

A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office <u>A.I.D./Mozambique</u> (ESF _____)		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY _____		C. Evaluation Timing Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/> Re Post <input type="checkbox"/> Other <input type="checkbox"/>	
D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, put "N/A" and date of the evaluation report.)					
Project No.	Project / Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
656-0208	Private Sector Support Program	FY 89	6/93	\$53,440	\$53,440
656-0218	Private Sector Support Technical Assistance Project	FY 90	6/93	53,000	\$2,500

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director	Name of Officer Responsible for Action	Date Action to be Completed
Action(s) Required		
1. Continue support to monitor prices and constraints to production and marketing.	USAID	on-going 1992-93
2. Work for greater institutionalization of MSU activities within the Ministry of Agriculture.	USAID	on-going 1992-93
3. Monitor and influence credit and banking sector developments to support agricultural development.	USAID	1992-93
4. Develop a program of non-project assistance that concentrates on making operational the policy decisions undertaken during PSSP, removing obstacles that constrain the full impact of economic liberalization, and promoting efficient functioning of marketing networks.	USAID	1992
5. analytic studies should be undertaken: (a) the possible price depressing effects of food aid; (b) the growing presence of commercial itinerant traders (comerciantes ambulantes) and how they can/should be supported (credit, organization, training); (c) the role of women as the primary agricultural producers, and the impact of policy change on their lives, including regional variations.	USAID	1992-93

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) (Day) (Year)
 Jan. - March 1992

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Institution of Origin	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Cheryl McCarthy	Ministry of Agric.	Charles North	ADir John M. Miller
Signature	<i>Cheryl McCarthy</i>	<i>[Signature]</i>	<i>Charles North</i>	<i>[Signature]</i>
Date	6/1/92		6/1/92	6/2/92

A B S T R A C T

Evaluation Abstract for the 1991-92 Annual Report

USAID is supporting the Government of the Republic of Mozambique (GRM) policy reform in the food and agriculture sector through the Private Sector Support Program (PSSP), a \$53.4 million, three-year non-project assistance activity. USAID is also providing \$3 million of technical assistance for research and related assistance in support of the PSSP policy reform agenda. The purpose of the PSSP policy reform agenda is to improve incentives for private sector agricultural production and marketing in order to enhance the private agricultural sector's production and income. An evaluation to assess the scope, focus, progress, and impact of the Program was undertaken in November 1991. A team of four experts reviewed relevant documentation and interviewed USAID staff, GRM officials, and others in Maputo. Site visits were carried out in peri-urban areas of Maputo and in the Quelimane and Mocuba areas. The major findings and conclusions are:

The PSSP has been able to identify and effectively address a selected set of policy constraints to private sector agricultural production and marketing. The PSSP is a well conceived program with realistic policy objectives, and responds to the country's development (as opposed to emergency) needs. Virtually all the targets specified in the policy reform agenda have been met by the government. Nevertheless, the full impact of these reforms will only be felt over the long term. Benefits of the new policies remain dependent on the cessation of the war, and numerous obstacles continue to impede the recovery and development of the country's agricultural production and marketing system.

Agricultural price policy reforms have been successful in eliminating the fixed price system and removing the illegality of selling above the government price although the new floor price system serves the function of a reference price rather than as a true government price support. USAID has correctly emphasized its concern with not only the fact and pace of state farm divestiture but also its quality. All the agriculture commodities recently procured through the Commodity Import Program (CIP) have been imported through private agents and thus have stimulated the growth of this sector. The funds expended for technical assistance represent a sound beginning for institution and capacity building. Policy dialogue has been influential in achieving progress in economic liberalization policies. However, the GRM is an unequal partner, lacking the quantitative and qualitative policy and technical capacity to develop its own strategy.

