliant. Interventions which permit increased agricultural production and create employment will directly combat dependence on food aid and improve household food security. Those which improve the health and general wellbeing of the poor will remove a barrier to increased productive capacity and self-reliance. Two program targets will focus on these objectives:

- **Target 2-1:** Increase rural employment, production capacity and cash income among target groups.

- **Target 2-2:** Increase coverage of preventive health care and availability of basic services among target groups.

Both of these targets and the overarching objective of reducing dependency on food aid raise questions about geographic focus and grassroots outreach. Any meaningful intervention in preventive health and rural production demands grassroots involvement in project design and impact monitoring. Both resource constraints and the scope of the problem demand a focus on specific target groups in order to have a meaningful impact. Shifting security conditions complicate matters further, since access to project areas is problematic.

After considering various options, USAID has focused on several geographic areas each served by established PVO projects which address the needs of displaced and war-affected people. PVOs have chosen project sites after consultation with central and local government officials. Their grassroots work on emergency programs has helped them gain insight into social and economic behavior and given them experience with extreme logistical complexities. An alternative option would be to focus on one or two provinces. Although this would concentrate resources, changing security conditions could easily undermine the investment. It would also involve launching new PVO initiatives from scratch instead of building on existing strengths, relationships and experience. USAID has consciously foregone an urban-based program although needs to generate urban employment are clearly great. The World Bank has taken the lead role in urban rehabilitation with an $80.8 million project. As discussed in Section V.G, job

creation through Export Processing Zones is a target of opportunity that will be explored further.

USAID will track the following **benchmarks** in target areas to gauge the effectiveness of PVO programs in reducing dependency on food aid:

- increased reliance on local production and markets, rather than emergency food aid, to meet food requirements; and
- reduction in growth faltering rates.

Target 2-1

Rural Rehabilitation

Increased rural employment and income opportunities are essential to regenerate effective demand and thus create the basic conditions necessary to phase out food aid and allow markets to again function. The GOM and donors alike have recognized the essential need to move out of an emergency mode that threatens to inculcate a dependence mentality in displaced and severely affected people. Realistically, sound development practice must be balanced with security constraints that limit access to land, force overcrowding and degradation of secure areas, and have caused a breakdown of transport and market networks that affect both input supply and production sales.

Opportunities to reestablish the productive capacity of those displaced and affected by war are limited as long as security remains a constraint. Following a strategy to capitalize on grassroots experience accumulated by PVOs, USAID will channel rehabilitation assistance through PVO grants. The Government itself is developing a Priority District Program structured around "secure" areas with high productive potential, but details of the program have yet to be announced. USAID will take into consideration the Government's priority districts, but the primary emphasis will be to build on the information and experience of PVOs most familiar with local conditions.

Specific types of activities to be pursued will vary across PVO projects depending on community needs and priorities, the skills of the implementing organizations and available infrastructure. USAID will specify parameters for eligible PVO activities and will encourage PVOs to help strengthen or initiate

counterpart indigenous NGOs. Emphasis will be placed on activities which increase access to agricultural inputs and technologies; generate employment through labor-intensive rehabilitation of roads, health facilities and other rural infrastructure; and help women become more productive through labor- and time-saving interventions. Each grant will specify benchmarks consistent with one or more of the following overall program benchmarks:

- increased number of households with cash income in target areas;
- increased number of households with full- or part-time wage earning family members in target areas; and
- increased total household agricultural production for own consumption or sale in target areas.

USAID Rural Rehabilitation Programs

USAID's experience with rural employment and production activities focused on displaced and affected people is limited to PVO "agpak" projects funded by OFDA.* Agpak projects, by providing seeds and tools to target groups, have contributed to reducing food aid requirements but, under prevailing land constraints, cannot realistically make displaced and affected people become self-sufficient. Through agpak projects, both government and donors have begun to identify the complex interrelationships among land, technology and markets that will be central to broader rehabilitation efforts.

Such experience will strongly influence the design and implementation of relief and rehabilitation grants under the PVO Support Project being designed in FY1990. The Project will provide a flexible mechanism to fund three types of PVO activities that correspond with the transitional process from relief to development: food aid planning and logistics capability, preventive and rehabilitative health care and basic services, and rural employment and production activities. Although the project is intended to be able to fund a wide range of employment and income generating activities appropriate to local conditions, the depressed rural economy might limit initial activities to seed and equipment packages. As conditions improve, PVO projects will serve as a conduit for identifying commodity import opportunities such as small mills that could be financed under the Private Sector Support Program.

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*USAID's CIP has financed hand tools, seeds, and fertilizer that have benefited displaced people, but principally in peri-urban green zones rather than rural areas.

Potential complementarity also exists between the PVO Support Project and food aid programs. As discussed under Target 1-1, a pilot venture in FY1990 will combine emergency Title II assistance with food for commercial sale. Should it prove feasible to use local currency proceeds to fund labor-intensive infrastructure rehabilitation, the PVO Support Project could finance complementary technical assistance. In addition, USAID and the GOM have established a small PVO reserve with local currency counterpart generations which could be used for similar purposes. Extensive use of local currency counterpart funds outside of the budget must, however, be balanced with potentially serious monetary distortions. (See Annex E on local currency programming.)

Target 2-2
Increased Coverage of Health Care and Availability of Basic Services

Severe health and nutritional problems of women and children present a barrier to resuming normal economic activity throughout much of rural Mozambique. The limited research on the role of Mozambican women in rural society indicates that, as in the rest of Africa, women have primary responsibility for both subsistence food production and the health and wellbeing of children. The insurgency, in displacing principally women and depriving them of land, has made malnutrition Mozambique's major health problem and cause of infant mortality.* The widespread incidence of infectious and parasitic diseases, as well as inadequate child spacing, exacerbate the nutritional problems resulting from inadequate food intake. Given this strong association between malnutrition, ill health and food production, the health problems of women and children merit central attention in a food security strategy. In Mozambique today, an adequate food supply is the single most important determinant of good health.

The virtual destruction of the rural health system as a result of the insurgency is in itself both a major cause of growing health problems and a constraint to addressing them. By working through PVOs, USAID has opted for a

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*Primarily women, rather than men, have been displaced by the war for two main reasons. First, men rather than women have been combatants, either for the Mozambican army or RENAMO (see Gersony and Minter reports for accounts of forced conscription by RENAMO). Second, the tradition of male migrant labor, either to cities or countries, particularly South Africa, has meant that women and children, rather than men, were in the rural areas which have been affected by the insurgency.

grassroots orientation to health care that maximizes local participation and minimizes dependence on national public health system infrastructure. The approach must be preventive in philosophy but a curative dimension cannot be ignored in the present situation. Activities, moreover, must be tailored to the realities of each target PVO area. The challenge for PVOs, Mozambican health workers and USAID is to understand how to apply the lessons of preventive health learned elsewhere to a situation of insecurity and instability.

As with the rural rehabilitation programs, USAID will fund individual PVO grants consistent with established criteria. These include preventive health services targeting women and children, integration of family planning with preventive health care, and provision of clean water and basic sanitation. Each grant will specify benchmarks appropriate to the activities financed which are consistent with one or more of the following overall program benchmarks:

- percentage increase in immunization coverage;
- percentage increase in number of women able to use ORT;
- higher ratio of latrines and/or clean water per number of families.

USAID Health and Basic Services Programs

USAID will finance health and basic service activities through the Zambezia Pilot Child Survival Project, the PVO Support Project, and a broader child survival initiative planned for FY 1991. All of these projects follow a basic model of PVO implementation supported by outside technical assistance.

The Zambezia Pilot Child Survival Project, begun in late FY1989, will test alternative ways to provide oral rehydration, expanded immunization, vitamin A therapy, growth monitoring and nutrition education under insurgency conditions. (UNICEF and the GOM have an extensive national program encompassing malaria and acute respiratory infections.) The project is implemented by the French PVO, Medecins Sans Frontieres, with assistance in program design and monitoring from Johns Hopkins University. Results from the pilot effort will shape a broader child survival project in FY1991. In both the pilot and follow-on project, USAID will work with the implementing PVOs and the Ministry of Health to integrate, when possible, delivery of family planning services.

The PVO Support Project is intended to facilitate the transition from emergency assistance to rehabilitation and development. Most A.I.D.-financed PVO programs

in Mozambique began with OFDA assistance and focused on the emergency impacts of war and drought. As activities take a longer-term perspective and begin to address development concerns, USAID will transfer assistance to the PVO Support Project. The health component is broadly defined to include health problems associated with child spacing. Based on experience under the Pilot Child Survival Project and the new PVO project, future child survival assistance might be most efficiently integrated into the health component of the PVO project.In addition to these projects, USAID will also fund the Prosthetics Assistence and Traumatized Orphans projects. These are not part of the same orientation as other health initiatives, but are intended to address the emergency needs of persons physically crippled and children emotionally traumatized by the insurgency. Both of the projects are a direct response to the critical social and health needs created by the insurgency.

E. Strategic Objective 3 -- Agricultural Production and Marketing Policies

For the secure pockets which exist throughout the country the GOM faces a challenge of economic rehabilitation. More than a decade of centralized control over production and distribution stifled productive investment and drove private agriculture into a barter and subsistence mode. The disintegration of private marketing networks has, furthermore, severely constrained capacity to clear commercial output where it does occur, or to make inputs or consumer goods available in rural areas.

The GOM's Economic Rehabilitation Program has already taken major steps to improve production and marketing incentives with preliminary impact on marketed output (see Section II.A and B). However, both production and marketing policies continue to depend heavily on centrally administered prices which are vulnerable to bureaucratic manipulation, neglect geographical differences in costs of production and marketing, and can never keep current with changing circumstances. USAID's objective is to help the Government make the full transition to market-based policies that reduce the scope for administrative discretion, institutionalize market-clearing prices, and encourage competitive marketing of commodities that supply national needs and earn the foreign exchange needed for input purchases. Two targets will contribute toward achieving this objective:

- **Target 3-1:** Increase the role of the market in determining producer prices; and

- **Target 3-2:** Allow market incentives and local entrepreneurial initiative to play a more dynamic role in domestic agricultural trade.

To gauge the effectiveness of institutionalizing market-driven production and distribution policies, USAID will monitor the following **benchmarks**:

- increased marketing of both food and cash crops; and
- increased share of marketed output channeled through private traders and transporters.

USAID programs to improve agricultural production and marketing incentives (Strategic Objective 3) and to increase the role of the market in allocating key factors of production (Strategic Objective 4) are closely linked and are therefore discussed together immediately after the discussion on Strategic Objective 4.

Target 3-1

Liberalized Producer Prices

The producer pricing system is central to the incentive structure for agriculture. The eventual objective is for competitive markets to determine actual prices. The strategy for achieving this objective is, first, to replace fixed producer prices with floor prices that guarantee producers a fair return in cases where there may be only one buyer. In cases where competitive markets exist, floor prices can then be replaced by a completely liberalized market. To continue to protect producers where security and market conditions foreclose competition among buyers, AGRICOM (the parastatal marketing board) would offer a producer floor price based on import/export parity, but the producer would be free to sell at any price if other options are available.

In FY1989, USAID and the GOM negotiated a producer pricing policy package under the auspices of the Private Sector Support Program. At that point, it was decided to differentiate between cash and food crops given the acute food deficits that exist throughout the country, which skew prices and thus distort markets. Cash crops (cashews, copra, sunflower, castor beans and groundnuts) were scheduled for accelerated liberalization and were moved to a floor price

system for the 1989/90 agricultural season. Food crops (maize and rice) were priced at import parity. Beans were also to be priced at import parity but were in fact moved to a floor price system.

Additional steps in price liberalization should reflect careful assessment of each phase of policy change. As indicated above, particular attention must be given to the competitiveness of markets in order to understand the viability of full liberalization. The following policy benchmarks will be monitored to assess policy progress, although some modification of benchmarks may be required to reflect experience:

- full deregulation of the producer price for cash crops listed above;
- full deregulation of the producer price for beans; and
- maize and rice moved from fixed administrative prices to a floor price system.

Target 3-2
Market Liberalization

For most commodities, the GOM has phased out controls that limited marketing exclusively to the state sector, but many regulatory restrictions still create disincentives to private participation. The security situation makes central control of marketing policy particularly problematic as it pits bureaucratic decision making directly against the risks and costs confronted by transporters and traders. USAID's objective is to help the Government phase out administrative controls on transport and marketing in order to allow those who have investments at stake and detailed knowledge of local conditions to exercise their judgment of marketing risks and profits.

Policy reforms will focus on basic conditions required to establish competitive markets: pricing policy, market flexibility, and elimination of barriers to entry and operation. Pricing reforms will address fixed transport tariffs which do not permit commercial transporters to cover costs and risks due to poor road and security conditions, as well as fixed marketing margins on key commodities that are based on the unrealistic tariff structure. The combined effect of such policies has been, in highly rural areas, the distancing or isolating of producers from consumers and, in areas closer to urban markets, the virtually exclusive trade of controlled commodities in parallel markets where official margins are ignored.

To promote market flexibility, USAID will work to remove regulations which limit trade and transport among districts and between provinces, thus preventing the free movement of goods from surplus to deficit areas. There is also a need to phase out restrictions that preclude competition among private transporters and traders in the wholesale marketing of controlled commodities at the district level. Although such barriers to entry were established to guarantee at least one merchant sufficient incentive to operate in areas distant from district capitals, they have in fact limited the competition needed to create fair markets for agricultural surpluses and to encourage quality control over consumer goods.

USAID will monitor the following policy benchmarks to assess progress in market liberalization:

- phasing out of fixed tariffs in favor of transporter-client negotiated rates;
- elimination of fixed marketing margins for domestically produced maize, beans and rice;
- elimination of trade restrictions to permit market-based decisions on commodity movements; and
- free competition in internal trade of all commodities.

F. Strategic Objective 4 -- Private Sector Access to Productive Resources

Ensuring that private farmers have access to production inputs is an essential corollary to improving the policy environment for private agriculture. In the decade after independence, Mozambique channelled most agricultural investments to state farms, resulting in heavy mechanization of production and the concentration of the most desirable lands in state hands. When state farms could neither meet domestic demand nor generate sizable exports, the need to import basic consumer goods drained foreign exchange reserves and foreclosed private sector access to foreign exchange.

Land and foreign exchange remain the two binding resource constraints to developing private agriculture in the country's secure pockets. Donor assistance under the ERP has provided some sustenance but, with total foreign exchange earnings covering just 20 percent of the value of imports and 85 percent of all foreign exchange tied to donor programs and debt servicing, the

balance of "free" foreign exchange remains under tight Government control. The GOM has also pledged to restructure and divest state farms, but the process has been slow; in particular, irrigated land with access to secure transport routes carries a high premium. To help redirect resources to private producers, USAID will pursue the following targets:

- **Target 4-1:** Promote the divestiture of state farms to private commercial and family farmers;

- **Target 4-2:** Institutionalize market-based allocation of foreign exchange for agricultural inputs.

Although the early stage of reforms in this area makes it difficult to project meaningful quantitative targets, USAID will track the following **benchmarks** to gauge progress on resource reallocation:

- number of state farms and total acreage divested to private commercial and family farmers;
- reduction of real subsidies and credit to state farms; and
- increased private sector share of "free" foreign exchange allocations.

Target 4-1

State Farm Divestitures

There are approximately 77 state farms averaging 1,300 hectares functioning in Mozambique. Production yields are low, equipment utilization rates decay rapidly because of poor maintenance and shortages of spare parts, and the financial drain on the treasury to cover operating losses alone is staggering. The accumulated debt for 109 state enterprises (including the 77 state farms) is estimated to be about Mt 65 billion, or about $1.5 billion at the exchange rates prevailing at the time the debts were incurred.

The GOM specified in its February 1989 PFP that it will prepare an action plan for restructuring state farms or redistributing the land to more efficient producers. In a letter of intent which the GOM submitted to USAID in August 1989, the Government confirmed that it will complete this action plan, including details on divestiture procedure, beneficiary selection and tenure security. The letter of intent further stated that the Government will develop with USAID a schedule for 1990/91 and 1991/92 to redistribute state farm lands to

commercial and family farmers. This schedule will include details on acreage to be divested, the numbers and types of farmers, and input requirements.

Benchmarks that will indicate progress in promoting state farm divestitures are:

- completion of a GOM Action Plan for the restructuring of state farms and delineating divestiture policy;
- completion of a USAID specific divestiture schedule; and
- implementation of divestitures through 1992 as specified in the schedule.

Target 4-2
Market-Based Foreign Exchange Allocation

Beginning in 1984, USAID's commodity import programs gave the private agricultural sector its first consistent access to imported inputs since independence. The CIPs have been targeted strictly to private farmers. Participation of private importers and distributors has grown from less than 5 percent in 1984 to about 99 percent in 1989. Yet despite this progress, private sector access to foreign exchange continues to depend on donor assistance and has not been institutionalized within the economy.

The GOM and World Bank seek to address this problem through an Open General License System (locally called the SNAAD) which became operational in October 1989. The SNAAD will introduce market factors into foreign exchange allocation by allowing public and private enterprises (beginning with the textile, shoe and transport industries) automatic access to foreign exchange, using prices and tariffs to regulate demand. The basic allocation criterion will be the capacity of a legitimate enterprise to meet local currency counterpart costs. This will, in effect, force parastatals to compete with the private sector. To the extent it allows the private sector to switch foreign exchange transactions from the parallel to the official market, it should also increase private competitiveness and decrease pressure on the parallel exchange rate.

