



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Sixty-Eighth Session
Rome, 8-9 December 1999

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF MOZAMBIQUE

FOR THE

PAMA SUPPORT PROJECT



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CURRENCY EQUIVALENTS

Currency Unit	=	Metical (MZM)
USD 1.00	=	MZM 12 500
MZM 1 000	=	USD 0.08

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

ANE	National Roads Authority
CCP	National PAMA Consultative Council
DPPF	Provincial Directorate of Planning and Finance
INDER	National Institute for Rural Development
JVCs	Joint venture companies
LoNAT	Local needs assessment team
MAP	Ministry of Agriculture and Fisheries
MICTUR	Ministry of Industry, Commerce and Tourism
PAMA	Programa de Apoio aos Mercados Agrícolas (Agricultural Markets Support Programme)
NGO	Non-governmental organization
PROAGRI	Agricultural Sector Public Expenditure Programme
UFP	National project facilitation unit
UFPP	Provincial project facilitation unit
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development

GOVERNMENT OF THE REPUBLIC OF MOZAMBIQUE

Fiscal Year

1 January - 31 December



REPUBLIC OF MOZAMBIQUE
PAMA SUPPORT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Mozambique
EXECUTING AGENCY:	National Institute for Rural Development (INDER)
TOTAL PROJECT COST:	USD 26.6 million
AMOUNT OF IFAD LOAN:	SDR 16.55 million (equivalent to approximately USD 22.8 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
CONTRIBUTION OF BORROWER:	USD 3.8 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



PROJECT BRIEF

Who are the beneficiaries? The direct beneficiaries of the project will be drawn from the population of the three focal project areas, estimated at some 230 000 smallholder households. Most of the rural population of these areas should benefit, and not only households selling agricultural produce (55% of all rural households) and food-insecure households (over 60%), many of which currently have no market access and are obliged to buy food in times of shortage. The establishment of 225 farmer groups is foreseen and this is likely benefit not only members of the groups but also producers who market their crops through the groups. The beneficiaries will therefore total 11 000-12 000 producers. The market access roads subcomponent will provide immediate benefits to those employed in their rehabilitation and medium-term benefits to persons living in the vicinity of the roads, who would likely number some 120 000 households.

Why are they poor? Poverty is widespread within rural Mozambique: 70% of households are considered poor, many are food-insecure and the differences between those defined as absolutely poor, poor and less poor are only slight. According to a recent national survey, three quarters of a sampled rural population considered their poverty to be caused by isolation, inadequate physical and social infrastructure, and the consequent lack of access to goods and services. This is reflected in the interlinked constraints of few or no input suppliers; distant, unreliable and uncompetitive produce markets; a lack of consumer goods; and difficulties in establishing commercial linkages with agribusiness ventures. However, there is much potential: agro-ecological potential is strong over much of the country, and land is not a constraint. With appropriate support, the country would have enormous potential to expand the production and marketed sales of food and cash crops.

What will the project do for them? The majority of rural households are involved in the market economy, and those that are not are constrained from doing so by either their lack of access to a market or the terms upon which they are obliged to participate. **All** households – those that do not enter the market, those that sell, those that buy, and the many that do both at different times of the year – are currently victims of the market, with little choice in where, with whom, and at what price they conduct their transactions. All smallholder producers will benefit from the improved market access and marketing organization offered through the project as it will stimulate increased levels of production, with a gradual shift in resource allocation to crops in which the household has a comparative advantage; lead to increased levels of sales; and be expected to result in increased prices to producers both through reduced costs to the trade network and increased competition. Significantly for improved household food security, it may also be expected to result in improved availability of staple foodstuffs and a reduction in the prices thereof.

How will the beneficiaries participate in the project? The beneficiaries will participate in the planning and monitoring of project activities, as well as in the activities themselves. Focal area resource and reference groups, representing local economic interests and including representatives of farmer associations, will work with their constituencies to assess local needs in relation to market linkages, prioritize areas of project support and prepare the focal area strategy. They will subsequently play a key role in monitoring the performance and impact of the activities conducted in the focal areas. Farmer associations represent a proven approach for enhancing smallholder producers' participation in the market economy; the project will provide substantial support to their establishment, development and linkage to commercial operators.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
REPUBLIC OF MOZAMBIQUE
FOR THE
PAMA SUPPORT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Republic of Mozambique for SDR 16.55 million (equivalent to approximately USD 22.8 million) on highly concessional terms to help finance the PAMA Support Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and the Agricultural Sector

1. Mozambique is located on the south-east coast of Africa, sharing boundaries with South Africa, Swaziland, Zimbabwe, Malawi and the United Republic of Tanzania, and covers a total land area of 800 000 km². The population of Mozambique is approximately 17 million, 80% of whom live in rural areas.
2. Mozambique won its independence in 1975. The exodus of most Portuguese settlers and Asian traders, subsequent adoption of central planning, nationalization of major enterprises, and the civil war from the late 1970s to early 1990s resulted in a collapse both in production and public services and in the destruction of infrastructure. It was only after the 1992 peace settlement that Mozambique was able to effectively pursue economic policies based on privatization of economic assets and functions, market determination of prices and the exchange rate, and rationalization of public expenditure and fiscal balance. Peace, better policies, rising foreign investment and substantial external assistance have all contributed to a strong economic performance characterized by growth of more than 8% per year between 1993 and 1998.
3. Agriculture employs 80% of the population but contributes only 26% of the gross domestic product (GDP). Nevertheless, the country's agricultural potential is impressive, with 36 million hectares of arable land of which only 15% is cultivated. Of that, 75% is down to food crops — mainly maize, cassava, sorghum, rice and beans — and the remaining 25% is used for export crops: cotton, cashew, copra, sugar cane, tobacco, tea and citrus. Two main types of producers exist: the 3.5 million smallholder households who account for 98% of the total cultivated area; and the commercial farms, totalling 121 000 ha. The latter range from large estates owned by private enterprises and large-scale joint (private/public) venture companies (JVCs), both involving foreign investment, to emerging Mozambican-owned commercial farms of less than 50 ha.
4. With the end of the civil war, the spontaneous resettlement of 4-5 million refugees and displaced people, and an improved policy environment, there has been a rapid recovery in smallholder production. Total cereal production has increased from 239 000 t in 1992 to 1.7 million t in 1998 and

¹ See Appendix I for additional information.



has exceeded national requirements. Despite the recovery, however, crop yields and labour productivity remain low. The reasons for this include poor husbandry practices; little use of improved inputs; and limited access to technical advice, support services and markets.

5. Market linkages are gradually establishing themselves and starting to affect the structure and production patterns of the smallholder sector. High transport costs from the food-surplus north to Maputo in the south mean that maize is increasingly exported to neighbouring countries, while Maputo imports large volumes from South Africa; and only higher value crops such as beans and groundnut are sent south. Cotton has become the most important cash crop for smallholders in recent years and today there are some 230 000 producers, mainly in the north, who cultivate the crop as outgrowers. Provided with technical advice and production inputs, they sell their output directly to large-scale ginning companies, the JVCs. While most of these companies concentrate on one crop — mainly cotton — they are looking to expand into other crops with export market potential. Pigeon pea, sunflower and tobacco are among the promising crops that are currently being tried. Cashew is also an important smallholder crop that is grown as food and represents an important source of income, either for processing in newly-privatized domestic plants or, increasingly, for export as raw nuts.