The evaluators concluded that the PSSP is central to the Mission's Country Program Strategic Plan and is consistent with Development Fund for Africa (DFA) objectives. It is consistent and supportive of the GRM and World Bank and other donor programs, and is seen as an element in the larger context of structural adjustment. USAID should continue support to monitoring prices and constraints to production and marketing, increasing attention given to those constraints that limit the impact of price incentives on production and the efficient functioning of markets. USAID should develop a new program of non-project assistance that concentrates on making operational the policy decisions undertaken during PSSP, removing obstacles that constrain the full impact of economic liberalization, and promoting efficient functioning of marketing networks.

C O S T S

1. Evaluation Costs

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Abt Associates Inc. (Agricultural Policy Analysis Project, Phase II)		DAN-4084-Z-00- 8034-00	\$107,999	656-0218
John D. Miller		Order No. 019	1,551	656-0510
Tony Davis			<u>109,550</u>	
Dan Gustafson				
Stahis Panagides				

2	n/Office Professional Staff Person-Days (Estimate) <u>20</u>	3 Borrower/Grantee Professional Staff Person-Days (Estimate) <u>0</u>
---	---	--

A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

I. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)

Address the following items:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/Mozambique	Date This Summary Prepared: December 1991	Title And Date Of Full Evaluation Report: Mozambique: Private Sector Support Progr December 1991
--	--	--

Introduction and Context. Mozambique's 1.5 to 2 million family farm units and 3,000 commercial farmers have suffered greatly from the distorted colonial economic base, the failed policies of state control in the years following independence, and the disruptions caused by war. The Government of the Republic of Mozambique (GRM) has embarked on the reorientation and rehabilitation of the overall economic structure. In addressing the specific needs of the agriculture sector, the GRM confronts severe constraints of input availability and rural commercial infrastructure, and a family farm population that remains largely beyond the reach of government technical assistance.

USAID is supporting GRM policy reform in the food and agriculture sector through the Private Sector Support Program (PSSP), a \$53.4 million, three-year non-project assistance activity. USAID is also providing \$3 million of technical assistance for research and related assistance in support of the PSSP policy reform agenda.

The purpose of the PSSP policy reform agenda is to improve incentives for private sector agricultural production and marketing in order to enhance the private agricultural sector's production and income. The reform agenda targets: (i) agricultural pricing policy; (ii) divestiture of state farms; (iii) private agricultural sales and service; (iv) access to foreign exchange; (v) private marketing channels; and, (vi) petroleum importation and marketing.

An evaluation to assess the scope, focus, progress, and impact of the Program was undertaken in November 1991. A team of four experts reviewed relevant documentation and interviewed USAID staff, GRM officials, and others in Maputo. Site visits were carried out in peri-urban areas of Maputo and in the Quelimane and Mocuba areas.

Findings. Virtually all the targets specified in the policy reform agenda have been met by the government, and USAID support and program activities have evolved in a responsive manner to the impressive progress made in the policy reform process. Nevertheless, the full impact of these reforms will only be felt over the long term. Benefits of the new policies for the country's population remain dependent on the cessation of the war, and numerous obstacles continue to impede the recovery and development of the country's agricultural production and marketing system.

The PSSP has been able to identify and effectively address a selected set of policy constraints to private sector agricultural production and marketing. The PSSP is a well conceived program with realistic policy objectives, and responds to the country's development (as opposed to emergency) needs.

Pricing Policy. Agricultural price policy reforms have been successful in eliminating the fixed price system and removing the illegality of selling above the government price although the new floor price system serves the function of a reference price rather than as a true government price support. There is evidence of a positive response to the price incentives on the part of producers, although the removal of price restrictions on inputs and consumer goods has meant that overall producer terms of trade may have worsened in the short run. The Ministry of Agriculture/Michigan State University (MA/MSU) work on prices and changes in the agricultural economy at the field level has been important in identifying impact and remaining obstacles that inhibit effective price incentives, and should continue to receive high priority.

State Farm Divestiture. USAID has correctly emphasized its concern with not only the fact and pace of divestiture but also the quality of divestiture. However, farm divestitures to date do not reflect the application of a coherent plan or process, and transfer of land ownership to the private sector is still not allowed. The current GRM priority appears to be to stop the budget drain caused by state farms, rather than to increase productivity by putting land in the hands of private producers.