The SNAAD must be monitored carefully to confirm increased private sector access and ensure that parastatals do not simply finance transactions through credit and subsidies. Exchange rate management should reflect increased demand on the official foreign exchange market. Adequate accounting and monitoring systems must also be put in place. The following benchmarks will be tracked to assess progress in increasing the role of the market in allocating foreign exchange for private agriculture:

- eligibility for SNAAD financing expanded to the agricultural sector;*
- full GOM compliance with IMF ceilings on credit and subsidies to parastatals; and
- exchange rate devalued to reflect increased demand for foreign exchange under the SNAAD and thereby bring the real effective exchange rate closer to a market clearing rate.

Assuming compliance with the above benchmarks, USAID will shift up to 75 percent of its balance of payments assistance from CIP disbursement to co-financing the SNAAD with the World Bank. In redirecting its assistance, USAID will assess the impact on specific agricultural production objectives for areas outside of Maputo and Beira that may be slow to benefit from the SNAAD due to distance and poor information flows. The CIP will continue to focus on private agriculture and targeted rehabilitation activities. Should the SNAAD not prove effective, USAID will work with the World Bank, the IMF and the GOM to develop an action plan for testing other allocation options.

USAID Agricultural Policy Programs

The Private Sector Support Program is USAID's principal vehicle for agricultural policy reform. The PSSP, begun in FY1989 as the successor of a five-year private agricultural sector commodity import program, runs through FY1991. The program retains a CIP disbursement mechanism linked to an agricultural policy reform agenda. It also has a technical assistance project component which finances analytic support for policy implementation.

For FY1990 and 1991, USAID has proposed a $10 million AEPRP supplement to the PSSP that will focus on marketing reform. Policy dialogue would cover the issues defined under Target 3-2. Foreign exchange would finance imports for private transporters. USAID would utilize a CIP disbursement mechanism and has therefore proposed to implement the program as an amendment to the PSSP rather than create a separate management unit.

Under the PSSP, the Government will submit annual letters of intent which define each stage of policy progress. Each letter of intent, combined with performance on the previous year's measures, will serve as the basis for disbursement.

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*The Mission considers this an essential policy development in the allocation of foreign exchange rather than simply a management step.

Overall, the PSSP must address four overarching objectives specified in USAID's grant agreement with the Government:

1. increased liberalization of agricultural producer prices;
2. clearly defined policies and an action plan leading to divestiture of state farms to private family and commercial farmers;
3. strengthened private sales and service networks for agricultural inputs; and
4. tested policy and procedural options for market-based allocation of foreign exchange.

A fifth objective on market liberalization would be added with the AEPRP amendment.

As discussed under Target 1-2, the GOM and USAID have established a Policy Working Group to monitor reforms and jointly define each phase of policy adjustment. This joint effort, combined with the negotiation of policies through letters of intent, has increased the Government's sense of ownership of reform measures and will enhance prospects for lasting impact. The Working Group also provides a mechanism to link production policy with PL480 consumer reforms, thereby bridging the gap in the analysis of marketing margins for domestic crops.

The technical assistance component of the PSSP will be a critical tool in collecting and analyzing data to support and inform the policy reform process. During the planning period, the Mission will work on developing relationships with U.S. universities that can support the Working Group agenda and help strengthen local analytic skills. As previously indicated, a buy-in to the Michigan State University food security cooperative agreement would analyze food production and consumption policies, as well as the viability of markets linking rural and urban areas. A buy-in to the Land Tenure Center cooperative agreement would support the process of state farm divestiture. Both universities have, however, expressed concern over their capacity to conduct productive research under current security conditions. Their deciding not to undertake a long-term commitment to research in Mozambique would seriously impair USAID's capacity to manage an increasingly complex policy agenda.

USAID has utilized commodity import assistance for the private sector as the principal mechanism to strengthen private agricultural sales and service

networks. The original CIPs were authorized on condition that only the private sector benefit, and this has been continued as policy. Initially, public sector importers and distributors were utilized because of a void in the private sector. Staff-intensive targeting and monitoring were essential to increase private participation. Depending on the success of efforts to institutionalize market-based foreign exchange allocation, administrative requirements to implement the CIP might be phased down.

Donor coordination, particularly with the World Bank, is another important dimension of the policy framework. The Bank, through its Policy Framework Paper negotiated with the GOM, will set general policy parameters. USAID will then reinforce agricultural sector objectives by developing with the Government a complementary policy agenda that takes specific reforms to the point of implementation. The transition process from CIP to market-based disbursement of balance of payments assistance particularly requires close collaboration with the IBRD, including joint review of SNAAD evaluation findings. Special attention must also be given to the Nordic aid programs to minimize counterproductive reinforcement of parastatals.

At present, USAID's agricultural production and marketing activities are staff intensive for a small Mission. They entail both rigorous implementation of a CIP and the ongoing analysis, refinement and negotiation of a complex policy agenda. A Commodity Management Officer and two professional PSC local staff work full time on the CIP component. The Program Officer and two PSCs spend approximately half time managing the analysis and implementation of policy reforms. The Director and Deputy Director provide policy oversight, direct all policy negotiations and take the lead role in donor coordination. As of January 1990, unfilled positions for an economist and agricultural economist have complicated an already difficult process of injecting a development dimension into an emergency environment.

G. Targets of Opportunity

Although USAID will focus staff time and program resources on the food security strategic framework, it will also pursue two targets of opportunity during the planning period. The first is support for the Mozambique National Railways (CFM) as part of a SADCC effort to increase regional transport capacity and

reduce dependency on South Africa. Funding is provided through the Regional Rail Systems Support Project (RRSS) under A.I.D.'s Southern Africa Regional Program (SARP). The second is feasibility, design and possible implementation assistance for Export Processing Zones. Feasibility and design work will be funded under the technical assistance component of the Private Sector Rehabilitation Project. Any follow on assistance would be provided through SARP's proposed Export Enterprise Support Project. The rationales for pursuing these targets of opportunity are summarized below. Annex F provides a more detailed discussion of the RRSS Project.

Regional Rail Systems Support

The RRSS Project contributes to A.I.D.'s southern Africa regional strategy which emphasizes that private sector development initiatives cannot succeed as long as the basic regional transport structure is not efficient and cost effective. Without Mozambique's rail system, Malawi's export potential is severely constrained, and Zimbabwe, Swaziland and Zambia all suffer to varying but significant degrees. Although the RRSS Project falls outside of the Mozambique food security strategy, improved rail links will, in the medium to long term, encourage private agricultural production and marketing by efficiently linking rural producers, urban consumers and import/export outlets.

Mozambique once carried 90 percent of Zimbabwe's internationally traded goods, nearly 100 percent of Malawi's, and 80 percent of Zambia's copper. A late 1989 study sponsored by the World Bank estimated that with all rail corridors open (and somewhat more efficient) much of this traffic would be recaptured to the benefit of Mozambique and the landlocked countries it serves.

The RRSS Project fits into a multi-donor strategy to revitalize the national railways and port system. The World Bank, France, Canada, Japan, Spain, Denmark, Italy, Sweden, the U.S. and other bilateral donors presently share a portfolio valued at approximately $800 million. The principal problems being addressed are: (1) badly deteriorated infrastructure; (2) lack of trained personnel, particularly at the middle management level; (3) poor utilization rates for locomotives and rolling stock; and (4) insufficient locomotives to meet traffic demands.

A.I.D.'s contribution to the multidonor strategy is in two major areas: locomotive repair, rehabilitation and supply; and financial and inventory management. Beginning in FY1992, A.I.D. may also contribute to a multi-donor effort to rehabilitate the Nacala line, which is critical to Malawi's exports. Specific program targets are to:

- increase locomotive availability rates from 57 percent (1989) to 75 percent;
- increase locomotives available by 18 (8 rehabilitated and 10 new);
- establish a financial system that will provide timely and accurate information to CFM management and will inject accurate cost and revenue figures into the tariff structure; and
- reopen the Nacala corridor to Malawi.

Export Processing Zones

The attractiveness of export processing zones (EPZs) is in their potential boost to foreign investment, employment and liberalization of export policy. Since early 1989, USAID has worked with Mozambique's Bureau of Foreign Investment Promotion (GPIE) to consider options to attract foreign investors. Extended dialogue has led to a focus on EPZs which can be centered around secure major ports that have benefited from recent donor investments. EPZs would also provide a laboratory for experimental policies that the Government may hesitate to employ on a national basis.

The employment impact of EPZs can be significant. In Mauritius, the EPZ regime reduced the 23 percent unemployment of 1982 to full employment by late 1988; the 530 EPZ firms employ over 15,000 people. In the Dominican Republic, 12 EPZs have created 84,000 jobs and over $300 million in exports. EPZs, moreover, generally attract young female workers who are presently among the most vulnerable population groups in Mozambique. Job creation for this group would directly complement urban food security measures and create incentives to increase the space between births.

The viability of EPZs in Mozambique needs to be explored carefully: short-term balance of payments impact could be negligible; infrastructure improvements needed to attract foreign investors could be financially forbidding; and security considerations could drive potential investors elsewhere. Nevertheless, Mozambique's strategic location in southern Africa, the major

investments in the port and rail system (especially Beira and Nacala), and the easing of regional political tensions provide a reasonable basis for further analysis.

H. Alternative Security Scenarios

Significant deterioration or improvement in the security situation could profoundly affect USAID's food security framework. Although the issues addressed under the four strategic objectives would remain relevant, the viability and appropriateness of individual targets could change. USAID worked on reformulating the strategic framework in light of different security assumptions, but found the exercise of limited operational utility. To be a practical working document, an alternative action plan would require details on constraints and possibilities that are unlikely to coincide with best and worst case scenarios. The exercise, however, highlighted important general directional changes that would result from major security shifts. These are summarized below.

Tendencies Toward Peace

As discussed in Section I, the Kenyan and Zimbabwean Governments are presently mediating indirect peace talks between the GOM and RENAMO. On January 9, 1990, President Chissano announced a blueprint for constitutional revision that could encourage the peace process. With an acceleration in talks, one scenario could be an arrangement for peace in 1990 or 1991.

Of fundamental importance to USAID's strategy will be the lag time required for economic regeneration. Under the most optimistic outlook, at least one agricultural season will be lost as internally displaced people and refugees in neighboring countries decide whether to relocate. Lost income and savings will constrain the capacity of most families to become quickly productive. High unemployment will continue to plague urban areas, even assuming some migration to traditional lands and an upswing in investment. Continuation of the food safety net will, in these circumstances, be essential. The transition from emergency to commercial food aid could be accelerated. As domestic production increases, the free distribution programs should depend more on local purchases using counterpart funds until they can be phased out.

Programs to reduce vulnerability to absolute poverty and thereby facilitate a transition to rehabilitation and development should become more viable and pertinent. After initial population resettlements, migration should decrease and individuals hold a greater stake in community development. Rural areas will become more accessible, creating a more competitive environment for stable markets. Infrastructure rehabilitation projects could be undertaken without security threats.

Relaxing the security constraint should also enhance the importance of agricultural production and marketing policy as more producers, traders and transporters have the opportunity to respond to an improved policy environment. The risks and costs of marketing and transport should decrease, thereby reducing barriers to entry and encouraging a generally more competitive market that will support price liberalization. Increased supply and cheaper transport should also benefit consumers with lower parallel market commodity prices. A narrowing of the gap between official and parallel consumer prices, moreover, should facilitate the phasing out of commodity price controls.

The economic importance of channelling foreign exchange and land to private sector producers will increase. Improved security should allow greater economic opportunity. This, in turn, will increase the opportunity cost of allocating scarce resources to inefficient producers. It should be noted that foreign exchange constraints will increase, given massive rehabilitation investment requirements, although donor aid could increase in response to peace.

Peace will carry with it complications. Mozambique will move more quickly toward its production possibility frontier and will require a more complex set of inputs based on a greater understanding of the economy to generate each increment of growth. Although data collection and analysis will become easier, it will take time to expand data collection systems and analytic capability. Peace, furthermore, will inevitably require political restructuring. Leaders seeking broad-based support may find it increasingly difficult to make economic decisions that involve short-term austerities. Thus the pace of reform could very well slow even though the environment for growth vastly improves. (See Annex H for a discussion of governance issues that may affect the A.I.D. program.)

Deteriorating Security

Significant security deterioration which further curtails road transport, displaces more people, and draws a tighter circle around urban centers would shift the USAID program back to an emergency orientation. Emergency food needs would increase, but it would become more difficult to track and deliver food assistance to target populations. Migration would increase urban food requirements and exacerbate unemployment and poverty. A continued rise in the number of absolute poor in urban centers would require reconsideration of free urban food distribution. A significant threat to urban stability and viability would, furthermore, require a general reorientation to an urban-based strategy.

Programs addressing absolute poverty would have little impact on promoting a transition to development and would focus more on emergency mitigation. Preventive health care and family planning would remain viable as part of PVO activities if PVOs could continue to reach target populations. Among those who have access to land, agpaks would help avoid total dependence on food aid. But given land constraints and the likely difficulty of infrastructure rehabilitation, increasing household or national self-reliance would be unattainable.

Policy dialogue on agricultural production and marketing would be less meaningful and its impact would decrease. Although policy reforms would help build a base for future growth, inability to travel and monitor impact would jeopardize successive stages of reform. Immediate emergency concerns would likely supersede Government commitment to policy reform. USAID would continue to work on policy issues, but would increasingly have to revert to private sector targeted CIPs where investors knowledgeable of security constraints drive the program. Commodity demand, moreover, would very likely decrease.

The land and foreign exchange allocation debate would intensify, becoming more controversial as all sectors of the economy vied for limited resources. This might exacerbate old tendencies toward centralized administrative controls. Possibly, increased Government dependence on donors for the very viability of the state would counterbalance incentives to backtrack on reforms, but any policies negotiated under such circumstances could not be considered lasting.

Most disturbing, however, would be the prospect for widespread starvation and human suffering associated with deteriorating security. In part, this would be due to the effects of war. A second dimension would be the likely donor response. Mozambique has benefited from an unprecedented donor outreach, but donors are anxious for improvement in the general situation and will surely not see it if the war intensifies. Sheer human need has held donor attention, but diminishing disbursement on aid pledges suggests a waning of interest as well as increasing concerns for accountability. Given Mozambique's vast dependence on foreign aid, any significant diminution of donor assistance would directly jeopardize human lives.

SECTION VI
PLANS FOR IMPLEMENTATION

A. Level and Use of Resources

The USAID/Mozambique program will tap a variety of funding sources: DFA bilateral funds, the Africa Economic Policy Reform Program, the Southern Africa Regional Program, Title II emergency food aid, Title II Section 206 commercial food assistance, Section 416 food aid, and OFDA disaster funds. Although these resources (with the exception of the Targets of Opportunity discussed in Section V) all contribute to a food security strategy, the array of funding sources complicates planning due to differences in regulations and approval procedures. In particular, the insurgency has created a "structural" emergency that must be factored into multiyear budget plans even though forward planning for emergencies contradicts OFDA and Title II guidance. USAID's strategy for FY1990-1992 must, consequently, make a number of funding assumptions that cannot be guaranteed but are nevertheless essential in developing a multiyear programming framework. Specifically, USAID has assumed:

1. DFA: The Mission's OYB will be $20 million in FY1990 and increase to $22 million in FY1991 and $23 million in FY1992.
2. AEPRP: A $10 million program focused on marketing reforms will be approved for disbursement in FY1990 and FY1991.

3. Title II Emergency Food: Funding for food aid and ocean transport will remain at historical levels, although the form of assistance may gradually change to multiyear PVO programs.
4. Section 206/Section 416 Commercial Food Programs: Funding for food aid and ocean transport will approximate historical levels with the commodity mix changing to reflect local requirements and private sector import capacity.
5. OFDA: Disaster assistance requirements will continue at an estimated annual level of $1-2 million.
6. SARP: Funds will be made available for locomotive purchases ($20 million), Nacala-Malawi railway rehabilitation ($10 million) and, should they prove feasible, EPZ development ($4 million).

Table VI.1 summarizes the implications of these funding assumptions for U.S. assistance to Mozambique during the planning period. Programming of local currency is discussed in Annex E.

B. Policy Reform Agenda

Policy reform is central to USAID's country assistance strategy. All elements of the program -- food aid, project and non-project assistance, donor coordination activities, policy dialogue, and local currency programming -- will influence and be influenced by Mozambique's changing policy environment.

The macroeconomic policy framework negotiated with the World Bank and the IMF underpins the Government of Mozambique's ambitious program for economic rehabilitation. Three years into this program, the Government has recommitted itself to:

> "A strategy which places primary emphasis on rural development and which combines a strong effort toward poverty reduction with liberalization measures designed to promote freer markets and economic growth."*

*October 3, 1989 Report, prepared by the Government of Mozambique for the November 16, 1989 Meeting of the Consultative Group for Mozambique.