6. A recent ‘Letter of Agricultural Policy’ restates the Government’s aim to “transform subsistence agriculture, linking it ever more closely into production, marketing and processing activities, and increasing marketed surpluses”. It affirms the Government’s intention to play a facilitating rather than implementing role, and to promote farmer/trade organizations and outsourcing/cofinancing services with the private sector. Responsibility for implementing agricultural policy, and market linkage development in particular, cuts across the mandates of several public institutions. The Ministry of Agriculture and Fisheries (MAP) is responsible for the Agricultural Sector Public Expenditure Programme (PROAGRI), a five-year USD 202 million programme that embraces all public and donor expenditure channelled through that Ministry. Supported by a large number of donors, including IFAD, the programme is conceived as the means to modernize MAP in line with its new role in a market economy and to focus on a reduced set of ‘core functions’. The Ministry of Industry, Commerce and Tourism (MICTUR) is responsible for a recent trade policy and strategy paper. Its aims include expanding domestic trade by promoting the integration of informal traders, contributing towards the reduction of transaction costs, and facilitating the transfer of agricultural surpluses to consumption areas. The National Institute for Rural Development (INDER) is mandated to promote intersectoral coordination in support of rural development.

B. Lessons Learned from Previous IFAD Experience

7. IFAD has financed five projects in Mozambique to date. The first two projects, the National Programme for Food Production in the Cooperative and Family Sectors and the Second Agricultural Rehabilitation Project, played an important role in focusing the attention of Government on smallholder producers rather than on the large-scale state sector, and assisted farmers and fishermen to improve their access to imported inputs and production support services. The two projects, both closed, have limited application today in Mozambique’s rapidly changing institutional and economic environment.



8. The other three projects are all under implementation. The Nampula Artisanal Fisheries Project benefited from a mid-term review in 1998, and is now considered successful in terms of its impact on beneficiary communities, fisheries management, and government policies towards the artisanal fisheries sector. The Niassa Agricultural Development Project suffered delays in starting up, but implementation is now proceeding well and the project is poised to have a real impact on the target group. The newer Family Sector Livestock Development Programme, which focuses on redefining the Government's role in the livestock sector and on promoting farmer group and private sector participation in service delivery, is gradually being reshaped to constitute an integral element within PROAGRI. From these three projects, several lessons are pertinent: (a) the Government is committed to focusing on its core functions and is willing to explore innovative approaches to service delivery for smallholder producers; (b) provincial government services are weak, but decentralization of responsibilities to the provincial level brings out latent capacity, ensures stronger ownership and assists timely implementation; (c) committed and capable management and judicious use of good technical assistance are essential to smooth take-off and implementation; (d) the economic and institutional environment within which projects operate is changing rapidly, pointing to the need for flexible design with built-in feedback mechanisms for adaptive project management; and (e) rationalizing donor-supported projects to ensure coordination and put the Government in the driving seat was an important justification for PROAGRI, and it is just as relevant to market linkage development activities.

C. IFAD's Strategy for Collaboration with Mozambique

9. **Poverty eradication.** Despite rapid economic growth, the gross national product per capita (USD 180) is still well below the average for sub-Saharan Africa. According to the United Nations Development Programme's Human Development Report of 1998, 70% of the rural population are poor, while Mozambique itself remains one of the ten poorest countries in the world. The country has achieved national food self-sufficiency, and average levels of malnutrition have fallen; but there remain high levels of food insecurity and a majority of rural households experience shortfalls at certain periods of the year. Given that land is not a major constraint, shortages are often caused by labour limitations (particularly in women-headed households) or by inability to either market crop surpluses or buy-in food during deficit periods. The Government's strategy to alleviate poverty focuses principally on promoting growth through support to rural development.

10. In 1997, official development assistance amounted to 38% of Mozambique's GDP (USD 814 million), the highest figure for any country; and there are currently some 40 donors active in the country. In the last five years, funds have shifted from humanitarian aid to more development-related activities in all sectors. Of interest are those initiatives being taken by a number of donors to support the development of agricultural market linkages as a means to stimulate increases in production, marketed surplus and household incomes. The most important players in this field are the United States Agency for International Development (USAID), which has financed a series of innovative and successful projects implemented by non-governmental organizations (NGOs); and the European Commission, which has provided substantial institutional support to MICTUR. There have also been limited initiatives involving the private sector as an agent of development: an interesting example here is the contracting of a cotton processing company to implement a project in Cabo Delgado. The project provides an important model of a 'win-win' situation of benefit to all parties: the donor (*Agence française de développement*), the Government, the smallholder producers and the cotton processor.

11. **IFAD's policy for poverty eradication.** IFAD's strategy for intervention in Mozambique takes as its starting point the recognition that continued exclusive emphasis on food crop production will not have a major impact in terms of reducing rural poverty. Rather, increased rural incomes and broad-based economic growth depend upon the ability of smallholder producers to participate better in the rapidly expanding market complex (including both cash and 'food' crops). They are



constrained from doing so by a number of factors, including their lack of market, organizational and negotiation skills; inadequate market and price information; weak infrastructure, particularly roads; low production levels; the lack of an intermediary-level rural trade network; and the concentration of market power in the hands of the JVCs. All lead directly to low produce prices, consumption-oriented production systems and low household incomes. In Mozambique, there is a gradually emerging vision of how these constraints can be overcome and how smallholders and the private-sector traders, JVCs and service providers, can develop together in a manner that is efficient and equitable. There are also a number of valuable ongoing initiatives upon which the proposed project could build.

12. There is also a crucial role for Government to play in promoting these linkages: in establishing, together with the main stakeholders, a facilitating policy, legislative and financing framework; and in supplying, or more appropriately managing the supply of, a limited range of public goods and services. By performing this role, it will seek not only to influence the rate at which the market development process takes place — i.e. making it a more rapid process — but also to affect its form by facilitating the maximum ‘spread’ of benefits to as wide a range of rural households as possible and eliminating barriers which could inhibit the participation in the market development process of the poorer members of the community. The commercial linkages sought must be equitable and sustainable.

13. **Project rationale.** The rationale for the project thus emerges from a number of factors. First is the interplay of the enormous potential for increased smallholder production and market sales; the constraints to realizing this potential; the existence of proven opportunities to overcome those constraints; recognition of the role of Government in promoting smallholder/market linkage development; and already-identified implementation capacity in the NGO community and in private companies, which could be harnessed under the project. Second, the project proposal seeks to fit with the Government’s sector policy and investment framework for agriculture and commerce. PROAGRI represents the starting point. Its funding, geared towards supporting MAP to carry out its core functions, has left a major gap in the Government’s ability to respond to one of its key policy orientations: the stimulation of the private sector to work effectively with the smallholder producers to supply agricultural inputs and promote and handle production surpluses. The scope of PROAGRI thus creates both the necessity for the project and defines its form. Third, in the process of designing the project, it became evident that the market linkage sector requires a mechanism that can develop stakeholder consensus on a policy, legislative and financing framework; guide all government, donor and NGO support; and promote private sector investment. In short, a programme. IFAD, as a multilateral financing institution with a privileged relationship with Government, is ideally placed to provide it with the support necessary for developing such a programme. However, it is important to distinguish conceptually between the larger programme – PAMA – and the PAMA Support Project which IFAD will finance; and to recognize that the establishment of the programme is both a medium-term objective and one of the project’s outputs.