Private Agriculture Sales and Service. All the agriculture commodities recently procured through the Commodity Import Program (CIP) have been imported through private agents and thus have stimulated the growth of this sector. Within USAID's policy objectives of supporting private sector rural commercial infrastructure, the CIP imports represent an important element.

Foreign Exchange. PSSP has been successful in supporting the introduction and use of the secondary market for foreign exchange and has played a useful role in assessing alternative market-based allocation mechanisms. USAID should be commended for adhering to market-based principles in the pricing and allocation of foreign exchange and for being suitably cautious in not joining the System for the Non-Administrative Allocation of Foreign Exchange (SNAAD). The \$53.4 million worth of CIP procurements has had a direct positive effect on Mozambique's balance of payments. The generation and use of counterpart funds have also contributed positively to the GRM budget situation, although the net effect on the budget is difficult to determine.

Private Marketing Channels. The inclusion of marketing issues in the policy reform agenda demonstrates USAID's awareness of the necessary steps subsequent to policy formulation to make policy changes effective. Progress has been made in deregulating commercial transactions.

Petroleum. The inclusion of petroleum in the agenda and CIP eligibility, although motivated by U.S. interest in responding to the GRM's request under special circumstances, diluted the focus on the agricultural sector, and precluded the purchase of up to \$10 million of commodities more directly related to agriculture.

Technical Assistance. The funds expended for technical assistance represent a sound beginning for institution and capacity building. The objectives and activities of the assistance have appropriately evolved from snapshot monitoring toward capacity building and policy implementation support. The technical assistance now in place through resident specialists, short-term support, research, and training is already making an important contribution, for example, by providing market information that has been useful in improving policy decisions.

Commodity Import Program. The CIP has been well managed within USAID, and has effectively met its objectives under the PSSP. The CIP was correctly chosen as a sector-targeted means -- within overall macroeconomic liberalization and adjustment -- for reinforcing agricultural policy reforms under the PSSP. The impacts of the CIP are difficult to measure definitively, but available evidence suggests that it has had the desired effect. End-use monitoring should be improved.

Expanding the commodity eligibility list has been important, and the commodities imported under the CIP are valuable inputs to a functioning private agricultural sector. The CIP is the appropriate disbursement mechanism given USAID reporting requirements and existing capacity of the GRM and banks; it also supports the agriculture focus of PSSP.

Policy Dialogue. The Policy Reform Agenda is internally consistent and generally adhered to by the GRM. Policy dialogue has been influential in achieving progress in economic liberalization policies. However, the GRM is an unequal partner, lacking the quantitative and qualitative policy and technical capacity to develop its own strategy. USAID can say, and has indeed reported to Washington, that agricultural pricing policy has been liberalized, that state farm divestiture is underway, and that important progress has been made on each agenda item.

Monitoring. Responsibility for monitoring and documenting the end use of program commodities resides with the USAID commodity field monitor, who is virtually the only USAID representative able to travel with some regularity to the field. To date, however, the monitor's role has been restricted; he is unable to do more than spot checking. USAID's efforts to monitor and assess PSSP impacts at the farm level -- income, production, responsiveness to policies and incentives, etc. -- rely mainly on second-hand sources. In this difficult and complex development environment, reliable, complete, and regular information upon which to base decisions is at a very high premium.

Main Conclusions. The PSSP is central to the Mission's Country Program Strategic Plan and is consistent with Development Fund for Africa (DFA) objectives. It is consistent and supportive of the GRM and World Bank and other donor programs, and is seen as an element in the larger context of structural adjustment.

In spite of the significance of the economic policy reforms carried out over the past several years, the implementation of each of the agenda items (i.e., making them operational), beyond the policy decisions themselves, continues to be essential to increasing agricultural production and rural incomes, and providing the environment conducive to commercial and family farm development.