TABLE VI.1
U.S. ASSISTANCE TO MOZAMBIQUE
FY1990 -- FY1992
($000S)

PROGRAMS FUNDED BY ACCOUNT	FY1990	FY1991	FY1992	COMMENT
DEVELOPMENT FUND FOR AFRICA (DFA)				
0207 PILOT CHILD SURVIVAL	400	0	0	APPROVED PROGRAM
0208 PRIVATE SECTOR SUPPORT (COMMODITY)	12,500	13,100	13,000	FY1989-91 APPROVED
0209 MOZAMBIQUE CHILD SURVIVAL	0	1,000	2,000	FY1991 DESIGN
0210 TRAUMATIZED ORPHANS (SAVE)	300	0	0	APPROVED PROGRAM
0211 CARE LOGISTICS SUPPORT	1,200	0	0	APPROVED PROGRAM
0217 PVO SUPPORT PROGRAM	4,000	6,000	7,000	FY1990 DESIGN
0218 PRIVATE SECTOR SUPPORT (TA)	600	900	0	FY1989-91 APPROVED
0463 HRDA SHORT-TERM TRAINING	200	200	200	APPROVED PROGRAM
0455 LONG-TERM TRAINING (AFGRAD)	200	200	200	APPROVED PROGRAM
0510 PROGRAM DEVELOPMENT AND SUPPORT	600	600	600	ANNUAL APPROVAL
DFA SUBTOTAL	20,000	22,000	23,000	
AFRICA ECONOMIC POLICY REFORM PROGRAM (AEPRP)				
0208 PRIVATE MARKET DEV AEPRP AMENDMENT	10,000	0	0	FY1990 DESIGN
AEPRP SUBTOTAL	10,000	0	0	
FOOD FOR PEACE (FFP)				
EMERGENCY FOOD	11,750	11,000	12,000	INCLUDES WFP
COMMERCIAL SALES PROGRAM	18,615	17,000	18,500	FY89-91 PROG APPROVED
OCEAN FREIGHT	30,000	25,000	25,000	ESTIMATES ONLY
INTERNAL TRANSPORT	500	500	500	ESTIMATES ONLY
FFP SUBTOTAL	60,865	53,500	56,000	VARIES W/FOOD PRICES
SOUTHERN AFRICA REGIONAL PROGRAM (SARP)				
REGIONAL RAIL -- NEW LOCOMOTIVES	10,000	10,000	0	FY90 AMENDMENT DESIGN
REGIONAL RAIL -- NACALA LINE	0	0	10,000	
EXPORT ENTERPRISE -- EPZ SUPPORT	0	3,000	1,500	DEPENDS ON FEASIBILITY
SARP SUBTOTAL	10,000	13,000	11,500	
OFFICE OF FOREIGN DISASTER ASSISTANCE (OFDA)				
AIRLIFT REQUIREMENTS	1,000	1,000	1,000	ANNUAL APPROVAL REQUIRED
OTHER EMERGENCY	500	500	500	ANNUAL APPROVAL REQUIRED
OFDA SUBTOTAL	1,500	1,500	1,500	
TOTAL U.S. ECONOMIC ASSISTANCE				
DFA	20,000	22,000	23,000	
AEPRP	10,000	0	0	
FFP	60,865	53,500	56,000	
SARP	10,000	13,000	11,500	
OFDA	1,500	1,500	1,500	
TOTAL PROGRAM	102,365	90,000	92,000	

Such a strategy demands that policy reform continue, and that macroeconomic

particularly focused on food security in order to mitigate the negative effects of both the insurgency and economic adjustment. In its 1989 Food Security Strategy and Action Plan, the GOM notes that:

> "It is important that public expenditure on food security be directed most towards investment in future economic growth and least towards transfers which create long-term dependence on costly welfare programs."

Thus, within the GOM-IBRD-IMF policy framework, and consistent with the country assistance strategy detailed in Section V, the USAID program will continue to encourage, guide, and support the Government to pursue a specific policy reform agenda in food security and agriculture. The principal policy dialogue forum is the GOM-USAID Policy Working Group established in 1989 to monitor progress on policy changes negotiated under multi-year P.L.480 Title II Section 206 and Private Sector Support programs. The Working Group includes high-level representatives from the Ministries of Agriculture, Commerce, International Cooperation, Finance, and Planning, as well as from USAID. The agenda to be pursued during the strategy period is outlined below to show its contribution to achieving our four strategic objectives.

Strategic Objective One:

Sus food safety net for the urban poor and those displaced and sev war.

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Policy issues:

- Improved logistics capability, efficiency of operations, and accountability for food aid distributions.

Strategic Objective Two:

Reduce, among target population groups, dependence on external food aid to meet subsistence requirements.

Policy Issues:

- Increased reliance on non-governmental initiatives to develop community services.
- Encouragement of local non-governmental initiatives to increase rural employment, production capacity, and cash income of vulnerable households.

Strategic Objective Three:

Establish a policy environment conducive to private agricultural production and marketing.

Policy Issues:

- Reduced direct government role in agricultural production and marketing.
- Elimination of fixed prices for agricultural commodities.
- Elimination of price and movement restrictions on trade and transportation of agricultural commodities.
- Improved land tenure security for private commercial and family farmers.

Strategic Objective Four:

Increase the role of the market in allocating productive resources to private producers.

Policy Issues:

- Divestiture of state farm lands and related enterprises to private operators.
- Reliance on private sector importers and distributors to supply inputs to producers, to traders/transporters, and to processors of agricultural commodities.
- Market-based access to foreign exchange for private-sector agriculture-related investments.

There is, finally, a question of demographic variables that are a common denominator in most program targets and profoundly influence the Mission's strategic framework. The rate and distribution of population growth are particularly fundamental to emergency planning and sustainable development in Mozambique. The Mission, in cooperation with the World Bank, UNFPA and other donors will therefore incorporate population issues as an important theme that

cuts across its policy dialogue and will assist the Government in its stated objective of developing a formal population policy.

Initial steps would involve tapping central funds to finance technical assistance and perhaps training from the U.S. Bureau of Census for conduct of the 1990-91 Mozambique Census (or surveys, if it is impossible to carry out the full census). The Mission will also seek to increase leadership awareness of population dynamics through population projections and interactive computer presentations. Longer term analysis, in conjunctions with the National Planning Commission, would focus on government policies which affect family decision making and individual fertility behavior.

C. Monitoring and Evaluation

Monitoring and evaluation of both emergency and development activities will be essential to understand program impact and to enhance the program's relevance and effectiveness. In particular, progress in implementing the above policy agenda will depend on the GOM and USAID's capacity to monitor the impact of incremental policy measures, confirm their validity, and build consensus for further reforms. It must be recognized that both the security situation and limited government statistical capacity severely constrain effective program evaluation. Measures can and will be taken to improve the Government's data collection and analytic capacity. However, the security situation, particularly if it worsens, could freeze the process of reform.

The GOM's data collection systems are generally weak or non-existent. In part, the security situation precludes systematic sampling. Most district capitals are accessible only by air. From there, travel to rural areas generally requires military escort. The result has been little in-depth analysis of rural conditions, problems and socioeconomic patterns.

Other data problems stem from Mozambique's desperate economic situation and trained personnel shortages. Senior analysts in government generally have had limited training in data collection techniques and even less training in data analysis. Data collection, moreover, is often donor driven, with surveys usually designed to satisfy a particular requirement. As a result, data are

often not compatible and surveys are not repeated regularly to allow time series analysis. There is also limited interchange of reports across and even within ministries, so that the information which exists is seldom widely available, and decision makers are not always cognizant of survey results.

USAID's monitoring and evaluation strategy is to maximize the usefulness of data available from the GOM and other donors, facilitate limited sample surveys when more extensive surveys are not possible, and incorporate monitoring components into individual projects and grants that will help assess progress toward Mission objectives. Principal responsibility for monitoring and evaluation will rest with a Monitoring and Evaluation Unit within the Program Office. The unit will include a USDH economist, an FSN evaluation officer, and an FSN data analyst. The unit will work closely with all Mission offices, both on program monitoring and data collection, as well as on formal evaluations. Results of USAID impact analyses will be channelled through the joint GOM-USAID Policy Working Group to ensure they reach Government decision makers.

Annex A provides a detailed summary of how data collection efforts relate to individual program benchmarks. Following are specific strategies the Mission will employ, taking into consideration security problems and constraints, to enhance data collection capacity and improve its understanding of socioeconomic developments. As the discussion indicates, there are severe limitations on the quality and extent of data that can be obtained.

1. Government and Donor Statistics: in conjunction with establishing a monitoring and evaluation unit, USAID has developed a database for socioeconomic indicators. The unit will liaise with the statistics departments in key GOM ministries as well as with other donors active in agriculture, health, population, and food programs in order to facilitate sharing of information and encourage collaboration on data collection efforts. USAID will then screen data for compatibility in the course of entering it into the database.

2. Official Agricultural Statistics: as discussed in Section V, USAID is working to develop institutional relationships with U.S. universities that could provide support for data collection and analysis. A proposed buy-in to the Michigan State University cooperative agreement would help the GOM/USAID Policy

Working Group collect data on private family and commercial farms and rural markets. Although data collection would have to be concentrated in a few secure areas, it would provide a more detailed understanding of farming and trade practices, responsiveness to policy changes, and constraints to agricultural development. MSU staff would work closely with Ministry of Agriculture staff to help improve survey techniques and analytic capability. A buy-in to the Land Tenure Center cooperative agreement would monitor state farm divestitures.

3. Selected Agricultural Samples: USAID is in the process of developing a network of model farms (3 in each of seven provinces) which it will monitor throughout the reporting period. Monitoring will provide insights into the decision-making process for agricultural investments, the effects of increased use of capital on farm labor, marketing practices, and responsiveness to policy reforms. USAID will also enter into contracts with traders in most provinces to provide monthly data on price changes as fixed farmgate prices are phased out.

4. Demographic Data: USAID will offer limited technical assistance to the National Planning Commission for the 1991 Census (or special surveys if the census cannot be carried out). As part of its dialogue with the Government on population policy USAID will request AID/W assistance in developing population projections and interactive models.

5. General Health Data: USAID does not have the capacity to collect data nationwide and therefore relies on UNICEF and the Ministry of Health for basic health indicators. To the extent they can be obtained, data encompass maternal and child health, communicable diseases, malnutrition related diseases, and basic demographics.

6. Project Specific Health Data: under the Pilot Child Survival Project and follow on efforts, USAID will have access to information collected by the implementing NGOs assisted by Johns Hopkins University. Data will cover diarrheal control, vitamin A supplementation therapy, growth monitoring, and immunizations. Initial data will be limited to four project areas in Zambezia province, and will be instructive in understanding what impact basic interventions might have under insurgency conditions. USAID will also collect

data under the Prosthetics Assistance Project which will indicate numbers of people in need of prosthetic and orthotic devices as a result of war and crippling diseases.

7. Rural Socioeconomic Data: each PVO Support Project grant will include monitoring and data collection focussed on basic socioeconomic indicators. Data will encompass sources of household income and expenditure, composition of households, production capacity, access to clean water, nutrition, and maternal and child health. Data will be essential in determining the capacity of rural households to make a transition from food dependency to limited self-provisioning, and will assist in planning interventions to improve household food security. Samples will have to be limited both in size and geographic scope according to PVO project areas.

8. General Household Data: USAID will rely on data collected by the Food Security Department in the Ministry of Commerce (with UNICEF's assistance) for general household level data that includes information on urban poverty and, in particular, access to the ration system, as well as on the extent of rural self-sufficiency. Surveys have thus far been limited to Maputo, Tete and Nampula cities as well as various rural sites. Although data are unlikely to be sufficiently reliable to plan specific interventions, or to be collected consistently enough to permit rigorous analysis over time, they will give some indication of the extent of poverty and the effectiveness of both the rural and urban food safety nets.

9. Emergency Food Programs: DPCCN, assisted by PVOs, will be the principal source of information on food accountability, logistics capacity and increased utilization of the private sector for food transport. CARE works directly with DPCCN in an advisory capacity, but does not have direct oversight of food monitoring and data collection. Other PVOs (presently World Vision and ADRA) are more directly involved in food logistics, but generally do not participate in final distributions. Security risks further reduce monitoring capacity beyond the district level. The information provided through DPCCN and the PVOs will give a general sense of progress in improving food accountability, but gaps in tracking systems will inevitably persist as long as travel is highly restricted and irregular.

10. Commercial Food Programs: USAID will rely on the Food Security Department in the Ministry of Commerce for data related to commercial food programs, including food needs, donor pledges, actual food arrivals, food stocks and pipeline, and domestic production available for commercial sale. USAID is funding an advisor to assist the food security department in assessing food needs and availabilities; the EEC and FAO are also providing technical assistance. Data on donor pledges, arrivals and food availability are reliable. Data on commercialized domestic production depends on the parastatal marketing corporation and generally understates market sales, but there are presently no more reliable alternatives. The samples under the proposed MSU initiative would give a fuller picture of marketing patterns, but sample sizes are likely to be too limited to extrapolate broadly.

11. Macroeconomic Data: the World Bank and IMF continue to be the principal sources of macroeconomic data, but their efforts are also constrained by the GOM's limited capabilities. The IMF has not published detailed monetary and fiscal data on Mozambique, requiring to some extent general acceptance of the conclusions from their analyses. Although the IMF should continue to take the lead role in fiscal and monetary policy, USAID will work with the Fund and the Ministry of Finance to facilitate donor access to budgetary and banking system details in order to assess progress in curtailing credit and subsidies to parastatals. Balance of payments data tend to be reliable because donor assistance dominates the external accounts and can be tracked.

12. Railroad Transport Data: SATCC and CFM collect and publish quarterly data on regional trade, total freight carried by the railways, locomotive availability, and passenger and service coverage.

D. Management Implications

The USAID/Mozambique program presents a signal management challenge beyond the sheer complexity of implementing a combined emergency and developmental program in the face of widespread rural insurgency. Unlike most A.I.D. country programs, the portfolio has evolved with a non-project assistance focus supported by selected project activities which contribute to an overall food security goal. Mission management structures must reflect this non-traditional approach and facilitate close staff interaction to ensure effective policy

Figure VI.1 presents an organization chart for the Mozambique Mission. The Office of the Director, the Controller's Office and the Executive Office exercise functions common to most A.I.D. programs. The Program Office plays a coordinating role in policy analysis and negotiation, planning and budgeting, and monitoring and evaluating program impact. The General Development Office consists of three units addressing interrelated nutrition and health problems: emergency and commercial food aid, PVO programs facilitating a transition from relief to rehabilitation, and health and population activities that are implemented by PVOs and relate directly to food access. The Agricultural Development Office will be established after the arrival of an Agricultural Development Officer and will implement activities to support private agriculture and facilitate state farm divestitures. The Private Sector and Infrastructure Development Office is organized around the targets of opportunity identified in Section V (i.e., railway support and EPZ development), but will also contribute to privatization efforts in the food sector and to PVO infrastructure rehabilitation activities.

The food security issues being addressed in the program cut across specific office responsibilities. As a means to facilitate interaction and keep the program on target, USAID will establish seven issues committees that are the program-level equivalent of traditional project committees: food and agriculture policy; donor coordination; commercial food programs; emergency food programs; PVO initiatives (including health and population); local currency; and administration and management. Each committee will identify sector priorities, bring issues and opportunities to the attention of Mission management, program staff resources to address policy priorities, and review implementation progress. Each committee will have a core group of individuals most directly involved with the issue area, and other Mission staff will be drawn upon when specific expertise is required.

Two aspects of the Mission's organization chart merit special attention.

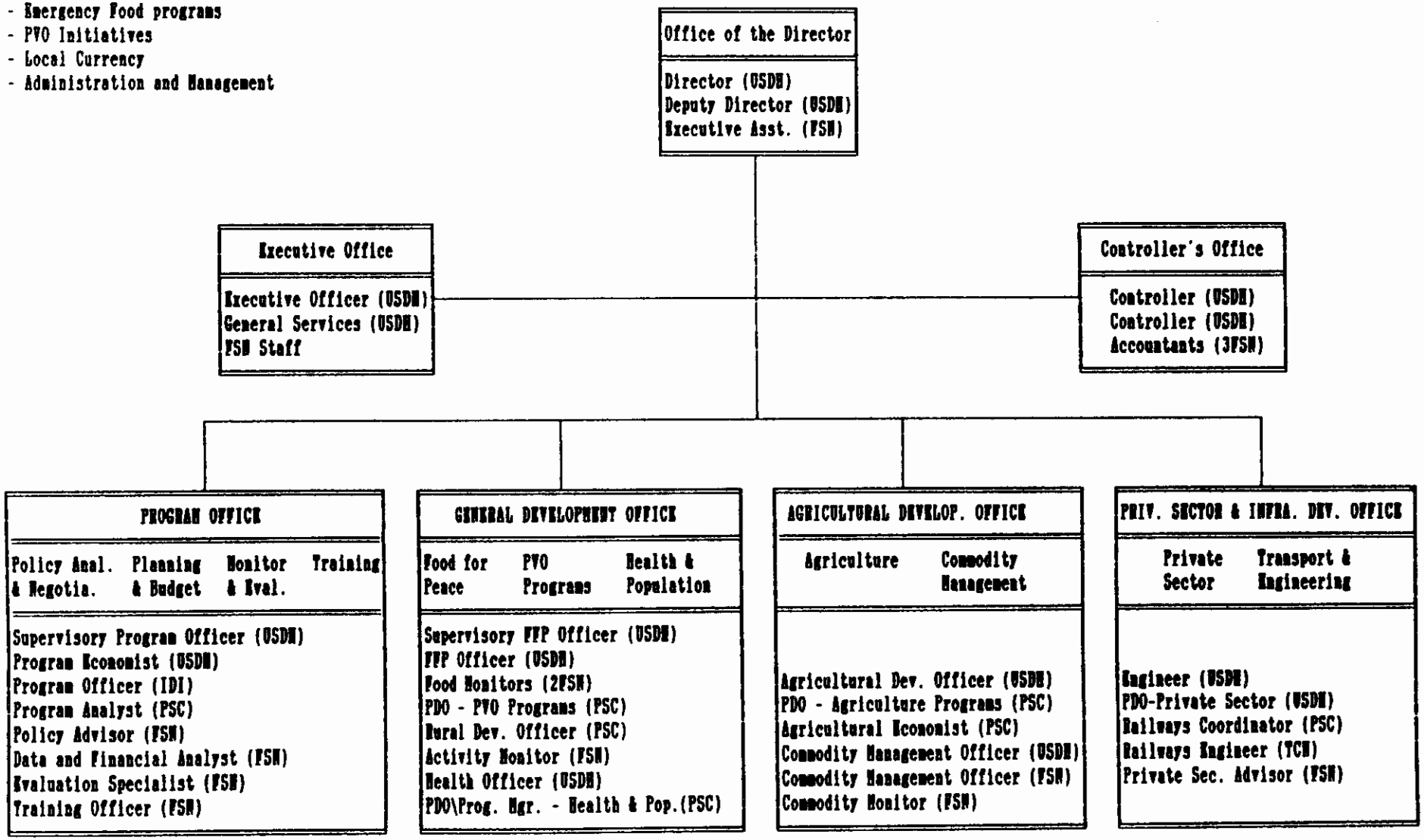
First, it is clear from the strategy presented in Section V that the special skills of Project Development Officers are critical to implementing and refining the Mission's project and non-project assistance portfolio, even though no major new design activities are planned after FY1990. Mozambique's unusual

First, it is clear from the strategy presented in Section V that the special skills of Project Development Officers are critical to implementing and refining the Mission's project and non-project assistance portfolio, even though no major new design activities are planned after FY1990. Mozambique's unusual development climate (strong macroeconomic and sectoral reform in the face of continuing insecurity) demands regular adjustment in the portfolio; for example, to refine the policy dialogue agenda, modify the food or commodity import mix, or develop or amend grant-supported PVO activities. To enable the Mission make such adjustments, PDOs will be integral to each line division and involved in the whole process of design-implementation-adjustment of project and non-project assistance.