PART II - THE PROJECT

A. Project Area and Target Group

14. The project will be national in scope, although the bulk of its expenditure will be associated with three focal areas within the provinces of Cabo Delgado and Niassa in the north and Maputo in the south. In the former two, there is high agricultural potential, particularly for maize and cotton, and improved market linkages could significantly increase family sector incomes. In the latter there are major national markets (vegetables and fruit) close by; they have MAP and donor extension services present, and smallholder irrigation associations are in place; and here, too, there are potential market linkages to be exploited. The focal areas are seen as a testing ground for technical and financial initiatives and for the development of an institutional framework at the provincial and local levels.



The total population of the focal areas is around 230 000 households, of which between 10-20% are women-headed.

15. Poverty is widespread in rural Mozambique; there is little economic stratification, and it is appropriate to equate the smallholder sector with the rural poor. Within the smallholder sector, the majority of households are involved to some degree in the market economy, while those that are not are likely to be constrained by their lack of access to a market and the terms upon which they are obliged to participate in it. Thus all households – those that do not enter the market, those that sell, those that buy, and the many that do both – are currently victims of the poor market organization, with little choice in where they conduct their transactions, with whom, and at what price. The development of equitable and sustainable market linkages is therefore of acute importance to **all** smallholder producers. All will benefit from improved market access that will stimulate increased levels of production, with a gradual shift in the allocation of resources to those crops in which the household has a comparative advantage; increased levels of sales; and higher incomes. Significantly for improved household food security, it might also be expected to result in improved availability of staple foodstuffs and a reduction in the prices thereof. The project's target group will therefore constitute all smallholder households in the focal areas, and all segments within that target group could be expected to participate in the project and benefit from it. The project's targeting approach will ensure that all households, including the most vulnerable and women-headed, are able to fully participate in the activities supported.

B. Objectives and Scope

16. The overall goal of the project will be to increase smallholder incomes and food security and promote broad-based economic growth through improved market organization. To that end, it will seek to increase: (a) the number of smallholders marketing and buyers purchasing their produce; (b) the share of end-market prices obtained by smallholders for their produce; and (c) the total value of smallholder produce marketed. In pursuance of this objective, the project will initiate and test a range of market linkage interventions targeted at smallholders in selected focal areas. Additionally, however, the project will seek to contribute to the development of an enabling framework for Government's wider Agricultural Markets Support Programme (Programa de Apoio aos Mercados Agrícolas – PAMA) by working in close collaboration with other interested partners. Project implementation will take place over a seven-year period.

C. Components

17. The project is split into four main components: support for PAMA framework formulation; PAMA support funds; institutional capacity-building; and project management and coordination.

Support for PAMA Framework Formulation

18. An amount of USD 0.3 million will be provided under the project to permit INDER to facilitate the process of formulating and establishing the PAMA framework. The project will support three broad areas: (a) cross-sectoral studies, including identification of focal areas in other provinces and strategies to address their specific market linkage constraints, thus providing the building blocks for the overall PAMA strategy; (b) subject-matter workshops addressing specific technical or organizational issues that constrain smallholder market development; and (c) PAMA stakeholder workshops, to critically appraise programme elements such as the overall policy framework, strategy, objectives, basic principles, financing criteria, and likely financing requirements. Application of the lines of support will be flexible in order to meet the needs of the programme formulation plan and to respond to additional resources provided by other donors.



PAMA Support Funds

19. This component will finance priority activities for market linkage development among smallholders. Both a national PAMA support fund and a provincial PAMA support fund will be established: the former to finance activities of a national nature and the latter for activities in the three focal areas. Although a series of activities has been defined under both funds, both are intended to be available to finance any activities considered to be supportive of the project's objectives, subject to their conforming to a set of 'basic principles' to be developed by the project stakeholders. Under both funds, it is envisaged that the implementation of activities will be contracted to private sector/NGO service providers.

20. **National PAMA support fund.** The fund will provide USD 2.0 million for national activities, including: (a) a rural financial services enhancement/trader network facility involving the contracting of a microfinance manager/trainer for two years to support ongoing rural trader credit initiatives and a study of such initiatives to assess their impact and make recommendations for their improvement and extended coverage; (b) market opportunity identification studies to survey a range of potential cash crops for production and marketing by smallholders in the focal areas, and to prepare detailed plans for contracting implementation of activities in a fashion that facilitates participation by more marginal groups; and (c) a rural retailer training impact study to assess initiatives to improve the availability of agricultural inputs to smallholders, and to recommend ways of strengthening and extending the coverage of successful initiatives.

21. **Provincial PAMA support fund.** The fund will provide USD 15.7 million to support market linkage activities in the focal areas of the three provinces. The precise mix of activities financed in each area will vary, according to the priorities defined through the detailed planning process. Defined priority activities include the following:

- **Farmer group/association development:** to help form viable smallholder groups to undertake commercial activities associated with agricultural production and marketing.
- **Market access roads improvements:** to provide for labour-intensive rehabilitation of 410 km, spot repairs to 810 km, periodic maintenance of 45 km, plus routine maintenance.
- **Rural financial services enhancement:** to pilot a rural inventory credit scheme, complemented with business skills training, to enable small rural traders and registered farmer associations to access credit from a commercial bank.
- **Rural retailer training:** to train rural traders and help them develop commercial relations with input supply companies in order to better meet the demand for inputs from smallholders.
- **Provincial private sector fora:** to enable private sector representatives to exchange information, discuss constraints, identify opportunities, and make recommendations to the Government and/or the business community, etc.
- **Provincial market information dissemination:** to prepare market information, translate and distribute it to radio and other media; and support the ongoing market information initiatives of MAP and MICTUR.
- **Small processor support:** to support small and medium-sized rural processing industries in identifying markets, improving technical processes and business management, and developing appropriate raw material supply systems involving smallholder farmers.
- **Smallholder crop initiatives:** to operationalize viable commodity-specific plans emerging from the market opportunity identification studies, and leverage agribusiness resources to supply inputs to smallholder producers in return for an assured supply of raw materials.



Institutional Capacity-Building

22. The project will provide USD 1.6 million to support core functions of INDER, MICTUR, MAP and the National Roads Authority (ANE) with respect to PAMA.

- **INDER** will be supported to coordinate and host PAMA. The project will recruit two experts for a local needs assessment team (LoNAT), an economist/planner, a media officer and a farmer group development officer. Support costs will also be provided.
- **MAP** will be supported by financing the recruitment of a communications/farmer group promoter to lead the establishment of the farmer association unit in the National Directorate of Rural Extension (DNER) in MAP.
- **MICTUR** will be supported through the recruitment and equipping of four graduates to staff a planned policy analysis unit, which will provide trade information support to the project and policy analysis back-up to various project-supported fora at the national and provincial levels.
- **ANE** will be supported in each participating province with technical assistance to train both labour-based road construction contractors and staff in contracting, training and supervising the contractors.