Main Recommendations/Current Program. USAID should continue support to monitoring prices and constraints to production and marketing, increasing attention given to those constraints that limit the impact of price incentives on production and the efficient functioning of markets.

USAID should work for greater institutionalization of MSU activities so that this capacity becomes a routine part of Ministry activities, even after the program ends. This experience should also be used to help the Ministry develop a new agricultural information system.

USAID should monitor and influence credit and banking sector developments to support agricultural development. As credit is increasingly becoming a constraint to access to foreign exchange and imports, USAID should begin to give attention to credit issues as they relate to market structure and access to foreign exchange for the agriculture sector. This is also timely because financial sector reforms and counterpart funds are increasingly becoming central issues in current donor/GRM dialogue.

USAID should continue its assistance on the mechanics of state farm divestiture and consider broadening the set of issues it addresses to include, for instance, the assumption of debt and other liabilities, valuation, sales and marketing.

USAID should support efforts to develop a market rate foreign exchange allocation mechanism for the period after rate unification in March 1992.

Main Recommendations/New Program. USAID should develop a new program of non-project assistance that concentrates on making operational the policy decisions undertaken during PSSP, removing obstacles that constrain the full impact of economic liberalization, and promoting efficient functioning of marketing networks.

The new program should seek the goal of increased agricultural production and incomes through enhancing the role of the private sector (commercial and family farmers, and market agents). The new program should support policies and actions that promote (a) an enabling environment for private investment (including on-farm) and new entrants in agricultural production, marketing, and processing (e.g., access to credit and foreign exchange, institutional support of the private sector, regulatory framework); (b) improved production technology for crops and livestock and access to productive inputs (including land) and equipment (pumps, implements, seeds, etc.); (c) marketing and processing infrastructure (distribution, storage, transportation, information, plant and equipment); and (d) improved institutional capacity in support of the agricultural sector.

The means to implement these program elements are sustained technical assistance and an agriculture sector specific Commodity Import Program. Any new policy reforms should be designed to be operationally-oriented and build upon reforms addressed in the PSSP.

Other Recommendations. The CIP mechanism should continue to focus on the agriculture sector and in direct support of the policy reforms being adopted as part of the new program. However, as the policy areas addressed by the program broaden and become more operational, the range of eligible commodities should increase.

The CIP disbursement mechanism, as currently administered (i.e., USAID acting as banker), should continue until there is evidence that the local banking and foreign exchange management system is able to administer a CIP to USAID's reporting and accounting standards.

As the emphasis of policy reforms shifts from the policy framework to making policy decisions operational, donors need to recognize a number of important implications: (a) the client organizations for donor assistance and interaction will shift from the policy ministries, which were the appropriate entities under PSSP, to the line ministries such as agriculture and commerce; (b) the pervasive and debilitating capacity constraints of government will be even more critical as the shift moves to line ministries; (c) the nature of technical assistance overall needs to shift its emphasis as an implementation orientation is adopted; and (d) donors, including USAID, should augment their own capacity for macro and agricultural economic analysis.

ATTACHMENTS

Attachments List attachments submitted with the Evaluation Summary. Always attach copy of full evaluation report. Attach if also used information from previous studies surveys, etc. from "previous" evaluation. If relevant to the evaluation report.

Evaluation in its entirety

COMMENTS

Comments By Mission, AID/W Office and Borrower/Organis On Full Report

The Mission concurs with the findings and recommendations of this evaluation.

Annex D

Updated Letter of Intent of
the Government of the Republic of Mozambique

Private Sector Support Program
656-0208/18

September 1992

[The text contained in this annex is a draft. The final version of the updated letter of intent will be reviewed and accepted by USAID, and incorporated as an annex to the program grant agreement amendment prepared pursuant to this PAAD Amendment, prior to the signing of the grant agreement amendment.]