Second, successful implementation of this strategy depends on USAID's ability to attract and retain highly skilled PSCs and FSNs. FSNs provide the in-depth understanding of Mozambican politics, history, government bureaucracy, and personalities which is critical in negotiating and implementing a policy-based program. PSCs contribute analytic and technical skills essential to program design and implementation that, given Agency-wide budget constraints, cannot be met with direct hire staff. Throughout the portfolio, FSNs and PSCs hold positions parallel to those of USDH staff (except for certain functions legally reserved to direct hires). PSCs and FSNs can generally be program financed, thereby alleviating OE pressures. Nonetheless, wage ceilings continue to be a constraint in recruiting and retaining professional FSN staff, who regularly receive better offers from other donors.

FIGURE VI.1
USAID\MOZAMBIQUE
ORGANIZATION CHART

Issues Committees:
- Food and Agriculture
- Donor Coordination
- Commercial Food Programs
- Emergency Food programs
- PVO Initiatives
- Local Currency
- Administration and Management



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Summary of Objectives, Benchmarks and Means of Verification

Strategic Objectives/Targets/ Subtargets	Benchmarks	Means of Verification	Comments
Strategic Objective 1: Sustain an effective food safety net for the urban poor and those displaced and severely affected by war or natural disasters.	- Rural and urban levels of malnutrition disaggregated by gender.	MOH records; UNICEF records; MOC surveys.	National statistics difficult to obtain due to security situation.
	- Rural and urban rates of infant mortality.	MOH records; UNICEF records.	Principally Maputo and selected rural areas.
	- National food requirements relative to domestic production plus total imports.	MOC records; MOA records; annual UN/GOM appeal.	Food requirements subject to population error. See Annex C for ration assumptions. Production data based on parastatal purchases.
Target 1-1: Meet 30 percent of the annual emergency food needs of those displaced and severely affected by war or natural disasters.	- Free food distribution requirements relative to donor pledges and actual deliveries.	UN/DPCCM records; MOC records.	Indicates appropriateness of USAID target and need for adjustment.
	- Stability of supply in the emergency food aid pipeline.	CARE/DPCCM records.	Indicates crises in meeting food needs.
	- Increased percentage of designated beneficiaries in PVO target areas who receive full rations 100 percent of the time.	PVO records.	Although critical in assessing end impact, security situation presents a measurement constraint. Limited to selected PVO project sites.
Subtarget 1-1-1: Improve logistical capacity and efficiency as well as accountability for food aid programs.	- Emergency food transport contracted to the private sector increased from 10,000 MT to 20,000 MT.	CARE/DPCCM records.	Indicates indirect support for private transport (See also Target 3-2) and expansion of distribution capacity.
	- Percentage of unsigned waybills for commodity deliveries from ports to district warehouses and distribution centers reduced from 60 precent to 40 percent.	CARE/DPCCM records; other PVO records.	Security situation compromises capacity for end use monitoring, limiting data to selected PVO sites. Waybills act as a proxy for accountability and are spot checked by PVOs to verify authenticity.

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Strategic Objectives/Targets/ Subtargets	Benchmarks	Means of Verification	Comments
Subtarget 1-1-2: Increase amounts of locally produced food purchased and utilized for emergency distribution.	- Increased percentage of domestically produced food used for free food distribution.	MOC records; DPCCN records.	Indicates extent to which food aid programs support local markets.
	- Increase in local currency budgeted (or generated in PVO programs) and expended for domestic food purchases for emergency distribution.	MOF records; PVO records.	Indicates financial wherewithal to procure local surpluses.
Target 1-2: Meet 40 percent of the maize requirements (about 25 percent of total food needs) for the market dependent population.	- Decreased percentage of household income required to meet household food needs in lower income groups within sample areas.	MOC/UNICEF surveys.	Data limited to sample surveys in selected urban and, if possible, rural sites.
	- Total maize supply from all sources (food aid, domestic production and commercial imports) relative to national market requirements.	MOC records.	Indicates appropriateness of USAID target and need for adjustment. Production data limited to AGRICOM estimates.
	- Stability of yellow maize supply in the Maputo and Beira ration system and in other urban centers.	MOC records.	Records dependent on donor shipments and are reasonably accurate.
Subtarget 1-2-1: Streamline ration system operations and increase its focus on providing commodities to the urban poor.	- Removal of white maize from the ration system and and liberalization of its consumer price.	MOF/MOC records; policy announcements.	Monitored through Policy Working Group.
	- Completion and implementation of an action plan to eliminate regulations that reduce the access of the poor to the ration system, shift the focus of the ration system to commodities that primarily benefit the poor while decreasing the allocation of commodities that primarily benefit upper income groups, allow greater flexibility in the ration mix and adjust the ration size to actual consumer needs.	Existence of action plan; MOC records.	Monitored through Policy Working Group. The action plan itself represents a significant policy development and is not regarded merely as a management step.

Strategic Objectives/Targets/ Subtargets	Benchmarks	Means of Verification	Comments
Subtarget 1-2-2: Increase private sector participation in food imports.	- Authorization of the private sector to import maize, beans and vegetable oil.	USAID agreement documents; policy announcement.	Critical policy determinant rather than just a management step.
	- 100 percent private importation of USAID-financed beans and vegetable oil for commercial sale.	GOM/USAID policy agreement; USAID records.	USAID funding contingent on private sector importation.
	- Initiate private importation of USAID-financed maize for commercial sale.	GOM/USAID policy agreement; USAID records.	Policy negotiations ongoing.
	- Reduction in real terms of subsidy levels to parastatals involved in food imports and processing.	MOF records; IMF/World Bank reports.	IMF takes lead role. Expenditure data has been poor.
Strategic Objective 2: Reduce, among target population groups, dependence on external food aid to meet subsistence requirements.	- Increased reliance on local production and markets, rather than emergency food aid, to meet food requirements.	PVO surveys; DPCCN records.	Assumes security situation permits programs to continue. PVOs will take lead role in designing activities based on knowledge of local conditions.
	- Reduction in growth faltering rates.	UNICEF records; MOH records; PVO surveys.	Surveys will be of target populations limited in size and geographic area, precluding reliable extrapolation.
Target 2-1: Increase rural employment, production capacity and cash income among target groups.	- Increased number of households with cash income in target areas.	PVO surveys of target populations.	Small target population. Assumes security situation permits PVOs to initiate labor-intensive works projects.
	- Increased number of households with full- or part-time wage earning family members in target areas.	PVO surveys of target populations.	
	- Increased total household agricultural production for own consumption or sale in target areas.	PVO surveys of target. populations.	Small target population. Assumes security situation permits access to, on average, 2 ha plots of land.

Strategic Objectives/Targets/ Subtargets	Benchmarks	Means of Verification	Comments
Target 2-2: Increase coverage of preventive health care and availability of basic services among target groups.	- Percentage increase in immunization coverage.	PVO surveys; MOH records.	Assumes security situation permits programs to continue. Data limited to target areas.
	- Percentage increase in number of women able to use ORT.	PVO surveys; MOH records.	Assumes PVO projects will encompass these activities.
	- Higher ratio of latrines and/or clean water per number of families.	PVO surveys; UNICEF records.	Small target population.
Strategic Objective 3: Establish a policy environment conducive to private agricultural production and marketing.	- Increased share of marketed output channeled through private traders and transporters.	MOC records; USAID TA samples.	Security situation a constraint. No current data collection mechanisms exist for private trade.
	- Increased marketing of both food and cash crops.	MOC records.	Marketing Data channelled through parastatal and unreliable. USAID will fund limited sample surveys. Inability to monitor policy impacts will jeopardize future reforms.
Target 3-1: Increase the role of the market in determining producer prices.	- Full deregulation of the producer price for selected cash crops.	CNSP records; MOF records.	Monitored by Policy Working Group.
	- Full deregulation of the producer price for beans.	CNSP records; MOF records.	Monitored by Policy Working Group.
	- Maize and rice moved from fixed administrative prices to a floor price system.	CNSP records; MOF records.	Monitored by Policy Working Group.
Target 3-2: Allow market incentives and local entrepreneurial initiative to play a more dynamic role in domestic agricultural trade.	- Phasing out of fixed tariffs in favor of transporter-client negotiated rates.	MOF/MOT records.	Monitored by Policy Working Group.
	- Elimination of fixed marketing margins for domestically produced maize,beans and rice.	MOF/MOC records.	Monitored by Policy Working Group.
	- Elimination of trade restrictions that permit market-based decisions on commodity movements.	MOC records.	Monitored by Policy Working Group.
	- Free competition in internal trade of all commodities.	MOC records.	Monitored by Policy Working Group.

Strategic Objectives/Targets/ Subtargets	Benchmarks	Means of Verification	Comments
Strategic Objective 4: Increase the role of the market in allocating productive resources to private producers.	- Number of state farms and total agreage divested to private commercial and family farmers.	MOA/MOF records.	USAID to provide TA.
	- Reduction of real subsidies and credit to state farms.	MOF records; IMF/World Bank reports.	IMF data on subsidies has been poor and incomplete.
	- Increased private sector share of "free" foreign exchange allocations.	MOF records; IMF/World Bank reports.	Data dependent on donor assistance and fairly reliable.
Target 4-1: Promote the divestiture of state farms to private commerical and family farmers.	- Completion of a GOM action plan for the restructuring of state farms and delineating divestiture policy.	Divestiture plan.	USAID to provide TA. Action plan represents completion of a specific policy commitment.
	- Completion of a USAID specific divestiture schedule.	Divestiture schedule.	USAID to provide TA. Represents completion of a specific policy commitment.
	- Implementation of divestitures through 1992 as specified in the schedule.	MOF records; USAID funded surveys.	Complex issues of land tenure must be resolved. USAID to provide TA.
Target 4-2: Institutionalize market -based allocation of foreign exchange for agricultural inputs.	- Eligibility for SNAAD financing expanded to the agricultural sector.	Policy announcement.	World Bank closely monitors. Represents critical policy development in FX allocations.
	- Full GOM compliance with IMF ceilings on credit and subsidies to parastatals.	IMF records.	Indicates that parastatals do not get preferential treatment in access to financing.
	- Exchange rate devalued to reflect increased demand for foreign exchange under the SNAAD and thereby bring the real effective exchange rate closer to equilibrium.	Actual exchange rate. USAID parallel exchange rate surveys.	Indicates extent to which SNAAD actually becomes a mechanism to link the exchange rate to the FX market.

Macroeconomic Conditions and Prospects

During the decade and a half of its independence, Mozambique has experienced major upheavals which have depressed its standard of living, already one of the lowest in Africa, to probably the lowest level of any country in the world. The combination of many factors -- a flight from 1974-76 of more than 230,000 Portuguese settlers who made up most of Mozambique's skilled labor force before independence, the economic disruption consequent to the introduction of a command economy model in the post-independence period, and the wholesale devastation resulting from a foreign-sponsored insurgency -- produced a precipitous decline in income and output. As a result, the level of real GDP fell by an estimated one-third between 1973 and 1983. The World Bank estimates that per capita GDP fell by one half over the same period.

The severe deterioration of the Mozambican economy is particularly striking in view of the fact that the country is widely thought to have considerable growth potential. There is an abundance of good agricultural land receiving adequate rainfall. Mozambique is a key transportation corridor for Malawi, Zimbabwe, and northern South Africa. The Zambezi River offers enormous hydroelectric potential. Abundant mineral resources have gone virtually untapped.

A. Evolution of Macroeconomic Aggregates

Prior to a discussion of recent macroeconomic developments, it must be emphasized that the quality of the data on which these estimates are based is very poor. In the immediate post-independence period, poor data quality resulted both from trained personnel shortages in government and from the adoption of a soviet-style system of national accounting. In the post-1979 period, the gathering of data, particularly agricultural data, was impeded by rural insurgency. Agricultural production data, for example, are based on reports of marketing through official channels. This is probably a poor reflection of actual developments.

Given these problems, Table 1 provides the best available information about the evolution of GDP and its components since independence. In the three-year period just before and after independence, output fell at an annual rate of almost 10 percent. This decline was particularly felt in the manufacturing and service sectors as a result of the loss of skilled personnel and sabotage by departing Portuguese settlers. Interestingly, the decline in output in the agricultural sector, which accounts for almost half of the total value of output, was relatively minor, despite personnel losses and sabotage in the estate sector.

In the subsequent period, 1976-80, the economy experienced some recovery, as the GOM reorganized production, in the

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TABLE 1
EVOLUTION OF GDP BY SECTORS 1973-89
(PERCENTAGES BASED ON 1980 PRICES)

	GDP SHARES	AVERAGE ANNUAL GROWTH						
	1983	1973-76	1976-80	1980-83	1985-86	1987	1988	1989
GDP GROWTH	100%	-9.8%	2.5%	-6.3%	-6.2%	3.9%	5.7%	4.6%
AGRICULTURE	48%	-1.3%	1.1%	-9.5%	n.a.	6.2%	6.6%	3.0%
INDUSTRY	14%	-17.8%	3.2%	-7.8%	n.a.	0.1%	4.9%	7.9%
SERVICES	38%	-17.3%	4.7%	-0.7%	n.a.	1.9%	3.6%	5.3%
CONSUMPTION PER CAPITA	n.a.	n.a.	n.a.	n.a.	-8.6%	0.3%	0.7%	2.2%
FIXED INVESTMENT	n.a.	n.a.	n.a.	n.a.	n.a.	16.0%	20.0%	10.5%

SOURCE: IBRD, MOZAMBIQUE: AN INTRODUCTORY SURVEY, JUNE 6, 1985, TABLE 3.1
AND IBRD, REPORT TO THE CONSULTATIVE GROUP FOR MOZAMBIQUE ON
THE GOVERNMENT'S ECONOMIC REHABILITATION PROGRAM, OCT. 4, 1989, TABLE 3

rural areas in the form of state farms on the former agricultural estates, and in the manufacturing sector in the form of state/run, "intervened" enterprises. In one respect, the 2.5 percent estimated overall annual growth rate during this period is probably overstated since the most rapidly growing sector was the service sector and much of the growth in that sector represented an expansion of, probably not very productive, government employment.

Developments in the 1980-86 period were dominated by the insurgency and by the steadily worsening foreign exchange situation. Worst affected was the agricultural sector, whose output reportedly declined by almost ten percent per year. This was due in part to the unsettled security situation in the countryside, but also reflects the steadily deteriorating incentives to producers as real market prices fell and incentive goods became increasingly unavailable.

During this same period, industrial production declined by almost eight percent per year. If the drop in agricultural production is probably overstated, the decline in industrial production is not. It is almost entirely attributable to the foreign exchange shortage which cut off supplies of both imported inputs and, most important, spare parts.

The introduction of a market-oriented Economic Rehabilitation Program (ERP) in 1987, heavily supported by donor assistance, has produced significant economic recovery. The initial impact was greatest in the agricultural sector, due to improved price incentives and relaxation of the foreign exchange constraint as a result of high levels of donor support. Three successive years of good rainfall also contributed. The industrial recovery has proceeded more slowly, but growth in industrial output has increased steadily as domestic demand has increased and as external assistance has made possible the rehabilitation of industrial plant.

The strong recovery of economic activity has taken place despite the continuing insurgency in the countryside. However, it has been made possible only by extraordinary levels of donor assistance. Whether or not the security situation improves, the following balance of payments analysis demonstrates that economic growth in Mozambique is not sustainable without a continuing influx of donor support.