Project Management and Coordination

23. The project will provide USD 4.7 million to finance the establishment, equipping and running of both a national project facilitation unit (UFP) and two provincial project facilitation units (UFPP) in Cabo Delgado and Niassa, as well as national and provincial induction workshops. This amount will also cover the costs of holding meetings of the national and provincial PAMA consultative councils, which will be responsible for overseeing the project.

D. Cost and Financing

24. **Project costs.** The total project costs are estimated at USD 26.6 million with a base cost of USD 24.3 million. The foreign exchange content is low, at USD 1.9 million or 7% of the total, reflecting the limited need for international procurement. Some 73% of the total project costs (USD 17.6 million) will be spent on activities delivered directly to project beneficiaries through the two PAMA Support Funds, while the total cost is equivalent to less than USD 120 per beneficiary household over the project life. The project costs by component are summarized in Table 1.

25. **Financing plan.** Of the total project costs of USD 26.6 million, IFAD will contribute USD 22.8 million (86%) while the remaining USD 3.8 million (14%), exclusively for taxes and duties, will represent the Government's contribution. Value-added tax will be payable in cash, while import duties will be exonerated by the Government. The financing plan is presented in Table 2.

TABLE 1: SUMMARY OF PROJECT COSTS^{a/}
(USD million)

Components	Foreign	Local	Total	% Foreign Exchange	% of Base Costs
A. Support to PAMA framework formulation	0.09	0.21	0.30	30	1
B. PAMA support funds					
National PAMA support fund	-	1.98	1.98	-	8
Provincial PAMA support fund	-	15.66	15.66	-	64
Subtotal	-	17.64	17.64	-	73
C. Institutional capacity-building					
INDER institutional support	0.05	0.61	0.66	8	3
National Directorate of Internal Trade (MICTUR)	0.01	0.14	0.15	7	1
MAP	0.02	0.12	0.14	16	1
Provincial Directorate of Roads and Bridges (ANE)	0.23	0.46	0.69	33	3
Subtotal	0.32	1.32	1.64	19	7
D. Project management and coordination					
Project facilitation unit	0.94	1.26	2.20	43	9
Provincial project facilitation units	0.43	2.09	2.51	17	10
Subtotal	1.37	3.35	4.71	29	19
Total base costs	1.77	22.52	24.29	7	100
Total project costs (including contingencies)	1.95	24.67	26.61	7	110

a/ Discrepancies in totals are due to rounding up of figures.

TABLE 2: FINANCING PLAN^{a/}
(USD '000)

Components	IFAD		Government		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%			
A. Support to PAMA framework formulation	317.4	100.0	0.0	-	317.4	1.2	95.4	222.0	-
B. PAMA support funds									
National PAMA support fund	1 756.5	83.0	359.8	17.0	2 116.3	8.0	-	1 756.5	359.8
Provincial PAMA support fund	14 279.4	83.0	2 924.7	17.0	17 204.1	64.7	-	14 279.4	2 924.7
Subtotal	16 035.9	83.0	3 284.5	17.0	19 320.3	72.6	-	16 035.9	3 284.5
C. Institutional capacity-building									
INDER institutional support	664.8	95.4	32.3	4.6	697.1	2.6	61.0	603.8	32.3
National Directorate of Internal Trade (MICTUR)	123.9	77.9	35.1	22.1	159.0	0.6	10.9	113.0	35.1
MAP	124.6	82.2	27.0	17.8	151.6	0.6	25.5	99.1	27.0
Provincial Direct. of Roads and Bridges (ANE) b/	713.1	94.7	39.9	5.3	753.1	2.8	247.5	466.4	40.3
Subtotal	1 626.4	92.4	134.3	7.6	1 760.7	6.6	344.9	1 282.2	134.7
D. Project management and coordination									
Project facilitation unit	2 217.3	92.1	190.9	7.9	2 408.2	9.0	1 017.6	1 199.6	190.9
Provincial project facilitation units c/	2 586.4	92.2	217.6	7.8	2 804.0	10.5	488.1	2 098.3	217.6
Subtotal	4 803.7	92.2	408.5	7.8	5 212.2	19.6	1 505.8	3 297.9	408.5
Total disbursement	22 783.4	85.6	3 827.2	14.4	26 610.6	100.0	1 946.1	20 838.0	3 827.6

a/ Discrepancies in totals are due to rounding up of figures.

b/ For Maputo and Niassa Provinces

c/ For Cabo Delgado, Maputo and Niassa Provinces.





E. Procurement, Disbursement, Accounts and Audit

26. **Procurement.** Day-to-day responsibility for procurement will rest with the UFP Contracts/Financial Managers under the supervision of the Chairperson of INDER. All procurement will be carried out in accordance with IFAD procedures and guidelines. Specifically: goods costing more than USD 20 000 will be procured through national competitive bidding; all consultancy and other contracted services costing more than USD 20 000 will be procured through international shopping following procedures of the cooperating institution; and all goods, consultant services and technical assistance costing USD 20 000 or less, and all civil works, will be procured through local shopping with at least three quotations. Training and workshops will be procured through direct contracting procedures; and technical assistance will be acquired on terms and conditions satisfactory to IFAD.

27. **Disbursement.** The IFAD loan proceeds will be disbursed over seven years. To facilitate project implementation, a United States dollar-denominated Special Account will be opened and operated in a commercial bank acceptable to IFAD. Upon the request of the Government, IFAD will deposit USD 900 000 into the Special Account, which will be replenished periodically in accordance with established procedures. The Government's contribution to the project will flow into the existing INDER account which receives all Government contributions to all INDER-managed projects. Disbursements for civil works, vehicles, equipment, technical assistance and studies, non-local training and Support Fund contracts costing more than USD 20 000 will require full documentation. Disbursements for local training, recurrent expenditures and contracts of less than USD 20 000 will be made against certified statements of expenditure (SOEs). Documentation supporting SOE claims will be kept at the UFP and be made available for audits and review by supervision missions.

28. **Accounts and audit.** A Central Project Account (in Meticaís - MZM) will be opened and operated to receive funds from the Special Account and the INDER account. This will be used to feed provincial project accounts; provincial accounts held by MICTUR and ANE; and MAP's existing PROAGRI extension account. Funds in these accounts will be separately accounted for by the implementing institution. Following each year in which expenditures are made by the implementing agency, the annual statements of accounts will be submitted to the UFP for annual reconciliation.

29. Project accounts will be subject to independent annual audit. The contracted external auditors will certify the accounts and make recommendations to improve the accounting procedures. They will also provide a separate opinion on the use of the special account and the SOEs. Within three months of the end of the project financial year, the project coordinator will submit the project's SOEs to both the auditors and IFAD and, three months later, the project coordinator will submit the auditor's report to the President of INDER and to IFAD and UNOPS.

F. Organization and Management

30. **Stakeholder participation.** Outside Government, project stakeholders will include: smallholder producers and producer groups; agribusiness companies/processors; input suppliers, traders and trading enterprises; commercial banks and other financial institutions; local contractors, consulting companies and other local service organizations; the university and private institutes; local and international NGOs; and donors with relevant sectoral or location-specific interests. Directly or indirectly, all will participate in the project as collaborators in developing the focal area activities and formulating the PAMA programme framework; or as contracted service providers, implementing activities on the ground; or as direct project participants and beneficiaries.