Mr. John M. Miller
Acting Director
USAID Mozambique
Maputo

DRAFT

Dear Mr. Miller:

The Government of the Republic of Mozambique appreciates the continuing significant assistance of the United States and particularly your support for the development of Mozambique's food and agriculture sector. This letter builds on its predecessors, dated August 31, 1989, July 3, 1990, May 15, 1991, and July 10, 1991, and upon the agreements reached between USAID and Government on the P.L. 480 Programs for 1989, 1990, 1991, and 1992. All measures of those agreements remain in full force and together with this letter, constitute the full range of policy issues agreed upon by USAID and the Government in the food and agriculture sector.

Progress on the Government's Economic and Social Rehabilitation Program (ESRP) was described in the Policy Framework Paper (PFP) for 1991-93, but the devastating effects in Mozambique of the regional drought have certainly affected the country's ability to meet some of the economic targets set in the PFP. Nonetheless, the overall ESRP strategy remains unchanged. This letter focuses on the policy areas within the ESRP framework which were agreed upon as the basis for USAID assistance in food and agriculture: agricultural marketing and pricing policy, divestiture to the private sector of state farms and agriculture-related state enterprises, private sector networks for agricultural inputs and related services, pricing and distribution policy for petroleum products, and access to foreign exchange. Following is a summary of progress made in these areas in the past year, and of intended policy measures for the coming year.

DRAFT

In the wake of significant price and non-price marketing liberalizations made in 1990 and 1991, there has been some evidence of both increased domestic agricultural production and more competitive commercial activity serving both urban and rural areas. As intended, the Government in October 1991 adjusted the producer floor prices for key food crops based on import parity prices then prevailing, in order to maintain minimum price incentives to production and marketing. In addition, some progress has been made this year on increasing the official prices for commercial food aid commodities (such as maize) to also more closely approximate import parity prices, because the Government does recognize the potential disincentives to increased domestic food production and marketing that subsidized prices for commercial food aid represent.

With respect to domestically produced rice, in 1991-92 the Government had intended to move this commodity to the floor price system, and allow prices at all other transaction points to reflect market demand and supply. However, because of the impact of the drought in rice-producing areas of Mozambique as well as uncertainty as to food aid rice supplies this year, the Government has not yet proceeded with price liberalization of this commodity. Instead, in July 1992 revised rice prices were announced which are based on import parity and approximate open-market prices for commercially imported rice.

With technical assistance provided by USAID, the Government has begun to monitor and analyze food market supplies and prices at various transaction levels, in order to assess the impact of the marketing liberalizations of the past three years. Non-price constraints to marketing which are being analyzed include, among others, lack of transport availability and licensing requirements. An important additional step in liberalizing food marketing was taken in 1991-92 through the establishment of a system for pre-qualifying enterprises, including private sector companies, to be direct consignees of commercial food aid. This change has contributed to a wider participation in key food marketing transactions which should lead through competition to reduced transactions costs.

DRAFT

In 1992-93, the Government intends to complete the liberalization of rice prices by indicating only a minimum producer price based on import parity and a comparable parity-based price for food aid rice, and freeing prices of both domestic and imported rice at all other marketing levels. To address transportation-related constraints to marketing, the Government intends to (i) develop and begin to implement a program for privatizing a number of Government owned or managed truck fleets, including those of AGRICOM, DPCCN, and CAMOC; and (ii) lift all fixed tariffs for private road transport, to permit private trucking services to negotiate costs based on local conditions. Finally, the Government also intends in 1992-93 to continue to analyze, and to identify corrective measures to relieve, non-tariff barriers to increased private sector marketing activities such as wholesaling, storage and stocks, processing (including milling), and transport from surplus to deficit regions.

Recognizing that improved land access and tenure security is a critical factor in encouraging investment, growth, and sustainability in agriculture, the Government has taken significant steps in this area during the past year. The closure, restructuring, and divestiture of state farms and agriculture-related state enterprises has continued on a case-by-case basis. In addition, the Government has also begun to address broader land policy issues through the establishment of a high-level, semi-autonomous Land Commission. The start-up of this Land Commission has benefited from assistance provided by USAID, and the Government hopes that such support can continue to inform the complex tasks facing the Land Commission.