B. Balance of Payments Developments

Recent developments in the Mozambican balance of payments are summarized in Table 2. The first half of the decade was characterized by a steadily worsening balance of payments situation resulting from a combination of insurgency in rural areas, deteriorating incentives for agricultural producers to produce for

TABLE 2
MOZAMBIQUE: BALANCE OF PAYMENTS
(MILLION U.S. DOLLARS)

	1982	1983	1984	1985	1986	1987	1988	1989 PROJ	1990 PROJ	1991 PROJ	1992 PROJ	1993 PROJ	1994 PROJ
CURRENT ACCOUNT	-575.9	-505.0	-476.1	-440.1	-622.3	-676.0	-733.3	-951.4	-1009.6	-1063.8	-1088.0	-1145.6	-1219.8
TRADE BALANCE	-606.7	-504.8	-444.0	-347.2	-463.6	-528.0	-603.0	-755.0	-800.4	-854.6	-891.9	-953.8	-1033.0
EXPORTS f.o.b.	229.2	131.6	95.7	76.6	79.1	97.0	103.0	105.0	139.6	157.4	172.1	190.2	210.0
IMPORTS c.i.f.	835.9	636.4	539.7	423.8	542.7	625.0	706.0	860.0	940.0	1012.0	1064.0	1144.0	1243.0
SERVICES BALANCE	30.8	-0.2	-32.1	-92.9	-158.7	-148.0	-130.3	-196.4	-209.2	-209.2	-196.1	-191.8	-186.8
SERVICE RECEIPTS	171.3	165.7	118.1	107.1	119.0	137.0	156.6	161.5	164.0	176.1	189.5	201.5	213.9
TRANSPORT RECEIPTS	83.4	66.4	34.5	39.4	45.0	35.1	41.5	44.0	48.2	52.9	58.2	62.8	67.5
WORKERS' REMITTANC	63.5	75.2	57.0	40.8	50.0	58.0	71.6	73.5	67.6	70.3	73.1	76.0	79.0
OTHER SERVICES	24.4	24.1	26.6	26.9	24.0	43.9	43.5	44.0	48.2	52.9	58.2	62.8	67.5
SERVICE PAYMENTS	140.5	165.9	150.2	200.0	277.7	285.0	286.9	357.9	373.2	385.3	385.6	393.3	400.7
INTEREST	60.3	88.3	80.9	117.3	154.7	148.4	163.8	206.8	221.2	228.7	226.2	226.9	230.4
OTHER TRANSPORT	28.3	32.9	24.5	38.7	34.0	33.9	41.3	47.0	51.4	55.3	58.1	62.5	67.9
WORKERS' REMITTANC	23.8	19.9	25.7	25.0	23.0	25.0	25.3	29.6	30.8	32.0	33.3	34.6	36.0
INVESTMENT SERVICE					50.0	54.7	25.5	39.1	35.5	35.5	33.4	33.4	33.4
OTHER SERVICES	28.3	24.9	19.1	19.0	16.0	23.0	31.0	35.4	34.3	33.8	34.6	33.9	33.0
PRIVATE TRANSFERS	0.0	0.0											
OFFICIAL TRANSFERS	79.4	89.6	167.8	139.0	213.0	284.2	374.2	436.3	465.4	514.3	561.3	564.4	613.6
CAPITAL ACCOUNT	399.3	42.9	-73.5	-39.7	-51.5	-63.0	-112.1	56.8	84.8	141.9	169.3	175.9	215.0
LONG-TERM BORR	399.3	42.8	-73.5	-49.7	-51.5	-63.0	-170.8	56.8	84.8	141.9	169.3	175.9	215.0
DISBURSEMENTS	724.6	339.3	284.8	228.8	284.0	321.1	205.5	348.8	397.4	417.3	438.2	460.1	477.1
AMORTIZATION	-325.3	-296.5	-357.8	-278.5	-335.5	-384.1	-376.3	-291.8	-312.8	-275.4	-268.9	-284.2	-262.1
SHORT-TERM				10.0			58.7		0.0	0.0	0.0	0.0	0.0
ERRORS AND OMISSIONS	-42.4	9.2	25.6	-12.6	-27.2	18.1	41.9	-7.2	0.0	0.0	0.0	0.0	0.0
CHANGE IN NET INT'L RESERVES	-143.6	-363.4	-355.7	-352.4	-488.0	-436.7	-429.3	-465.5	-456.6	-407.6	-357.4	-385.3	-391.2
CHANGE IN RESERVES (- INCREASE)	148.7	15.4	-23.0	20.5	-23.5	-62.2	-16.0	-10.5					
IMF & OTHER	-5.0	62.8	-40.2	-12.7	29.3	15.4	25.4	16.4					
CHANGE IN ARREARS	0.0	285.3	205.6	152.7	482.2	483.5	0.0	0.0					
DEBT RELIEF	0.0	0.0	213.1	193.0	0.0	0.0	419.9	399.6					
EXTERNAL FINANCING REQUIREMENTS	799.0	777.0	811.1	700.8	1008.5	1104.2	1025.0	1200.9	1322.4	1339.2	1356.9	1429.8	1481.9

SOURCE: IBRD. Report to the Consultative Group for Mozambique on the Government's Economic Rehabilitation Program, Oct. 4, 1989. Tables 6 and 7

export, compounded by parastatal inefficiency. Merchandise exports (principally of agricultural products) declined from $229.2 million in 1982 to $76.6 million in 1985. Other major sources of earned foreign exchange were transport receipts, principally from railway transport to landlocked neighboring states, and workers remittances. Transport receipts declined as a result of the deteriorated security situation from $83.4 million in 1982 to $34.5 million by 1984. Receipts recovered somewhat in subsequent years but by 1989 are still only half of their 1982 levels. Workers remittances from miners working in South Africa declined from $63.5 million in 1982 to $40.8 million in 1985 before recovering to an estimated $73.5 million by 1989. A major factor in the increase in remittances was some improvement in wage policy on the part of South African mines; however, the number of miners working in South Africa continues to be cut back.

As Mozambique's external accounts deteriorated in the first half of the decade, the country balanced its external position by a combination of external borrowing, arrearages, and import compression. By 1985, merchandise imports had been reduced to $423.8 million, almost half their levels of 1982. This import compression was largely responsible for the decline in economic activity, especially in manufacturing, as discussed above.

Donor support for the stabilization program introduced in 1987 has financed a major expansion of imports, from $542.7 million in 1986 to an estimated $860 million in 1989, largely making possible the substantial output growth experienced during these years. Official grants, net new lending, and extraordinary balance of payments support will equal almost $900 million in 1989, an amount which exceeds total imports and which is equivalent to one-third of GDP. Such a level of donor assistance is unprecedented in Africa.

The right five columns of Table 2 show the projected balance of payments accounts which underlie a new Policy Framework Paper which the Government is negotiating with the World Bank and IMF for the 1990-93 period. In one sense, these projections are moderately optimistic. Exports are projected to grow at an average annual rate of over 10 percent, while import growth is projected at only 7.23 percent, over the 1990-94 period. Nonetheless, both the trade balance and the current account balance are projected to widen so that the total external financing requirement, far from declining toward a more "normal" level, actually widens during the projection period.

The key question about these projections (and the projected four to five percent growth rate which depends on them) is the soundness of the external financing estimates. This is clearly very difficult to predict. The earliest years, 1990 and 1991 are probably fairly realistic. However, the period 1992-1994 is more problematic as competing donor priorities and donor fatigue could affect assistance levels.

C. Fiscal and Monetary Trends

The Government of Mozambique has made substantial progress in improving its fiscal and monetary position since beginning the ERP in 1987. Nonetheless, it remains totally dependent on donor support for new investments.

As the result of the implementation of a tax reform in 1987 and 1988, government revenues were increased from an average of 13.1 percent of GDP for the period 1985-86 to 22.6 percent of GDP in 1989. During the same time period, current expenditures grew only from 23.8 percent of GDP to 25.6 percent, despite the fact that subsidies to parastatals were transferred from the financial system to the budget. The principal method used to constrain the growth of current expenditures was a major reduction in consumption subsidies. These were reduced from 8.8 percent of GDP in 1986 to 2.0 percent in 1989.

On the capital expenditure side, the GPRM was able to achieve a major increase in investment financed entirely by donors. Government investment as a percent of GDP rose from 5.1 percent in 1985-86 to 21.0 percent in 1989. With several new World Bank projects coming on line, it will rise to 34.1 percent in 1990.

Largely as a result of improved fiscal performance, money supply growth declined sharply, from 53 percent per year in 1987 to 29 percent in 1989. This made possible a substantial reduction in inflation from 163 percent in 1987 to an estimated 30-40 percent in 1989.

D. Outlook for the CPSP Period

The macroeconomic outlook for the CPSP period depends on a large number of factors. The most important of these are the level of external donor assistance and the state of the security situation. Rather than attempt to make a single projection, this section will outline a number of "scenarios". These will clearly not be exhaustive but they will provide a sense of the importance of certain key variables and their interaction.

The basic assumption underlying the projections of this section is that aggregate output (GDP) is a function of foreign exchange availability. In other words, it is assumed that the economy has excess capacity and unemployed labor, so that the only constraint to increased output is the foreign exchange necessary to purchase inputs and supply the demand for imported goods which higher levels of income would imply. In present day Mozambique, these seem to be reasonable assumptions.*

An important analytic caveat is that the critical variable in the

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* At times, however, the security situation will preclude taking advantage of economic opportunities, and this must be factored into any economic projections.

estimates of this section, the elasticity of output with respect to imports, has not behaved consistently during the period for which GDP estimates are available. This elasticity, which measures the percentage change in real GDP resulting from a one percent change in imports, was negative in 1986 (-.22), rose to .26 in 1987, .44 in 1988, then declined to .35 in 1989. The rise in the elasticity through 1988 is both explainable and expected. It reflects the increasing overall efficiency of the economy as a result of liberalization and specifically a more efficient use of import capacity arising from the more realistic exchange rate introduced in 1987 and 1988.

The anomalous apparent decline in 1989 may have a number of explanations. First, since it is based on projections made during the year, either the import projection may be too high, or, more likely, estimated GDP growth may be understated. Alternatively, the 1988 elasticity figure may be "too high" in some sense, and the .35 estimate for 1989 may be the "normal" elasticity of growth with respect to import capacity.

In the absence of any obvious way to resolve this question, the estimates that follow, in effect, "split the difference", assuming an elasticity of .40 in 1990, rising in steps of .05 each year, to reach .60 by 1994. It thus assumes a gradual increase in the efficiency with which the economy utilizes its import capacity as the effects of economic liberalization and structural adjustment work their way through the economy. It also implicitly assumes that security conditions will allow such a progression in economic activity.

Table 3 summarizes the simulations of four scenarios over the CPSP period. The first is the "base case". This assumes the levels of foreign assistance projected in the PFP and shown on Table 2. Under the assumptions discussed above, this produces strong growth in 1990 with more moderate growth in the 1991-94 period. At the end of the five year period, real output is 24.4 percent greater than in 1989. Of course, since population growth over the same period will be 13.7 percent, the growth in real output per capita will be only 9.4 percent. This is a relatively respectable result but depends, not merely on a continuation of present very high levels of donor assistance, but on their expansion.

Given recent events in Eastern Europe and elsewhere, it seems reasonable to explore the implications of a somewhat less robust level of external financing. In this alternative scenario, external financing, official grants, disbursements on medium and long-term external borrowing, and extraordinary "below the line" financing are assumed to remain constant at their 1989 levels. The BOP is assumed to balance through a decline in imports with a consequent effect on real GDP. This effect is shown on Table 3 as Alternative Scenario #1. Although the growth rate never dips below zero, the effect on output growth is dramatic. Over the five year period, growth in real GDP would only be 9.3 percent. When combined with the forecast 13.7 percent rate of population growth, this implies a fall in per capita production of 3.9 percent. While this is not a catastrophic fall, its implications for the dire poverty prevalent in the country are serious. This serious outcome results from a mere leveling off

TABLE 3
EFFECTS OF ALTERNATIVE SCENARIOS
ON GDP LEVELS AND GROWTH
(GDP INDEX 1989=100, AND PERCENT CHANGE)

	1989	1990	1991	1992	1993	1994
BASE CASE	100.0	107.0	110.7	113.5	118.2	124.4
WAR CONTINUES		7.00%	3.45%	2.57%	4.14%	5.19%
EXTERNAL FINANCING						
AS PROJECTED IN PFP						
ALTERNATIVE SCENARIO #1	100.0	100.4	103.5	105.5	106.0	109.3
WAR CONTINUES		0.40%	3.06%	1.97%	0.49%	3.05%
EXTERNAL FINANCING						
LEVELS OFF AT 1990						
LEVEL						
ALTERNATIVE SCENARIO #2	100.0	100.4	103.5	98.3	91.4	87.5
"DONOR FATIGUE"		0.40%	3.06%	-4.98%	-7.01%	-4.34%
WAR CONTINUES						
EXTERNAL FINANCING LEVELS						
OFF FOR TWO YEARS FROM						
1990 AND THEN DECLINES BY						
10% PER YEAR						
ALTERNATIVE SCENARIO #3	100.0	104.2	115.9	120.4	116.6	115.4
"PEACE"		4.15%	11.31%	3.85%	-3.14%	-1.02%
DONOR ASSISTANCE DECLINES						
STEADILY						

of external assistance at current extraordinarily high levels. It still assumes a considerable improvement in the efficiency of the economy.

The second alternative has been labeled the "donor fatigue" scenario. This assumes a two year leveling off of external financing followed by a ten percent per year decline in all types of external financing. The implications of this are severe and particularly so on a per capita basis. The end result is a gross decline of 12.5 percent over the forecast period and a per capita decline of 23.0 percent.

The last scenario, an end to the insurgency followed by a decline in donor assistance to more "normal" levels for a country of its size and level of income, is the most difficult to model. That is because it involves changes in two variables, the supply of tradeable goods produced by the Mozambican economy and the level of external financing, as well as some subtle changes in the underlying relationships.

It is possible to arrive at some estimates, based on production levels of various agricultural products in the late 1970s, of what the external accounts of a post-war Mozambique would look like. In the case of cashew production, which is essentially a "gathering" activity, it is reasonable to assume that exports recover fairly quickly given peace and a favorable policy environment for producers and traders. In the case of cotton, by contrast, the potential recovery would be more difficult as the entire processing and marketing chain would have to be reestablished. Overall, through a very speculative and subjective process, it has been estimated that, in the event of peace, merchandise exports would recover from the projected level of $200 million in 1990 to $353.5 million in 1994, merely through a recovery of past levels of export activity.

Offsetting this gain, of course, is a likely leveling off and eventual decline in the level of donor assistance. Whether, when, and how much of this decline would take place is quite speculative. To facilitate comparisons, it has been assumed that the assistance levels would follow the same path as in the "donor fatigue" scenario. That is, external assistance would level off for two years at the 1989 level and then decline by 10 percent per year.

One final effect of peace would be the opportunity for domestic food production to replace donated food in domestic consumption. This leads to two questions, (a) how much and how rapidly will domestic food production recover, and, (b) what will the donor response be? For modeling purposes, it has been assumed that domestic production could replace all donated commodities after a two year period and that donors would, initially, replace food donations with other forms of BOP assistance. Both these assumptions are undoubtedly optimistic.

The outcome of the "peace scenario" is shown in the last section of Table 3. The initial impact of peace, even with an immediate leveling off of donor assistance levels, is a burst of increased output. Real GDP rises more than four percent in the initial year and more than 11 percent in the second. Growth then slackens in the third year as falling assistance levels begin to be felt and actually declines in years four and five. At the end, the economy is significantly worse off than in the wartime base case with its ever-rising assistance levels.

Clearly not too much credence should be placed in the specific outcomes of this exercise, which depend on the specific, highly arbitrary, values chosen for each variable. The two qualitative conclusions, however, are quite robust. First, as long as the war continues, the standard of living of Mozambicans is extremely sensitive to the levels of general donor assistance. Second, the advent of peace would substantially change the nature of the country's problems, but those problems would still require very high levels of external assistance for a long time to come. The alternative, an abrupt decline in assistance, would be a decline in economic activity similar in nature although less severe in its impact to that brought about by the initiation of the widespread insurgency in the early 1980s.

FOOD AVAILABILITIES AND REQUIREMENTS

The following tables analyze food supply and demand for 1989/90 and 1990/91. Table C.1 is a summary table of overall food balances as projected through March 1990. Table C.2 extrapolates the overall food balance for the period April 1990-March 1991. Table C.3 focuses on the market dependent population and analyzes U.S. food assistance vis-a-vis market requirements. Table C.4 similarly considers U. S. emergency assistance relative to emergency needs.

Table C.1
FOOD SUPPLY/DEMAND SITUATION FOR 1989/90

	Maize	Wheat	Rice	Total
Supply:				
Opening Stocks (5/1/89)	48,234	23,158	12,500	83,892
Domestic Marketed Prod.	70,010	0	15,320	85,330
Total Available	118,244	23,158	27,820	169,222
Demand:				
Requirements	604,441	145,879	66,417	816,737
--Commercial Sales	348,389	145,879	66,417	560,685
--Emergency Distribution	195,106	0	0	195,106
--Food Bank	60,946	0	0	60,946
Carryover Stocks	100,740	24,313	11,069	136,122
Total Demand	705,181	170,192	77,486	952,859
Surplus/(Deficit)	(586,937)	(147,034)	(49,666)	(783,637)
Import Requirements				
--Commercial Imports	0	7,000	0	7,000
--Food Aid	(586,937)	(147,034)	(49,666)	(783,637)
Food Aid Arrived as of 11/15/89	167,191	64,660	34,147	265,998
Food Aid Expected to Arrive by 4/31/90	134,485	45,840	35,000	215,325
UNCOVERED DEFICIT	(285,261)	(29,534)	19,481	(295,314)

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Table C.2
Estimated Food Supply/Demand Situation for 1990/1991
Cereals (metric tons)

Item/Commodities	Maize	Wheat	Rice	Total
Supply				
a) Opening Stocks (4/30/90)	48,234	23,158	12,500	83,892
b) Domestic Marketed Prod.	73,511	0	16,181	89,692
Total Available	121,745	23,158	28,681	173,584
Demand				
c) Requirements	549,354	145,879	66,417	761,650
-- Commercial Sales	(275,257)	(145,879)	(66,417)	(487,553)
-- Emergency Distribution	(213,150)	(0)	(0)	(213,150)
-- Food Bank	(60,947)	(0)	(0)	(60,947)
d) Ending Stocks (4/30/91)	91,559	24,313	11,069	126,941
Total Demand	640,913	170,192	77,486	888,591
Surplus(Deficit)	(519,168)	(147,034)	(48,805)	(715,007)
Import Requirements	519,168	147,034	48,805	715,007
-- Commercial	0	0	0	0
-- Food Aid	519,168	147,034	48,805	715,007

Note: All figures for maize and wheat are in unmilled terms; figures for rice are in milled terms.

a) Estimate, Department of Food Security, December 1989.

b) Estimate, USAID.

c) Requirements are based on the following formulas:

	Population	Ration - Kg/year		
		Maize	Wheat	Rice
Market Population				
urban & peri-urban	2,599,475	65.9	56.1	25.6
affected rural	1,350,000	77	-	-
Emergency Population				
displaced	2,000,000	89	-	-
affected	450,000	77	-	-
Food Bank	477,074	127.8	-	-

Population figures are based on most recent estimates. The Government of Mozambique and donors will make new estimates for the 1990/91 emergency appeal in February - March 1990.

d) Minimum carryover stock requirements are estimated to equal two months consumption.