31. The beneficiaries will participate in both the planning and monitoring of project activities, as well as in the activities themselves. The LoNAT will manage a participatory planning process to define the three focal areas and to develop with the beneficiaries the programme of activities to be implemented within the areas. Focal area reference groups, representing local economic interests and including representatives of farmers groups, will work with both the LoNATs and their constituencies



(which will specifically include women farmers) to assess local needs in relation to market linkages, prioritize areas of project support and prepare the focal area strategy; and they will subsequently play a key role in monitoring the performance and impact of the activities conducted. Farmer groups represent a proven approach for enhancing smallholder producers' participation in the market economy in Mozambique; the project will provide substantial support for their establishment, development and linkage to commercial operators.

32. **Management and coordination.** INDER will be responsible for overseeing implementation of the project and for developing the broader PAMA. It will host the National PAMA Consultative Council and the UFP at the central level; it will also approve project annual workplans and budgets and, together with the Ministry of Planning and Finance, be accountable for project expenditures. It will also be directly responsible for evaluation of the project. Since INDER has no representation in the provinces, it will delegate responsibility at this level to the Provincial Governor, who will in turn determine the most suitable provincial-level institution to assume the responsibility. Other government agencies involved in the project will ensure its complementarity with related sector frameworks: MAP in the case of PROAGRI; MICTUR for trade policy; and ANE for road rehabilitation.

33. **Project oversight.** At the national level, a PAMA Consultative Council (CCP) will be established under the auspices of INDER. Membership will comprise the key project stakeholders representing government, smallholder producers, the commercial private sector, NGOs and the donor community. The Council's role, which will be essentially consultative, will be to: facilitate establishment of a policy and institutional framework; ensure coordination and collaboration among the stakeholders; review and make recommendations on proposed project activities and expenditures; monitor and review activities and expenditures; and, through INDER, submit recommendations to the Government on relevant policy initiatives. In each of the three participating provinces, a similar Provincial PAMA Consultative Council (CCPP), comprising the main stakeholders in the province, will be established.

34. **Programme facilitation.** Management and day-to-day running of project activities will be the responsibility of the UFP, headed by a project coordinator who will report to the Chairperson of INDER and be assisted by a contracts/financial manager, a monitoring officer, an accountant, and an administrative assistant and, for the first three years, an internationally-recruited agribusiness specialist. In addition, two UFPPs will be established in Cabo Delgado and Niassa provinces (the UFP itself will serve as the provincial unit for Maputo Province). Each unit, which will have similar staffing profiles to the UFP, will facilitate the project's activities in that focal area and report to the DPPF in that province.

35. **Reporting, supervision, and monitoring and evaluation.** The foundation for the project monitoring and evaluation (M&E) system will be the logframe² and key performance indicators. Responsibility for project monitoring will rest principally with the UFP and UFPP monitoring officers. The monitoring system will be built upon a quarterly project reporting structure, which will be set against the project annual workplans and budgets. To the extent possible, monitoring will be undertaken by the service providers contracted to implement project activities as part of their contracted obligations. All UFPPs, contractors and implementing agencies will send their quarterly and annual reports to the UFP, which will report on the same basis to INDER and the CCP, and every six months to IFAD.

36. Overall responsibility for impact evaluation, including the initial baseline assessment and subsequent impact assessment studies, will rest with the INDER economist/planner - supported by a short-term internationally-recruited M&E design specialist and the UFP monitoring officer. Studies

² See Appendix III.



will be conducted either by the LoNAT, with which they will work closely, or by contracted service providers. A mid-term review will be carried out towards the end of project year (PY) 3, depending on progress made in implementing the project and formulating the PAMA programme framework. Its purpose will be to assess project progress against the established objectives, identify key implementation issues, and reshape project activities and implementation arrangements to the extent required in order to achieve its objectives.

G. Economic Justification

37. **Production, marketing and prices.** The project will result in an increase in volumes and value of traded agricultural produce and a reduction in marketing and transport costs. It will also reduce the risk of variability in quantities and values marketed by increasing the diversity of commodities traded. The project will not provide direct production support but, through the activities it supports, it will contribute to the feasibility of increased volumes of production and trade. Large increases in productivity, however, will require that farmers adopt improved technologies, which will depend at least in part on the extension services financed under PROAGRI.

38. **Benefits and beneficiaries.** A sizeable majority of the 230 000 or so households in the focal areas should benefit from reduced market transaction costs, not only those households that sell agricultural produce and buy food in times of shortage, but also those that currently have no market access:

- Farmer group development will improve the literacy, management and negotiating skills of smallholder producers. Group membership will enhance their access to training, inputs, market information and the market, and credit; and allow them to bulk produce and reduce the cost to buyers. This will lead to higher produce prices and increased production. Farmer groups currently obtain higher prices for their cotton than individual farmers - up to 12% higher in 1998; and, according to a recent USAID study, the average value of household production in farmer groups increased by 50% between 1995-97.
- By rehabilitating, repairing and maintaining selected roads, the project will contribute substantially to a reduction in transport costs – by at least 25% and often considerably more. This will increase the availability of transport, create new markets, and increase the number of traders serving the area. Households will benefit directly from improved prices and better physical access to markets, goods and services. In addition, the use of labour-intensive road rehabilitation methods will provide employment for workers from adjacent communities.
- The various measures in support of rural input and produce traders will assist them to improve their outreach, enhance the viability of their operations, and increase competition between them. This will result in greater local availability of inputs, improved produce marketing services for smallholder producers and increased farmgate prices, leading it turn to increased productivity, production and marketed surpluses.
- The dissemination of market information will increase market transparency and enhance rural traders' and small producers' knowledge of market opportunities, trends and prices. This, plus the initiatives to identify new market opportunities for smallholder crops, should help producers to diversify their production and sales and increase their incomes.
- The trader credit network facility will lead to increased financing opportunities for rural traders, which will ultimately translate into better marketing possibilities and higher produce prices for smallholders.
- Small processor support will result in the development of a greater number of more stable market outlets for smallholder production and opportunities to diversify into new cash crops.

H. Risks

39. Four main risks have been identified:

- INDER's capacity to coordinate the sector ministries, in the face of the line ministries not collaborating wholeheartedly with the project or development of the programme. Mitigation measures: the project recognizes the important roles of the different ministries and will support them accordingly.
- While there is commitment within Mozambique to contracting the provision of services out to NGOs and private-sector contractors/consultants, IFAD's experience has been that delays result from the Government's contracts approval processes. Mitigation measures: the UFP will include a contracts/financial manager with specific responsibilities both for managing the tendering processes and expediting the approval of contracts.
- There is a risk that different donors will opt for continuing with their own projects rather than committing themselves to the wider PAMA framework. This would undermine many of the benefits seen as coming out of it. Mitigation measures: dialogue with donors has been initiated, and a number have shown real interest in supporting the PAMA concept. In addition, as occurred with PROAGRI, growing government and private sector ownership of PAMA should encourage donor commitment to the programme framework.
- The capacity of Government to assure maintenance of rehabilitated feeder roads is a risk. The Government's road fund only finances maintenance of classified roads. Mitigation measures: the project will rehabilitate only classified feeder roads, or unclassified roads where the authorities agree to then classify the road.