In 1992-93, the Government intends to maintain credit and subsidy ceilings for state agricultural enterprises as established under the ESRP and to continue closures and divestitures of state farm lands to private operators, including family sector farmers. The Land Commission's tasks include developing and implementing guidance and procedures to improve the transparency of this divestiture process. Furthermore, the work of the Land Commission is expected to lead in 1992-93 to recommendations on the structure and role of a more permanent National Land Commission to address land issues in Mozambique; this is a most pressing need as the Government looks forward to the prospects of peace and stability.

DRAFT

Another objective of the Government's agricultural development strategy is to enhance the reach, competitiveness, and viability of private sector networks providing agricultural inputs and services to farmers nationwide. The USAID Commodity Import Program has effectively supported progress toward this objective for several years. In the past two years, import support provided by other donors has also been increasingly focused on the private sector. We have also noted your recent agreement to permit more flexible utilization of U.S. balance of payments assistance to Mozambique by significantly broadening the range of commodities eligible for import financing. At present, private sector competition is now permitted and encouraged for virtually all goods and services supporting the agriculture sector, even including such services as banking and insurance as well as more technical services related to equipment and input supply.

In line with the overall objective of inducing increased economic productivity, the Government will continue in 1992-93 to privatize management and ownership of agriculture-related state enterprises. In addition, the Government in 1992-93 will continue to ensure that USAID import support financing is utilized only by the private sector, with the single exception of any portion of this financing specifically reserved for importation of petroleum products as discussed below.

In reference to reforms in the pricing, importation, and distribution of petroleum products, the Government has taken significant steps in 1991 and 1992 to promote increased and more reliable access to these products at market-based prices. Pump prices for both gasoline and diesel, although still fixed, have been increased regularly and frequently to reflect full import parity at the market exchange rate. With USAID assistance, the Government completed an analysis of the market for avgas in Mozambique, and has begun implementing recommendations for deregulating the importation, distribution, and pricing of this product. In 1992-93 the Government intends to continue this process by allowing private imports of avgas and, by January 1993, amending relevant laws and regulations to permit its free importation and distribution. An important aspect of this process of liberalization for avgas will be for the Government to monitor and analyze its impact on prices and availability of this product, as we consider the steps and timing for similar liberalization for other petroleum products. Based on the avgas experience, the Government specifically intends in 1992-93 to develop proposals for moving toward a free market in the domestic distribution of diesel fuel and gasoline.

49

DRAFT

One of the most critical factors for private agricultural activity is market-based access to foreign exchange; progress in this area also has been significant, despite the complexity of Mozambique's transition toward market-based financial structures and the still massive insufficiency of foreign exchange available to meet all the urgencies of this devastated economy. In 1991-92 the secondary foreign exchange market was expanded to include non-traditional exports and an extremely wide range of commodity imports, thereby reducing the categories of goods to which the fixed official exchange rate applied, even as adjustment of the official rate continued to bring it closer to the market rate. As well, in April 1992, the official and secondary market exchange rates were unified in a new market rate which fluctuates according to supply and demand. Finally, the Government has begun to permit private sector participation in foreign exchange operations and to encourage truly commercial, including privately owned and managed, banking operations.

In the coming year, the Government intends to (i) maintain and improve private sector access to foreign exchange through the mechanisms described above, (ii) streamline and make more transparent the procedures for commercial banks to access foreign exchange based on market rates, and (iii) analyze more deeply the constraints to a truly functional commercial banking sector and set priorities, within the framework of the ESRP, to address these.

In conclusion, the Government reaffirms its intention to pursue the food and agriculture sector policy objectives identified in the Policy Framework Paper and in the specific USAID agreements and previous Letters of Intent cited above. We intend to take significant steps in 1992-93 toward achievement of these objectives. These actions will in large part depend on USAID's continuing support, both financial and technical, in this sector. We look forward to continuing our close and productive collaboration.

Sincerely,

Jacinto Soares Veloso
Minister of Cooperation

49