Table C.3

Food Requirements for Market Dependent Populations and U.S. Share -- FY1990

MAIZE

	Population*	Req't-MT	US 206/416	US %
Urban and Peri-Urban	2,599,475	171,307		
Rural Affected	1,350,000	103,950		
Subtotal	3,949,475	275,257	140,000	50.9%
Food Bank	477,074	60,946	0	0.0%
Total	4,426,549	336,203	140,000	41.6%

WHEAT

	Population	Req't-MT	US 206/416	US %
Urban and Peri-Urban	2,599,475	145,879		
Rural Affected	1,350,000	0		
Subtotal	3,949,475	145,879	10,000	6.9%
Food Bank	477,074	0		
Total	4,426,549	145,879	10,000	6.9%

RICE

	Population	Req't-MT	US 206/416	US %
Urban and Peri-Urban	2,599,475	66,417		
Rural Affected	1,350,000	0		
Subtotal	3,949,475	66,417	5,000	7.5%
Food Bank	477,074	0		
Total	4,426,549	66,417	5,000	7.5%

OIL

	Population	Req't-MT	US 206/416	US %
Urban and Peri-Urban	2,599,475	9,488		
Rural Affected	1,350,000	5,100		
Subtotal	3,949,475	14,588	0	0.0%
Food Bank	477,074	1,741	0	0.0%
Total	4,426,549	16,329	0	0.0%

BEANS

	Population	Req't-MT	US 206/416	US %
Urban and Peri-Urban	2,599,475	37,952		
Rural Affected	1,350,000	20,400		
Subtotal	3,949,475	58,352	0	0.0%
Food Bank	477,074	6,965	0	0.0%
Total	4,426,549	65,317	0	0.0%

TOTAL

	Population	Req't-MT	US 206/416	US %
Urban and Peri-Urban	2,599,475	431,043		
Rural Affected	1,350,000	129,450		
Subtotal	3,949,475	560,493	155,000	27.7%
Food Bank	477,074	69,652	0	0.0%
Total	4,426,549	630,145	155,000	24.6%

* Note: These population figures will be changed for the 1990/91 Appeal.

Table C.4

Estimated Food Supply/Demand Situation for Mozambique
Emergency Distribution Sector
1989 Appeal--Crop Year 1989/1990

A. Emergency Supply/Demand Situation (Metric Tons/000)

Item/Commodities	Corn	Beans	Vegoil	Total
Supply				
Begining Stocks [1]	13,685	2,559	1,917	18,161
Delayed Pledge Arrivals				
--Emergency Sector [2]	38,733	1,525	708	40,966
Local Purchases [3]	-0-	-0-	-0-	-0-
Total Available	52,418	4,084	2,625	59,127
Demand				
Consumption [4]				
--Displaced Persons [5]	178,500	20,400	5,100	204,000
--Affected Persons [6]	44,275	5,060	1,265	50,600
--Other Category [7]	-0-	-0-	-0-	-0-
Operational Reserve [8]	55,694	6,365	1,591	63,650
Ending Stocks [8]				
Total Demand [9]	278,469	31,825	7,956	318,250
Deficit [10]	226,051	27,741	5,331	259,123
Projected Supply Status				
--Donor Pledges [11]	178,555	20,736	4,154	203,445
--Local Purchases [12]				
Unmet Deficit [13]	47,496	7,005	1,177	55,678
U.S. Contributions:				
--Total (Metric Tons)	65,500	6,091	2,017	73,608
--As percent of Needs	23.5	19.2	25.4	23.1

Footnotes: [1] In-country Stocks as of May 1, 1989. [2] Delayed pledges for Emergency Sector from 1988/89 Appeal arriving during the present 1989/90 Crop Year. [3] Planned purchases of local production with counter-value funds generated from monetization programs. [4] Estimated from needs projections as of January 1, 1990. [5] Calculated using government estimates of 2,000,000 displaced persons, requiring full rations of 400 grams/day for 255 days. [6] Calculated using government estimates of 575,000 affected persons, requiring full rations of 400 grams/day for 220 days. [7] Other category of needy persons as may be appropriate. [8] For planning purposes allows a 90 day working reserve to off-set irregular arrivals of donor shipments. Includes estimated ending inventory. [9] Based on estimates revised in conjunction with the UN-GOM evaluation of the status of the 1989/90 Appeal. [10] Based on the estimates revised for the quantity of foods required from the international donors. [11] Known as of December 15, 1989. [12] During the 1989/90 Crop Year, no purchases were made of local production with counter-value funds generated from monetization of food aid. [13] Estimated needed supply from the international donors which is above pledges generated from the 1989/90 Appeal as known December 15, 1989.

Table C.4.B

B. Calculations for Estimated Food Need Demand [1]

Per Category	Population	Commod	Ration (Day/Grs	Days (Yr.)	Quantity (M.Tons)
Categories of Distributions					
Displaced Persons	2,000,000	Corn	350	255	178,500
----	2,000,000	Beans	40	255	20,400
----	2,000,000	Vegoil	10	255	5,100
--Sub-Totals	2,000,000	All	400	255	204,000
Affected Persons	575,000	Corn	350	220	44,275
----	575,000	Beans	40	220	5,060
----	575,000	Vegoil	10	220	1,265
--Sub-Totals	575,000	All	400	220	50,600
Other (none)					

--Sub-Totals					
Totals	2,575,000	All	--	--	254,600

[1] Revised number of beneficiaries estimated as of January 1, 1990, prior to the release of official govenment estimates of the number of persons dislocated and affected.

POPULATION ASSUMPTIONS

The following tables provide the assumptions underlying the population projections contained in Figure II.1 of Section II-E. They include crude birth and death rates; total, youth and elderly dependency ratios; and median age for the population disaggregated by gender.

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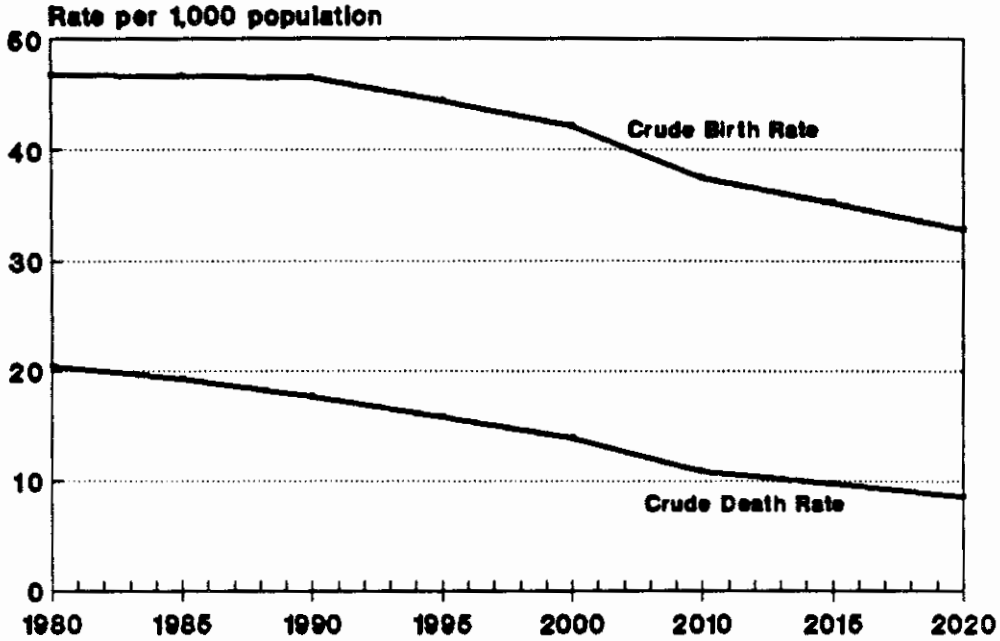
FIGURE D.1

Crude Birth and Death Rates, Mozambique: 1980-2020



Source: U.S. Bureau of the Census, International Data Base, table 10.

TABLE D.1

Total, Youth, and Elderly Dependency Ratios, for Mozambique: 1980-2020

Year	Total	Youth	Elderly
1980	90	85	5
1990	90	85	5
1995	90	85	5
2000	89	85	5
2020	76	70	5

Note:
Total dependency ratio is defined as the number of persons under age 15 and over age 64 per 100 persons in the economically active population ages 15 to 64 years.

Youth dependency ratio is defined as the number of persons under age 15 per 100 persons in the economically active population ages 15 to 64 years.

Elderly dependency ration is defined as the number of persons over age 64 per 100 persons in the economically active population ages 15 to 64 years.

Source:
U.S. Bureau of the Census 1989, Projected population prepared for World Population 1990.

TABLE D.2

Median Age of the Mozambique Population: 1980-2020

Year	Both sexes	Male	Female
1980	17.53	17.21	17.84
1990	17.43	17.08	17.77
2000	17.55	17.26	17.83
2020	19.67	19.41	19.93

Source:
U.S. Bureau of the Census, 1989, Projections prepared for World Population 1990.

LOCAL CURRENCY PROGRAMMING

Issues

The large volume of non-project assistance provided by donors has led to large accumulations of local currency balances for joint donor-GOM programming. The size of these financial stocks in relation to the total monetary aggregates and the level of economic activity has led to some concern that their use could be financially destabilizing. At the same time, donors are under instruction from their respective governments to see that these financial resources are used in accordance with the policies of those governments. Finally, the Government of Mozambique is concerned with the disparity of requirements and conventions used by the various donors (and in the case of A.I.D., disparities between different programs of the same donor) and would like to see a single set of valuation and use conventions agreed to by the donors. This annex outlines the local currency programming issues confronting the GOM and donors in general and, in this context, proposes a local currency programming strategy for the USAID mission.

Discussion

The large size of external program assistance going to Mozambique relative to the size of its economy and the relatively small size of the Mozambican banking system leads to concern that the generation and spending of local currency deposits resulting from donor program assistance can have a destabilizing effect on the economy, undermining the Central Bank's attempts to control the growth of the money supply and eroding the efforts of the GOM to maintain fiscal discipline on ministries and parastatals.

The GOM is presently operating under a Policy Framework Paper negotiated with the World Bank and IMF. A new PFP and an Enhanced Structural Adjustment Facility are under negotiation for the 1990-1993 period. Through the PFP, the IMF has established tight ceilings for money supply growth and government expenditures to which the GOM has adhered. Under the upcoming ESAF, ceilings will be yet tighter and IMF disbursements will be conditioned on semiannual compliance reviews.

The volume of donor assistance being provided to Mozambique in the form of commodities is massive in comparison with the size of the economy. USG commodity assistance, excluding emergency feeding, amounts to approximately $40 million per year in combined commodity assistance and food aid. The A.I.D. local currency generations resulting from this assistance alone equal about 2 percent of GDP and 10 percent of the broadly defined money supply (M2).

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Not only is the size of local currency usage important, timing is also critical. When local currency is generated by sale of commodities, the stock of money in the hands of the public declines by the amount of the sale. This decline can itself be a useful anti-inflationary measure. It can also be used to finance additional government spending, exactly as a tax receipt would be.

Alternatively, the donor can use these generations to finance additional spending. In such cases, it is essential to recognize that counterpart funds do not provide additional resources to the domestic economy over and above the original commodities that generated them. In this sense, local currency generations resemble a one-time tax, rather than a donor grant or loan. If the timing of this "tax" and spending are reasonably close, the monetary impact is generally neutral. However, if a long time elapses between the two, there can be cause for serious concern both about the initial deflationary monetary impact of the local currency generations and the subsequent inflationary impact of donor spending. Thus it is important for both donors and the GOM to have a set of understandings not only about the amount of local currency spending but also about when those amounts are likely to be spent.

The final issue relating to local currency generations and spending deals with the multiplicity of donor requirements and conventions. It is not clear how much can actually be done to harmonize these varying requirements. Each donor responds to its own government's legislative and regulatory requirements. A frank exploration of the various limits which each donor faces within its own system might reveal ways to harmonize the treatment of local currency within the GOM's system. At present, USAID is coordinating a donor group on local currency issues which will report back to the next Consultative Group meeting on Mozambique in late 1990.

USAID Programming Strategy

USAID's local currency programming strategy assumes that the GOM will continue to implement an Economic Rehabilitation Program with the World Bank and IMF, and that the GOM will continue to adhere to fiscal and monetary targets under this program. At present, the GOM is operating at the ceilings agreed upon with the IMF for money supply creation, domestic credit to the Government, and Government expenditure. Given the large size of donor-generated local currencies relative to both the money supply and the Government budget, the GOM cannot comply with the IMF's targets unless donors allocate virtually all counterpart funds for general budget support. For its part, the GOM's compliance with expenditure and credit restrictions helps ensure that budgetary support does not reinforce state enterprises that should be divested, restructured or simply closed down.

Under the circumstances, USAID can most productively utilize local currency generations by attributing the major share to areas of the GOM budget consistent with the Mission's program objectives and individual agreements. In line with the program strategy presented in Section V of the CPSP, priority has been given to food security issues and related activities in the Ministries of Agriculture, Commerce, Health and Transportation, as well as to the emergency programs. By limiting funding to items within the budget, USAID helps the Government tackle funding priorities directly, rather than circumvent the Treasury through off-budget financing. Local currencies are programmed quarterly to avoid accumulation of large balances that could create inflationary pressures if spent at one time.

Within the general budget areas agreed upon with the Government, USAID and the Ministry of Finance have established specific on-budget priorities which will receive first consideration for programming, depending on the authorizing language of each individual agreement generating the local currency. These priorities are:

- contracts with private transporters to ensure efficient marketing of domestic agricultural production;

- purchases of domestically produced cereals and beans (using private transporters and traders) in surplus areas to supply emergency food distribution programs;

- DPCCN contracts with private transporters for transhipment of donated imports;

- preventive health care and family planning programs; and

- data collection efforts related to agricultural production and marketing, household income, health indicators and population.

USAID will limit off-budget expenditures to a trust fund account (currently 7 percent of generations under the commodity import program) and a PVO reserve of about Mt 1.5 billion annually (about 4 percent of USAID generations). The trust fund is used for operating expenses. The PVO reserve is used to provide GOM support for PVO initiatives addressing emergency needs and attempting to facilitate a transition from emergency assistance to rehabilitation. USAID negotiates the level of the PVO reserve annually with the Ministry of Finance. GOM disbursements to PVOs are made on the basis of individual agreements between each PVO and the Ministry of Finance to ensure that the specific uses of local currency are known to the GOM and that funds are spent in regular and predictable amounts.

REGIONAL RAIL SYSTEMS SUPPORT PROJECT
Mozambique Component

The Regional Rail Systems Support Project (RRSS) contributes to A.I.D.'s regional strategy and the U.S. Economic Strategy for Southern Africa. These emphasize that a development effort led by private sector initiatives cannot succeed as long as the basic regional transport infrastructure is not efficient and cost-effective. Without Mozambique's rail system, Malawi's potential for increasing exports is severely constrained, and Zimbabwe, Swaziland and Zambia all suffer to varying but significant degrees. While the RRSS Project falls outside of USAID/Mozambiques's food security strategy, improved rail links may, in the medium to long term, encourage private agricultural production and marketing by providing an efficient transport link between rural producers, urban consumers and export outlets.

Mozambique has three main rail terminals at the ports of Nacala, Beira, and Maputo; from these emanate the seven main rail lines -- Nacala (to Malawi); Beira (the Machipanda line to Zimbabwe and the Sena line to Malawi); and Maputo (the Goba line to Swaziland, the Ressano Garcia line to South Africa, and the Limpopo line to Zimbabwe). (See attached map). The security problems of the last several years have seriously disrupted traffic on every line, but only Sena remained closed in early 1990.

Mozambique once carried 90 percent of Rhodesia's and Swaziland's internationally traded goods, nearly 100 percent of Malawi's, and 80 percent of Zambia's copper. A recent (late 1989) study sponsored by the World Bank projected that with all corridors open (and operating more efficiently) much of this traffic could be recaptured to the benefit of Mozambique and the landlocked countries it serves.

RRSS also fits into a coordinated multi-donor strategy for the revitalization of Mozambique National Railways (CFM, Caminhos de Ferro de Mozambique). The major problems facing CFM are: (1) badly rundown infrastructure; (2) lack of trained personnel, particularly at the middle manager level; (3) poor utilization rates for locomotives and rolling stock; and (4) insufficient locomotives to meet traffic demands.

In the context of the SATCC rehabilitation programs for each corridor, several donors are providing significant resources. The total LOP of ongoing projects is about $800 million. Assistance targeted on CFM's port and rail system (Limpopo, Beira, and Nacala in particular). Over the next ten years (assuming an improvement in the security situation), all the corridors should be functioning. The SATCC program for Beira, in particular, has received $420 million of the required $450 million in donor support.

The situation of women is worsened by poor health which is as much a factor of limited access to clean water and sanitation, inadequate nutrition and food insecurity, as lack of access to preventive and curative health care. A major cause of general ill health among women is early and numerous pregnancies together with inadequate birth spacing.