I. Environmental Impact

40. The project will have only limited negative environmental implications, and as such has been classified as a "low B". Particular attention will be paid to the rural access roads rehabilitation programme and to project activities that would facilitate increased use by smallholders of fertilizers and agrochemicals. In view of this, environmental mitigation requirements will be institutionalized in the annual planning, budgeting and contracting processes; while responsibility for ensuring that mitigation measures are integrated into these processes will rest with the project's monitoring officers.

J. Innovative Features

41. The project may be considered innovative in four respects. First, the focus on development of linkages between smallholder producers and markets is to a large extent a new area of involvement for both IFAD and the Government. It reflects a recognition by both parties: (a) that it is the most important area for intervention if smallholder incomes and food security are to be improved in Mozambique; and (b) that Government has an important role to play in the development of these linkages. Second, the separate definition of PAMA and the supporting project is an innovative approach. While establishing the policy, institutional and financing framework is a medium-term objective, the project represents the vehicle for pursuing this objective and at the same time provides a means of making tangible progress in addressing current market constraints. It is thus both process-oriented and activity-based. Third, the coming together of a wide range of stakeholders to discuss market development-related issues of mutual interest is a new process in Mozambique. Such dialogue is important for the establishment of an atmosphere of trust and mutual respect, and for the development of effective, mutually beneficial policies, strategies and interventions. Fourth, the contracting of large elements of project implementation to service providers will be a new approach. However, this course of action will build upon experiences gained and lessons already learned under ongoing projects and allow the Government to concentrate on pursuing its core functions and not become involved in the implementation of activities best left to other economic actors.



PART III - LEGAL INSTRUMENTS AND AUTHORITY

42. A loan agreement between the Republic of Mozambique and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.
43. The Republic of Mozambique is empowered under its laws to borrow from IFAD.
44. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

45. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Mozambique in various currencies in an amount equivalent to sixteen million five hundred and fifty thousand Special Drawing Rights (SDR 16 550 000) to mature on and prior to 1 December 2039 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President



SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan Negotiations concluded on 25 November 1999)

1. The UFP will open and maintain a current account in Mozambican meticaís for project operations (the central project account) in a commercial bank, or another bank proposed by the Government of the Republic of Mozambique (the Government) and accepted by IFAD. The project coordinator, the contracts/financial manager and the accountant of the UFP will be designated as authorized signatories of the central project account. At least two of the aforementioned authorized signatories will be required for any transactions relating to this account.
2. As soon as practicable after their establishment, each UFPP and the UFP will open and maintain a current account in meticaís for provincial project operations (the provincial project account or, collectively, the provincial project accounts) in the local branches of the same bank selected for the central project account. The provincial coordinator/planner, the contracts/financial manager and the accountant of each UFPP and the UFP will be designated as authorized signatories of their respective provincial project account. At least two of the aforementioned authorized signatories will be required for any transactions relating to this account.
3. During the project implementation period, the Government will make available to the National Institute for Rural Development (INDER or the lead project agency), counterpart funds in meticaís from its own resources in an aggregate amount equivalent to USD 3 827 000 in accordance with its customary national procedures for development assistance. For such purpose, the Government will make an initial allocation of counterpart funds to the lead project agency an initial allocation of counterpart funds equivalent to USD 280 000 to cover project implementation during the first project year; thereafter, the Government will make budgetary allocations for each fiscal year equal to the counterpart funds called for in the annual work plan and budget (AWPB) for the relevant project year and make such allocations available to the lead project agency annually.
4. The facilitation and implementation of activities financed through the project, and specifically the PAMA support funds component, will, for the most part, be contracted by the project to implementing partners. All such partners, and the UFP and UFPPs, will be selected according to criteria and terms of reference approved by IFAD.
5. No later than one year after the date of effectiveness of the loan agreement, the UFP will: (i) prepare draft basic principles, developed and agreed by all project stakeholders, to guide the nature of project support market linkage development; and (ii) submit these principles to IFAD for its review, comments and approval.
6. In addition to the project accounts referred to in paragraphs 1 and 2 above, separate accounts for project operations will be opened and maintained in a commercial bank acceptable to IFAD as follows: (i) by the Ministry of Industry, Commerce and Tourism (MICTUR)/National Directorate for Internal Commerce (DNCI) at the central level; and (ii) by the relevant Provincial Directorate for Roads and Bridges (DPEP) in the provinces.
7. The Government will ensure that the UFP and UFPPs contracted under the project will insure their key project staff against health and accident risks to the extent consistent with sound commercial practices.

8. The project will finance the rehabilitation of selected classified feeder roads and unclassified feeder roads that conform to screening criteria approved by IFAD. In the case of unclassified feeder roads, the Government will agree and take any necessary action to classify the road prior to selecting the road for rehabilitation under the Project.
9. Within 90 days after the date of effectiveness of the loan agreement, the Government will establish the CCP under terms of reference satisfactory to IFAD.
10. Within one year after the date of effectiveness of the loan agreement, the Government will establish the Provincial PAMA Consultative Councils (CCPPs) under terms of reference satisfactory to IFAD.
11. Within one year after the date of effectiveness of the loan agreement, the Government will submit the draft project implementation manual to IFAD for its comments and approval.
12. The following are specified as additional conditions prior to the disbursement of funds from the loan account:
 - (a) No withdrawals will be made for expenditures under the project until the AWPB for project year one has been submitted to and approved by IFAD.
 - (b) No withdrawals will be made for expenditures for support fund implementation contracts under the PAMA support funds component in any focal area until: (i) the Focal Area Reference Group (FARG) for such focal area has been formed and become operational; and (ii) the strategic plan for that focal area has been approved.
 - (c) No withdrawals will be made for expenditures to any contracted implementing partner for support fund implementation contracts under the PAMA support funds component, until this partner has entered into a service provider agreement satisfactory to IFAD.
13. The following are specified as the conditions precedent to the effectiveness of the loan agreement:
 - (a) the Government has selected and contracted a consultant firm or consortium of firms, satisfactory to IFAD, to provide the staff of the UFP and the UFPPs;
 - (b) the Government has duly opened the special account and the central project account;
 - (c) the Government has made the initial allocation of counterpart funds in accordance with paragraph 3, above;
 - (d) the loan agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by all necessary administrative and governmental action; and
 - (e) a favourable legal opinion, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