Traditionally, large families have been valued, and women's status has been linked with ability to bear children. Even now, although birth spacing and population programs have had some success, it is still usual for women to have 6 or 7 children. The maternal mortality rate for Mozambique has been estimated at between 260 and 300 deaths per 100,000 births (UNICEF 1989) and most of the deaths could be prevented if women had access to adequate pre- and post-natal care. Sexually transmitted diseases are also a significant health problem, and surveys conducted in accommodation centers for displaced persons indicate that the insurgency and consequent population movements have probably worsened this. Although accurate data are hard to obtain, available statistics show that, as in the rest of Africa, both men and women are susceptible to HIV infection and AIDS. Both HIV1 and HIV2 are prevalent in Mozambique, and there is cause for concern that the insurgency and population movements create a network which facilitates the spread of infection.

The considerable physical work burden placed on women further worsens their situation, especially during pregnancy and lactation. In areas where farming can be undertaken, women have the primary responsibility for producing and processing food, as well as for collection of water and firewood, and the number of female-headed households, always significant due to traditions of migrant labor to cities or surrounding countries, particularly South Africa, has increased as a result of the insurgency. In urban and peri-urban areas women also farm small plots of land, when they can gain access, as a survival strategy. Once again, the problems are greater for female-headed households, and it is likely that girl children have to shoulder a share of the burden.

Women are further disadvantaged by limited education and employment opportunities. Although there have been significant advances in both literacy and school enrollment since independence, female rates remain considerably less than male, and social mores continue to emphasize the importance of male, rather then female education. (See Section II.D for a more detailed discussion of education.) Lack of education seriously affects those women who have come to urban areas as a result of the security situation and are unable to find employment.

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WID Action Plan

A. Background

As has been indicated elsewhere in the CPSP, Mozambique is one of the world's poorest countries, and the quality of life for most Mozambicans continues to deteriorate as the insurgency limits access to social services and disrupts even subsistence production. Although the emergency situation has affected all Mozambicans, it can be argued that women have been most seriously affected both because they are responsible for providing for their families, and also because they are often most vulnerable to absolute poverty due to displacement in rural areas, and low education levels and lack of employment opportunities in urban centers.

The distressed situation of Mozambican women is a result of a combination of factors, but the major problems they presently face are: food insecurity and chronic poverty, induced to a large extent by the insurgency; poor health and lack of access to preventive health care; and limited means of earning income or engaging in productive activities. A strategy designed to address the needs of women must therefore address these problems, beginning with the most immediate one of reducing food insecurity.

B. Situation of Women in Mozambique

As has been discussed in Section II of the CPSP, the major problems facing Mozambicans, both men and women, are food insecurity and chronic poverty. Female headed households, which have increased in both rural and urban areas as a result of the insurgency, are especially vulnerable, and the vast majority of displaced persons are women, children, and the elderly.**

In spite of the massive influx to urban centers as a result of the insurgency, about 87 percent of the Mozambican population lives in rural areas. Women make up about 60 percent of the agricultural workforce, with 98 percent of them working in the family sector producing subsistence foods. As such they have been disproportionately affected by the insurgency, which has devastated many rural areas and made normal life impossible in many more.

** The Gersony and Minter reports detail the trauma and suffering which women have faced as a result of the insurgency, not only in terms of the devastation of families, but also due to rape, physical abuse and mutilation.

- Establish a financial system that will provide timely and accurate information to the management staff of CFM, and that will permit the setting of tariff rates based on real costs and revenues; and

- Reopen the Nacala corridor to Malawi.

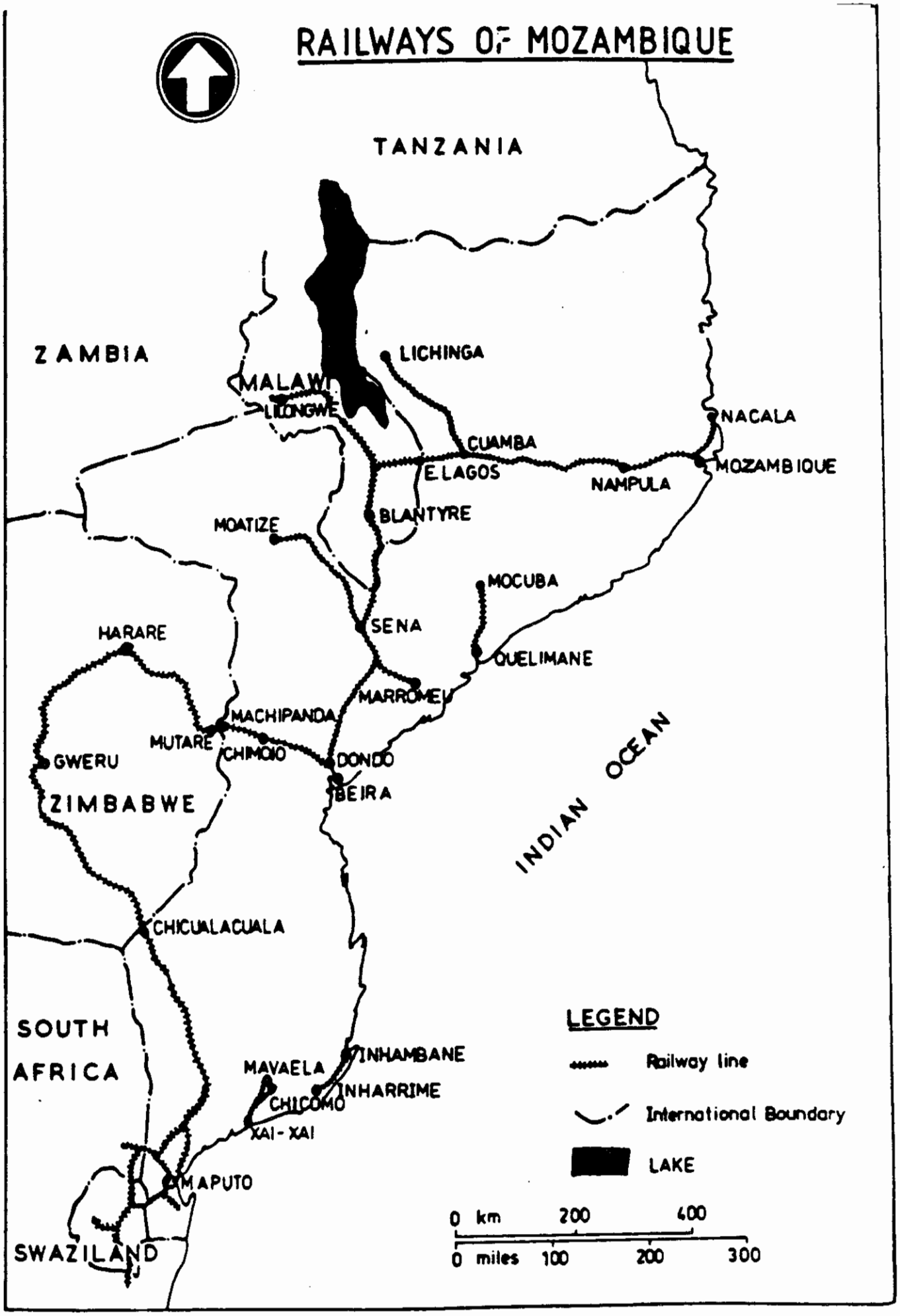
Achievement of these targets will (assuming no deterioration in the security situation) allow CFM to meet the projected traffic demand on the three CFM (S) lines as well as to improve services on the Beira line.

A.I.D.'s inputs (most major RRSS activities will have begun by mid-1990) are tools and spare parts ($14,000,000), technical assistance ($15,000,000), construction ($5,000,000) and new locomotives ($20,000,000). All funds except for the $20,000,000 for new locomotives have been obligated; the balance will be obligated in FY 1990 and FY 1991. Should A.I.D. co-finance the rehabilitation of the Nacala line, up to an additional $10,000,000 would be made available in FY1992. The RRSS TA team will carry out a thorough training program (both-on-the job and classroom) and develop and introduce a more effective financial management system. The spares are for the fleet of GE locomotives, and include parts to completely rehabilitate eight locomotives now out of operation and to maintain the existing fleet for three to four years. The construction is to improve conditions at the diesel workshops in Maputo (mainly) and Beira, as well as to provide houses for the TA team.

The indicators of the project's performance will be the locomotive availability rates and the existence of a functioning management system that influences senior staff decisions. The benchmarks will be the increase in international traffic carried by Mozambique rail, and the financial benefit to other SADCC countries of the increased use of Mozambique rather than alternate less direct routes.

Two project evaluations are planned. The first, scheduled for late 1991, will examine progress towards the achievement of outputs. The second, scheduled for early 1994 will look at the project within a regional context. The project will have succeeded if availability rates increase significantly and are sustainable by CFM staff; if CFM develops the tractive power to meet increased demand from landlocked SADCC countries; if CFM management gains a firm grip on its costs and revenues and develops a workable plan to balance them; and if the discounted economic and financial benefits to Mozambique, Malawi, Swaziland, Zimbabwe, Botswana, and Zambia meet or exceed the costs of the project.

The project is managed by a full-time U.S. PSC with several years of capital projects experience and a TCN engineer with experience in railroad management. The Deputy Director supervises the day-to-day management and the Director reviews the project at least weekly. Specialized support is provided by REDSO/EA (engineering and commodity procurement); USAID/Swaziland (contracting and legal advice); and Harare (transport economist).


RAILWAYS OF MOZAMBIQUE
TANZANIA
ZAMBIA
MALAWI
LILONGWE
LICHINGA
NACALA
CUAMBA
ELAGOS
NAMPULA
MOZAMBIQUE
BLANTYRE
MOATIZE
MOCUBA
SENA
HARARE
QUELIMANE
MARROMEU
MACHIPANDA
MUTARE
CHIMOIO
DONDO
GWERU
BEIRA
ZIMBABWE
INDIAN OCEAN
CHICUALACUALA
SOUTH AFRICA
INHAMBANE
MAVAELA
INHARRIME
CHICOMO
XAI-XAI
MAPUTO
SWAZILAND
LEGEND
Railway line
International Boundary
LAKE
0 km 200 400
0 miles 100 200 300

USAID's contribution to CFM is in two major areas: locomotive repair, rehabilitation and supply; and financial and inventory management. RRSS directs most of its assistance to CFM-South (Ressano Garcia, Limpopo, and Goba lines, and Maputo port) and CFM's national office in Maputo. In addition, USAID may contribute, beginning in FY1992, to a multi-donor effort to rehabilitate the Nacala line, which is of critical importance for Malawi's exports. SATCC's ten-year plan for improving this line is divided into three phases; of these, two have been funded, leaving a 77 kilometer link between Cuamba and Entre Lagos.

The major constraints to improving locomotive availability are:

- low level of managerial and technical skills;
- insufficient stock of spare parts for regular maintenance;
- insufficient stock of parts to rehabilitate the 13 GE locomotives that are out of service but repairable;
- shortage of proper tools and equipment;
- poor workshop conditions (e.g. leaky roof); and
- insufficient locomotives to meet the traffic demand, even at better rates of utilization.

There are also major problems in the area of financial and inventory management:

- the accounting data are internally contradictory, do not reflect real costs, and are useless for setting tariff rates; and,
- the spare parts inventory and supply system is primitive and inefficient.

The major bottleneck on the Nacala line is:

- the degraded state of the permanent way, which in some areas limits train speed to under 10 kilometers per hour.

A.I.D.'s program of assistance will, over the next four to five years (the present RRSS PACD is April 30, 1994), assist CFM to achieve the following targets:

- Increase locomotive availability rates from 57% (1989) to 75%;
- Increase the number of locomotives available by 18 (8 rehabilitated and 10 new);

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C. Mission Strategy

The Mission goal of improving food security is directly linked to the needs of women. The Mission WID strategy is to ensure that gender issues are considered in all activities undertaken, and that women are at least equal beneficiaries of assistance. Given the need to provide high levels of food assistance under current emergency conditions and the fact that women and children constitute a major share of the displaced population, it could be said that women and children are the principal beneficiaries of USAID food assistance.

In addition to ensuring that both project and non-project assistance activities take gender issues into account the Mission also utilizes PDS funds where appropriate to fund studies or facilitate data collection on gender specific issues. All consultancy scopes of work include a requirement that gender issues be addressed, and that data collected be gender disaggregated to the extent feasible in the Mozambican situation. All evaluations are expected to include an assessment of how gender issues have been addressed. The WID officer is involved in the review process of design activities, scopes of work and evaluations. In terms of staffing, the Mission has successfully recruited a number of Mozambican women for professional FSN positions.

The Mission is also concerned that all staff are aware of the importance of considering gender in both the design and implementation of activities, and maintains a WID library which contains both general documents and Mozambique specific studies on women. The WID officer liaises with other donor agencies to maintain an understanding of how other donors approach gender and WID issues, as well as with the Organization of Mozambican Women, and the National Union of Cooperatives, which has a large number of women's coops as members. The Mission also has an ongoing informal relationship with key researchers in the University of Eduardo Mondlane, which is currently in the process of establishing a Department of Gender and Development within the Center for African Studies.

The Mission will continue to implement the strategy outlined above, and will specifically:

Use the gender information framework as a guideline in the design of all future activities, and give copies of this to all PVOs requesting assistance to ensure gender is considered in all proposals.

Continue to collect information on women in Mozambique and gender issues, and liaise with other donors, relevant organizations and researchers.

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Ensure that, where possible, all data are disaggregated by gender.

Where feasible, ensure that gender is taken into account in policy discussions with the Government.

Encourage Ministries and other Government organizations to nominate women for USAID funded training programs.

Utilize PPC/WID assistance to review Mission portfolio and complete WID matrix, and, when feasible, to ensure gender issues are addressed.

Conduct a semi-annual portfolio review to ensure that gender is being adequately addressed and suggest new strategies for adoption.

Maintain at least 50 percent professional FSN positions filled by Mozambican women.

Resources permitting, ensure that Mission staff attend PPC/WID organized training sessions to increase awareness of gender issues and an understanding of Agency WID policies.

D. Mission Responsibilities

Senior Mission management will be responsible for ensuring that the Mission strategy and policy continues to address gender issues and that Mission staff understand the importance of incorporating gender into all activities.

Senior management will be responsible for ensuring that fifty percent of all FSN professional positions are filled by women, and that where possible Mission staff attend WID workshops or other training sessions.

The WID officer will be responsible for ensuring that Mission activities conform to the WID guidance provided by AID/Washington, and that such guidance is circulated to all staff members.

The WID officer will be responsible for collecting information on WID and gender issues, liaising with other donor WID officers and maintaining contact with key organizations and researchers.

Project development officers and the WID officer will be responsible for ensuring that WID and gender issues are addressed in all project design and redesign activities.

All staff will be responsible for ensuring that activities they manage take gender into account, that all scopes of work require gender issues to be addressed, and that to the extent feasible data collected are gender disaggregated.

The program officer will be responsible for ensuring that gender disaggregated data are included to the extent available in all submissions to AID/Washington.

The regional contracts officer and executive officer will be responsible for ensuring that requisite language and clauses relating to equal opportunity and utilization of women-owned business are incorporated into all contracts.

The evaluation officer will be responsible for ensuring that WID performance is included in all evaluations.

The Mission data and financial analyst will be responsible for ensuring that, to the extent possible, all data is disaggregated by gender.

The participant training officer will be responsible for encouraging greater participation of women in training programs, and identifying specific training opportunities for women.

E. Specific Activities

As discussed in Section V of the CPSP, a dominant priority of the Mission is to help meet emergency and humanitarian needs while encouraging a policy environment conducive to market-based growth. Although the Mission attempts to ensure that gender issues are addressed and data are disaggregated, the security situation, the vast extent of socioeconomic problems and Mozambique's rudimentary statistical capabilities make monitoring of activities and data collection difficult. Obtaining accurate numbers of people in need of emergency assistance in certain areas is difficult; disaggregation by sex is usually impossible. Information which is collected as a result of specific projects cannot be accurately extrapolated due to small sample sizes, and is difficult to interpret given massive and continual population shifts.

1. Food Assistance

In Mozambique, the provision of a food safety net for both the rural and urban poor has the single greatest impact on the situation of women. USAID is the largest single guarantor of the safety net, meeting approximately 30 percent of emergency food needs and 25 percent of commercialized requirements. The emergency program is designed to meet basic humanitarian needs and operates in rural areas providing food to those persons displaced and severely affected by the war or natural disasters. The commercialized program is designed to improve the food security of the urban poor by providing staple food (maize) at subsidized prices.

The strategy of providing a food safety net to reduce the food insecurity of the poor in effect targets a large portion of the U.S. supplied food resources to women. While the data available regarding the displaced and affected population is not disaggregated to identify women receiving food aid through either the emergency relief distributions in rural areas or the urban ration system, observations of distributions to groups of affected persons and camps of displaced persons reveal that upwards of 75 percent of those receiving such aid are, in fact, women and children. Similarly, women as heads of households in Maputo and Beira also benefit from the urban safety net. As a means of confirming that women are in fact the principal beneficiaries of food assistance, the Mission will encourage cooperating sponsors for relief programs and program managers for the monetized programs to develop gender disaggregated distribution and sales data.

2. Private Sector Support Program

The Private Sector Support Program links commodity imports and technical assistance in support of private agriculture with policy reforms to liberalize agricultural producer prices, develop policies and an action plan for state farm divestitures, strengthen private sales and service networks for agricultural inputs, and institutionalize market-based allocation of foreign exchange. Many of the policy reforms under the PSSP will directly or indirectly benefit women in the agricultural sector.

The liberalization of producer pricing policies has directly benefited urban and peri-urban women who are the principal producers and traders of vegetables. Vegetable trade has become vibrant in most urban centers, providing women with an important source of income. It is difficult to determine the impact on women of higher cereal and cash crop prices. Due to the insurgency -- particularly its constraints on farm size and the disruption of markets -- rural women often cannot engage in more than subsistence agriculture. Concerns have been raised about whether increased producer prices have negatively affected rural women who are net purchasers of food. The issue must be explored carefully, but evidence suggests that very little was traded before prices were increased and that, in fact, rural purchasers may now at least have some options to buy food. The most likely benefit from improved cash crop prices will be from cashews in northern Mozambique. Cashews are principally harvested by family farmers, the majority of whom are women. Within the constraints allowed by the insurgency, USAID is working to establish monitoring systems to gain a better understanding of family farm activity and the impact of price changes on women. (See Section VI.C of the CPSP.)

Gender questions are an important consideration in state farm divestitures, and the GOM attempted to address them in the divestiture of a large state farm at Chokwe. USAID has provided the Government technical assistance to identify the types of problems that could occur in the divestiture process, including potential discrimination against women either by law or in traditional land allocation practices. USAID is now working with the Government with the intent of developing a longer-term technical assistance program to address these problems and implement "model" divestitures on selected state farms.

Strengthened agricultural sales and service networks will benefit women to the extent that private networks are re-established for the distribution and sale of seed, fertilizer and handtools. Outside of the peri-urban zones, there has been little commercial access to basic production inputs. NGOs have distributed some agricultural inputs to displaced and affected populations, but private distribution channels remain weak or nonexistent. For the most part, women are not highly involved in mechanized agriculture and therefore have not benefitted from inputs such as tractors, trucks and farm implements.

3. Health

As indicated earlier, improving the health of women is a key factor in improving their standard of living. The Mission's health activities currently center on the Pilot Child Survival Project, the Traumatized Orphans Project and the Prosthetics Assistance Project. A larger Child Survival Project will be designed in FY1991, and projects funded under the PVO Support Project (see subsection 4, following) will also address the health needs of women.

The Pilot Child Survival Project is designed to develop and test under insurgency conditions, replicable and cost effective measures to reduce infant and child morbidity and mortality. It provides four basic child care interventions -- oral rehydration and diarrheal control, immunization, growth monitoring and vitamin A supplementation, as well as strengthening the GOM Zambezia region health care system. The impact which child survival projects have on the lives of women by reducing the burden of care, limiting the number of closely spaced, debilitating pregnancies, and freeing time to engage in productive activities has been well documented, and there is no reason to assume that these benefits will not occur here. Data collected during the course of the project will be disaggregated by gender, and the impact of the project on women will be monitored by the implementing PVO.

The Prosthetics Assistance Project and the Traumatized Orphans Project are designed to meet acute humanitarian needs. Although gender is taken into account to the extent feasible, and gender disaggregated data will be collected, the overriding objective of these projects is to meet the needs of adults and children who have been physically crippled and emotionally traumatized by the war.

4. PVO Support Project

The PVO Support Project is designed to assist the GOM to meet the emergency needs of those most seriously affected by the insurgency and to facilitate the transition from dependency on food aid to some form of self-provisioning. Eligible activities for funding are those which will improve logistical capacity and efficiency as well as accountability for food aid programs, those which will increase rural employment, production capacity and cash income, and those which will increase coverage of preventive health care and availability of basic services. As women represent the majority of the displaced, they are likely to be the primary beneficiaries of the project. All PVOs requesting funding under this project will be required to indicate how proposed activities address the needs of women. The Mission hopes to utilize PPC/WID technical assistance to ensure that gender issues are fully considered at the individual PVO project level, and funds are included in the project to provide assistance to PVOs to ensure that data collected are gender disaggregated.

5. Regional Rail Systems Support Project - Mozambique Component

This project provides financing for locomotives, locomotive spare parts, other commodities, construction and technical assistance to Mozambique Railways. Thus, its implementation is unlikely to directly involve women. The locomotives and spare parts are not likely to be provided by women-owned firms since they are highly specialized products, and the manufacturer will usually be the only source. The construction, which requires skilled work, will be undertaken by local construction firms, all of which are run and largely staffed by men. The lead firms for technical assistance contracts will be specialized in railroad operations and heavy equipment maintenance, and are unlikely to provide women as there are generally few female railroad engineers. Women-owned or operated companies may possibly be included as subcontractors, or serve as suppliers for some of the general commodities needed.

6. Private Sector Activities

The Mission does not currently have a private sector project outside of the PSSP which focuses on the agricultural sector. As programs evolve, whether they be ad hoc, non-project initiatives, or long term activities, gender issues and the role of women will be included in all design and implementation efforts. Particular emphasis will be given to increasing the role of women in the economy and improving their productive capacity.

Two activities with which the Mission is currently involved are a feasibility study for export processing zones (EPZ) and providing planning and training assistance to a private business membership organization. The EPZ study will determine the feasibility of establishing such zones in Mozambique. Should a project be designed as a result of the study, gender issues will be included in the design, and appropriate benchmarks established. As women have been the principal beneficiaries of EPZ employment opportunities in other countries, it is reasonable to assume that they would also benefit from such an initiative in Mozambique.

Mission involvement with the private business association is limited to funding a consultant to provide technical assistance to establish the organization, and a training grant to provide programs to meet the needs of the membership. To the extent possible, the Mission aims to ensure that gender considerations are addressed, and women are afforded equal access to training. A benchmark of 35 percent female participation in training programs was included in the grant.

7. Participant Training

Long and short-term training is currently funded under the AFGRAD program, the African Manpower Development Project (AMDP), and the Human Resource Development Assistance Project (HRDA). Areas of study for these programs are negotiated with the Government and strongly emphasize economic rehabilitation. In the three years that assistance has been provided under these programs, approximately 26 percent of trainees have been women, although this increased to 30 percent in FY1989. Lower female participation is partly a result of the historically low ratio of female to male university graduates and fewer women in executive positions in government. The Mission is, however, actively encouraging the involvement of women in these programs and aims to achieve the Agency target of 35 percent female participation during the strategy period.

8. WID Matrix

The Mission will request PPC/WID assistance to review its portfolio and design a WID action plan matrix which will serve as a management tool to ensure that the WID strategy is implemented and gender issues addressed to the extent feasible in the Mozambican situation.

GOVERNANCE ISSUES

In addition to confronting major economic challenges, Mozambique faces a daunting task of political reconstruction and the creation of systems of governance that will support its development efforts. Mozambique's ability to meet these political challenges may prove as important a determinant in its economic rehabilitation as its ability to restructure its economy.

Challenges of Nation Building

Mozambique is almost unique in Africa in that it has not resolved basic issues of national integration and national identity. In that sense, it resembles many African countries in their initial years of independence.

Little effort was made under Portuguese rule to create a sense of statehood and integrate the indigenous population. Rather, systems of education and local government were designed to institutionalize African dependency on Portuguese settlers. At independence, the GOM revamped the educational system and launched a major initiative towards national integration, but the onslaught of the RENAMO insurgency froze its efforts. The insurgency, the restrictions it places on travel and interaction, the massive internal and cross-border displacement of people, and the sheer oppression of poverty make it difficult for most Mozambicans to think beyond their extended families to abstract concepts of nationhood.

The largest governance issue facing the Government is the very basic one of solidifying the nation in a meaningful way. Ethnic, regional and political balancing will undoubtedly play a larger role in politics than has hitherto been the case. The July 1989 FRELIMO Congress suggests that African nationalism is replacing socialism and marxist ideology as the concept by which the state seeks to legitimate itself. This will pose interesting problems of managing a still multiracial leadership and promoting expanded foreign participation in the economy. The Kenya example suggests that fervent nationalism, should it evolve, could clash with the Government's stated policies to promote multiracialism and encourage foreign investment. More broadly, the success or failure of the Government's efforts to create a sense of nationhood will dominate the environment for private investment and the country's capacity to achieve self-sustaining growth.

Centralization and Its Legacy

In the course of implementing its Economic Rehabilitation Program, the GOM has demonstrated a refreshing capacity for self-criticism, principally focused on the failure of centralized administration of the economy. It is widely recognized that the post-independence command style economy led to vast inefficiency, discouraged private initiative, and indeed exacerbated people's alienation from the state.

Nonetheless, experience takes its toll on bureaucratic outlooks. Most Mozambican civil servants are young (generally in their thirties) and have solely experienced a system of centralized control -- both in politics and the economy. Intellectually, they grasp the need to encourage personal initiative and freedom. Yet this grinds against a decade of training and professional practice in which the state has sought to control the individual for the sake of a "broader, national good."

National policy states the Government's intent to phase out centralized administrative controls in favor of allowing the market to allocate resources. In practice, the Government has acted upon this policy by drastically cutting the number of commodities subject to price controls and administrative allocation. Discussions with Mozambican civil servants, however, reveal a distinct unease about how far this process can go. In part, their concern is justified. The insurgency has disrupted the normal functioning of markets, curtailed competition and caused widespread poverty that has shrunk real effective demand. Under such circumstances, government intervention is justified and needed. Yet interventions must be coupled with measures to reduce government involvement and limit dependency. At a working level, civil servants remain skeptical about how well markets can allocate resources, which in turn complicates the implementation of programs designed to phase out government intervention and control.

A second problem of over-centralization is the tendency of civil servants to view development from a top down and administrative perspective, rather than in a decentralized and participatory way. The emergency has probably reinforced these tendencies because of the need for a strong central government role in responding quickly to meet national subsistence requirements. Regional and local governments remain weak, have limited decision-making capacity and virtually no resources. The central government is overstretched and cannot meaningfully address the wide range of development issues being confronted throughout the country. Moreover, there is an inbred prejudice within Government that it must provide all social services, rather than help communities become more self-reliant. Given the Government's bankrupt state, this threatens to perpetuate dependency while contributing little to meeting human needs.

Testing National Patience

Mozambique has endured 15 years of poverty and war. There have been no major strikes and demonstrations as have characterized other countries implementing harsh stabilization programs. Some analysts have suggested that this indicates a national character which can endure hardship. One must also question whether Mozambicans increasingly approach breaking point.

Section II.F of the CPSP discusses the deteriorating living standards suffered in both rural and urban areas. The macroeconomic analysis in Annex B further demonstrates Mozambique's extreme dependence on donor assistance -- so much so that even a levelling off of foreign aid could result in decreasing per capita income. For those in rural areas, the trauma of war has exacerbated economic and social distress. Even in relatively properous urban areas, the increase of war-related power outages, sometimes lasting 18 hours a day for days on end, combined with declining real income is creating growing unrest.

The unrest has hit its peak thus far in January 1990. Strikes have broken out in key industries. They have shut down the hospitals in Maputo and Beira for several days, causing a number of deaths. The predominant worker complaint is declining real income as subsidies have been curtailed and wages have failed to keep up with the rising cost of staples. The current wave of unrest, even if the Government successfully controls it, indicates that tolerance is wearing thin.

In the future, the Government will face increasingly difficult choices between economic reform and popular urban demands. The Government recognizes that donor support hinges on its continued compliance with a World Bank/IMF reform package; it is also acutely aware of its dependence on foreign aid to maintain basic living standards. Donors hold a key card in the reform process as the levels of assistance may determine the political viability of the Government's economic policy efforts. Should donor assistance drop signficantly, the GOM could find it must deviate from its reform agenda, particularly on wage and price policy, even at the risk of losing further donor aid. The alternative, under a scenario of rural insurgency and mounting urban unrest, could be to lose control of the state.

A peace settlement would give the Government greater leeway on economic issues, but in no way would end Mozambique's dependency on foreign aid (see Annex B). Production should increase, and prospects for investment and employment generation would improve. Nonetheless, the country's leaders will find themselves competing for credibility and power, as well as faced with the task of building allegiance to the state. In the process of political transition, the state may well not

have the authority to make and implement difficult economic decisions. There could also be a time lag before government feels sufficiently secure to take such measures.

Implications for A.I.D.

Under assumptions of peace or continuing insecurity, the political and governance issues confronting Mozambique have direct relevance for A.I.D. For the short term, USAID must continue to monitor the Government's implementation of policy reforms and assess its commitment to the reform process. Through PVOs and their activities at a local level, USAID will also seek to develop a better understanding of local and regional government, and how they might fit into a long-term development strategy.

Over the long run, it is important to understand the constituencies who are likely to gain and lose during the course of economic reform, and to consider how this may affect political decision making. It is also important to develop a clearer understanding of who the "reformers" are in government, and to develop strategies to support their efforts.

An important resource for the Mission in pursuing these analyses will be the REDSO/ESA political economist. He has already worked with the Mission in sifting through the range of governance issues that may affect the Mozambique program. USAID will work with REDSO to establish a research program on goverance issues that should feed into the Mission's policy framework. Relevant information will also be collected in the normal course of program monitoring and through Policy Working Group meetings, dialogue with the private sector, implementation of PVO grants, and collaboration with the Embassy.

BILATERAL DONOR ISSUES

Italy

The Italian program, at roughly $150 million a year, is the largest of any bilateral donor in Mozambique. Total Italian assistance since independence exceeds $1 billion. The Italians have initiated over 200 projects. About 45 have been completed. They have over 500 Italian contract technicians in country at present.

Issues:
- Program Management: only four Italian Embassy diplomats responsible for entire program
- Project proliferation
- Feasibility of large integrated rural development projects (e.g., Boane, $80m)
- Support for state farm sector
- Benefit/cost ratios of major irrigation schemes
- Health program emphasis on hospital construction and rehabilitation

Sweden

Total assistance in 1988 was more than $100 million, about half for development projects, $28 million for emergency assistance, and the rest for balance of payments support, funding of SADCC and support for NGOs. Projects cover: agriculture and fisheries (Beira green zones, AGRICOM, SEMOC, support for family farms, national land survey); education (production and distribution of schoolbooks, adult literacy campaign, management and technical training); forestry (support to public sector saw mills); and energy (support to national electric company). Twelve full time developlment professionals (ASDI) manage a program implemented by about 150 expatriate contractors.

Issues:
- Support for state enterprises (AGRICOM, SEMOC, others)
- Creation of new parastatals
- Government accountability for emergency assistance

Netherlands

The program averages $50-60 million a year, with commitments for four years at a time. A two person embassy staff manages 60 expatriate contractors as well as several NGOs. Netherlands provides the University of Eduardo Mondlane with 25 expatriate teachers on three-year contracts. The regular bilateral program focuses on Maputo City sewerage, drainage and coastal protection; maintenance of Nacala power plant; and small water projects in Maputo and Beira. Financing is provided for Dutch NGOs, UNICEF and Medecins Sans Frontieres. Emergency assistance includes $7.5 million per year through the World Food Program for maize and other cereals, and trucks for the private sector through the Ministry of Commerce.

Issues: - Private Sector transport support (difficulties in moving equipment through the Ministry of Commerce)
- Government accountability for emergency program

Norway

The total program amounted to approximately $45 million in 1988, of which roughly half went to SADCC port rehabilitation, the Beira corridor, and hydropower projects. Ninety percent of the rest was import support for SEMOC, DPCCN and government ministries and parastatals. Priority areas include: coastal transport (rehabilitation of Maputo port and dockyard, ship repair facilities, SADCC port workers training school, hydrographic research); energy sector (technical assistance and spare parts for the national electric company, construction of small hydroelectric facilities in Lichinga and Cuamba); commodity imports (paper for school books, raw materials for parastatal plastics industry, medicines, seeds for parastatal seed company); emergency food assistance ($5 million a year in maize, sugar, fuel imports); and support for Norwegian PVOs in Manica, Sofala, Tete, and Maputo provinces, focusing on traumatized orphans and street children.

Issues: - Support for parastatals
- Government accountability for emergency program

United Kingdom

The total annual program in 1988 amounted to 30 million pounds sterling administered by two embassy officers. Bilateral projects assist aeronautical telecommunications for Maputo/Beira/Tete airports, rehabilitation of Maputo power station, support for public sector fishing fleets and prawn trawler rehabilitation, construction of the Matola oil products jetty, and transport sector support for the public sector truck component of Zambezia railways, based in Mocuba. Emergency assistance totalled 15,000 metric tons in 1988, one third for free distribution, the rest for commercialized sale. Assistance is also provided for NGO programs: CARE logistics (trucks), Save the Children/UK, Action Aid, Christian Aid and Oxfam.

Issues:
- Programming of local currency counterpart funds
- Government accountability for emergency program
- Support for private sector transporters

Denmark

The Program averages $25-30 million a year. Three DANIDA program officers and a financial analyst manage 35 Danish contractors. Denmark does not provide emergency assistance. Emphasis is given to private agriculture, fisheries, water and sanitation, health, industrial rehabilitation, coastal and air transport, and support to SADCC and NGOs.

Issue:
- Health Sector coordination (especially in Zambezia Province)

Canada

Total funding in 1988 was (in Canadian dollars) approximately 18 million in food aid and 21 million in project/program assistance. The latter includes support to World Vision, CARE, UNICEF and UNHCR as well as community food production projects in Manica, Inhambane and Maputo provinces and a commodity import program. Over the past ten years, Canada has provided 200 million Canadian dollars -- half in food aid, the rest through SADCC. Canada has supported Nacala line and Limpopo line railway rehabilitation, electrical wiring for the Beira corridor, and satellite earth stations. The programe is managed by one CIDA representative with a small local staff.

Issues:
- Government accountability for emergency program
- Coordination on Nacala line railway rehabilitation
- Programming of local currency
- Overall program management and accountability

West Germany

The total bilateral program was approximately $25 million in 1988, managed by one embassy officer. The program focuses on "secure areas" such as Maputo and Beira. Infrastructure development includes rehabilitation of Maputo industrial park, harbor cranes for Maputo/Beira/Nacala, rehabilitation of power stations for Maputo/Nampula, repair of central telex facilities in Beira, repair facilities for Mercedes trucks, and Limpopo line railway signal installations. The FDR also supports an integrated rural development project near Chimoio, Manica Province. 10,000 tons of wheat per year is provided for the emergency food program. Support is given to UNICEF, Lutheran and Catholic Church volunteers, and MSF/Belgium. The FDR also provides one-third of the EEC development assistance budget.

Issues: - Government accountability for emergency program
- Overall program management and accountability