COUNTRY DATA

MOZAMBIQUE

Land area (km² thousand) 1996 1/	784	GNP per capita (USD) 1997 2/	140
Total population (million) 1997 1/	16.6	Average annual real rate of growth of GNP per capita, 1990-97 2/	2.6
Population density (people per km²) 1996 1/	21	Average annual rate of inflation, 1990-97 2/	45.9
Local currency	Metical (MZM)	Exchange rate: USD 1 =	MZM 12 500
Social Indicators		Economic Indicators	
Population (average annual population growth rate), 1980-97 1/	1.9	GDP (USD million), 1997 1/	2 753
Crude birth rate (per thousand people), 1997 1/	41	Average annual rate of growth of GDP 1/	
Crude death rate (per thousand people), 1997 1/	20	1980-90	-0.1
Infant mortality rate (per thousand live births), 1997 1/	135	1990-97	4.9
Life expectancy at birth (years), 1997 1/	45	Sectoral distribution of GDP, 1997 1/	
Number of rural poor (million) (approximate) 1/	n.a.	% agriculture	31
Poor as % of total rural population 1/	n.a.	% industry	24
Total labour force (million), 1997 1/	8.6	% manufacturing	10
Female labour force as % of total, 1997 1/	48	% services	45
Education		Consumption, 1997 1/	
Primary school gross enrolment (% of relevant age group), 1996 1/	60	General government consumption (as % of GDP)	10
Adult literacy rate (% of total population), 1995 3/	40	Private consumption (as % of GDP)	76
Nutrition		Gross domestic savings (as % of GDP)	
Daily calorie supply per capita, 1995 3/	1 675	Balance of Payments (USD million)	
Index of daily calorie supply per capita (industrial countries=100), 1995 3/	53	Merchandise exports, 1997 1/	272
Prevalence of child malnutrition (height for age % of children under 5), 1992-97 1/	36	Merchandise imports, 1997 1/	1 281
Prevalence of child malnutrition (weight for age % of children under 5), 1992-97 1/	26	Balance of merchandise trade	-1 009
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP), 1990-97 1/	n.a.	before official transfers, 1997 1/	- 615
Physicians (per thousand people), 1990-97 1/	n.a.	after official transfers, 1997 1/	- 359
Percentage population without access to safe water; 1990-96 3/	37	Foreign direct investment, 1997 1/	35
Percentage population without access to health services, 1990-95 3/	61	Government Finance	
Percentage population without access to sanitation, 1990-96 3/	46	Overall budget surplus/deficit (including grants) (as % of GDP), 1996 1/	n.a.
Agriculture and Food		Total expenditure (% of GDP), 1996 1/	n.a.
Food imports as percentage of total merchandise imports, 1997 1/	22	Total external debt (USD million), 1997 1/	5 991
Fertilizer consumption (hundreds of grams per ha of arable land), 1995-97 1/	31	Present value of debt (as % of GNP), 1997 1/	171
Food production index (1989-91=100), 1995-97 1/	119.5	Total debt service (% of exports of goods and services), 1997 1/	18.6
Land Use		Nominal lending rate of banks, 1997 1/	n.a.
Arable land as % of land area, 1996 1/	3.8	Nominal deposit rate of banks, 1997 1/	n.a.
Forest area (km ² thousand), 1995 1/	169		
Forest area as % of total land area, 1995 1/	21.5		
Irrigated land as % of cropland, 1994-96 1/	3.4		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 19992/ World Bank, *Atlas*, 19993/ UNDP, *Human Development Report*, 1998

PREVIOUS IFAD LOANS TO MOZAMBIQUE

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement as % of approved amount)
National Programme for Food Production in the Cooperative and Family Sector	IFAD	UNOPS	HC	31 Mar 82	23 Feb 83	31 Dec 86	L - I - 93 - MZ	SDR	17 700 000	99.5%
Nampula Artisanal Fisheries Project	IFAD	UNOPS	HC	15 Sep 93	04 Nov 94	30 Jun 01	L - I - 334 - MZ	SDR	4 350 000	52.5%
Niassa Agricultural Development Project	IFAD	UNOPS	HC	20 Apr 94	19 Oct 94	30 Jun 03	L - I - 359 - MZ	SDR	8 800 000	31.8%
Second Agricultural Rehabilitation Project	IFAD	World Bank: IDA	HC	10 Sep 87	26 Apr 88	31 Jan 96	G - S - 5 - MZ	SDR	800 000	97.8%
Second Agricultural Rehabilitation Project	IFAD	World Bank: IDA	HC	10 Sep 87	26 Apr 88	31 Jan 96	L - S - 8 - MZ	SDR	11 850 000	69.9%
Family Sector Livestock Development Programme	IFAD	UNOPS	HC	04 Dec 96	12 Feb 98	31 Dec 04	G - I - 19 - MZ	USD	65 000	86.4%
Family Sector Livestock Development Programme	IFAD	UNOPS	HC	04 Dec 96	12 Feb 98	31 Dec 04	L - I - 432 - MZ	SDR	13 450 000	12.9%



LOGICAL FRAMEWORK ANALYSIS

Intervention Logic	Key Performance Indicators	Monitoring and Evaluation Sources	
Development Objective: 1. To increase smallholder incomes and food security and promote broad-based economic growth	In focal areas: <ul style="list-style-type: none"> • Reduced food purchases by smallholder producers • Increased school attendance levels • Increased numbers of tin roofs, bikes, radios, etc. 	National household income and poverty studies Project impact assessment	
Intervention Logic	Key Performance Indicators	Monitoring and Evaluation Sources	Critical Assumptions/Risks (to realize Development Objective)
Overall Project Objective: 1. To increase: (a) the number of smallholders marketing and buyers purchasing their produce; (b) the share of end-market prices obtained by smallholders for their produce; and (c) the total value of smallholder produce marketed.	<ul style="list-style-type: none"> - Increased agricultural production levels - Increased numbers of smallholders marketing crops - Increased volumes of crops marketed - Increased farmgate prices with reduced annual fluctuations 	Diagnostic/benchline surveys, and impact assessment surveys Case studies Government statistical bulletins and publications	Economy stable and open; exchange rate stable and inflation low Conducive political environment that facilitates participation of local and international NGOs in development process Attractive price/cost ratios exist between agric. inputs and outputs
Intervention Logic	Key Performance Indicators	Monitoring and Evaluation Sources	Critical Assumptions/Risks (to realize Overall Project Objective)
Outputs/Results: 1. Successfully contributed to process of formulating and establishing programme framework for smallholder market linkage development.	By PY4, PAMA is developed, established and operationalized by stakeholders from Government, NGOs, private sector, farmers' representatives and donors. Relevant legislation modified where necessary. MAP, MICTUR and the Ministry of Public Works (MOPH) strengthened and their activities/sector programmes supported by project. Participation of international NGOs gradually transferred to local organizations that fully take over responsibility.	Records / minutes of stakeholder meetings/ consultations. PAMA appraisal report and donor financing plans. Legal acts passed. Regular Project progress/ monitoring reports. Periodic studies.	MAP, MICTUR and MOPH develop effective working arrangements to support project implementation, including definition of core activities. Donor community buys into programme framework concept and formulation process Active participation of the key stakeholders, including smallholders, who are currently not effectively represented. Government maintains a supportive policy stance regarding the participation of NGOs and the private sector in the agricultural sector. Political will to transform conclusions of studies into legislation.
2. Well-managed and sustainable smallholder producers groups/associations formed and operational.	Nos. producer groups/associations (and fora) formed, operational and registered at end of project life. Percentage of farmers (gender-disaggregated) in targeted districts members of producer associations and selling through them. Volumes, prices and values of commodities marketed and inputs handled through associations.	Implementing partner/project progress/ monitoring reports Beneficiaries assessment surveys	Legislation passed and procedures simplified to facilitate the registration of producers associations Local NGOs strengthened and become more accountable Lower-cost models of farmer group support developed and different approaches to forming farmer groups harmonized, while maintaining flexibility to respond to circumstances and demand of different producers



3. Rural market access roads rehabilitated/spot-improved using labour-based methods, and their maintenance ensured.	Roads rehabilitated, improved and maintained: distance, cost and employment generated. Traffic counts: number of vehicles, passengers, types and volumes of cargo, using project-supported roads Haulage charges and passenger fares at peak periods and low season, on supported roads Nos. markets and traders operating along supported roads	Implementing partner/project progress/ monitoring reports Surveys of smallholders and transporters Regular reports by lengthmen/ community road maintenance groups	Improved roads result in increased traffic, reduced transport charges and increased competition Roads fund adequately replenished to ensure full financing of maintenance of classified roads improved after the end of the project Rehabilitated non-classified roads entered into network of classified roads
4. Tested, proven and accepted mechanisms to allow small/medium-size traders and produce associations to access credit from commercial banks and other sources of rural finance.	Inventory schemes established: nos., storage capacity Nos. of traders/associations storing produce Produce stored: quantities, value, periods Total credit disbursed to traders/associations	Implementing partner/project progress/ monitoring reports Records of warehouse operators, traders, associations and banks Project surveys	Warehouse operators participate in programme Traders/associations deposit and store produce Commercial banks willing to provide credit to traders/associations against inventory
5. Network of rural-based agri-input suppliers established/ trained, commercially linked to wholesalers and marketing increased quantities of inputs to smallholders.	Nos. of traders and groups participating in scheme Nos., volumes and percentage of (a) successful first supplier-trader credit transactions (with guarantees), and (b) subsequent supplier-trader credit transactions (in the absence of guarantees) Range, volume and value of production inputs sold No. of men and women-headed smallholder purchasers of inputs	Implementing partners / project progress/ monitoring reports Records of input supply firms and traders Impact monitoring surveys	Input suppliers interested in establishing commercial relations on favourable terms with rural input traders and supportive of programme Traders adequately trained to efficiently manage enterprises and maintain relations with input suppliers in absence of project support Effective demand among target group for purchased inputs - farmers understand their benefits and are willing and able to buy these
6. New small-scale processing activities started up and existing processing enterprises expanded and more profitably operated.	Nos., capacity and throughput of processing plants established/operating Milling/processing charges Nos. of smallholders with commercial relations with plants	Implementing partners / project progress/ monitoring reports Records of processing firms Impact monitoring surveys	Entrepreneurs able to access complementary capital for investment and operations Effective demand among target group and others for processing services
7. New market opportunities identified and exploited for existing and new agricultural products.	Number of market opportunities successfully identified Volume and value of sales by product Nos. of smallholder farmers marketing each product Number of products marketed by smallholder farmers	Implementing partners / project progress/ monitoring reports Processing/buying firms records Impact monitoring surveys	Existence of market opportunities which can be exploited by target group Buyer of produce does not have monopsony powers

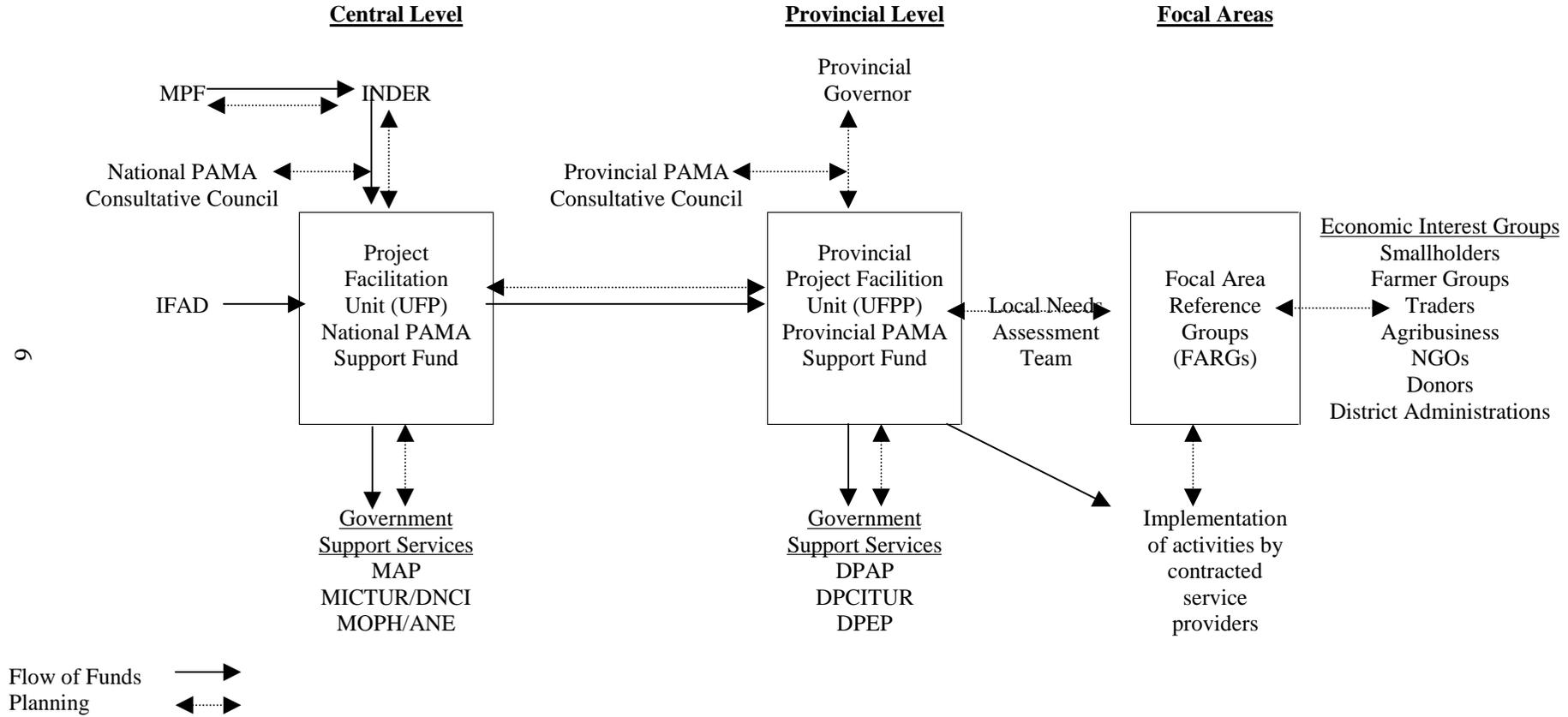


8. Outreach of market information system expanded to rural traders and smallholders.	Nos. programmes, information sources disseminated Nos. of men/women listeners to farmers' and traders' market information radio programmes, or accessing other information sources Ratings of usefulness of information sources by traders/male and female-headed smallholder farming families	Implementing partners/project progress/ monitoring reports Records of radio corporation Impact monitoring surveys	General availability of radios in rural areas Radio station coverage is adequate to reach communities targeted Accurate and reliable market information is available from government and other agencies
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Project Components:	Component Budget (US\$ '000)
A. Support to PAMA Framework Formulation	210
B. PAMA Support Funds	
- National PAMA support fund	1,976
- Provincial PAMA support fund	15,663
C. Institutional Capacity-Building	
- National capacity-building (INDER, DNCI, MAP)	947
- Provincial capacity-building (DPEP)	692
D. Project Management and Coordination	
- Project facilitation unit	2,199
- Provincial project facilitation units	2,512
Total Base Costs	24,289
Total Costs, including Contingencies	26,611



PROJECT ORGANIZATION CHART

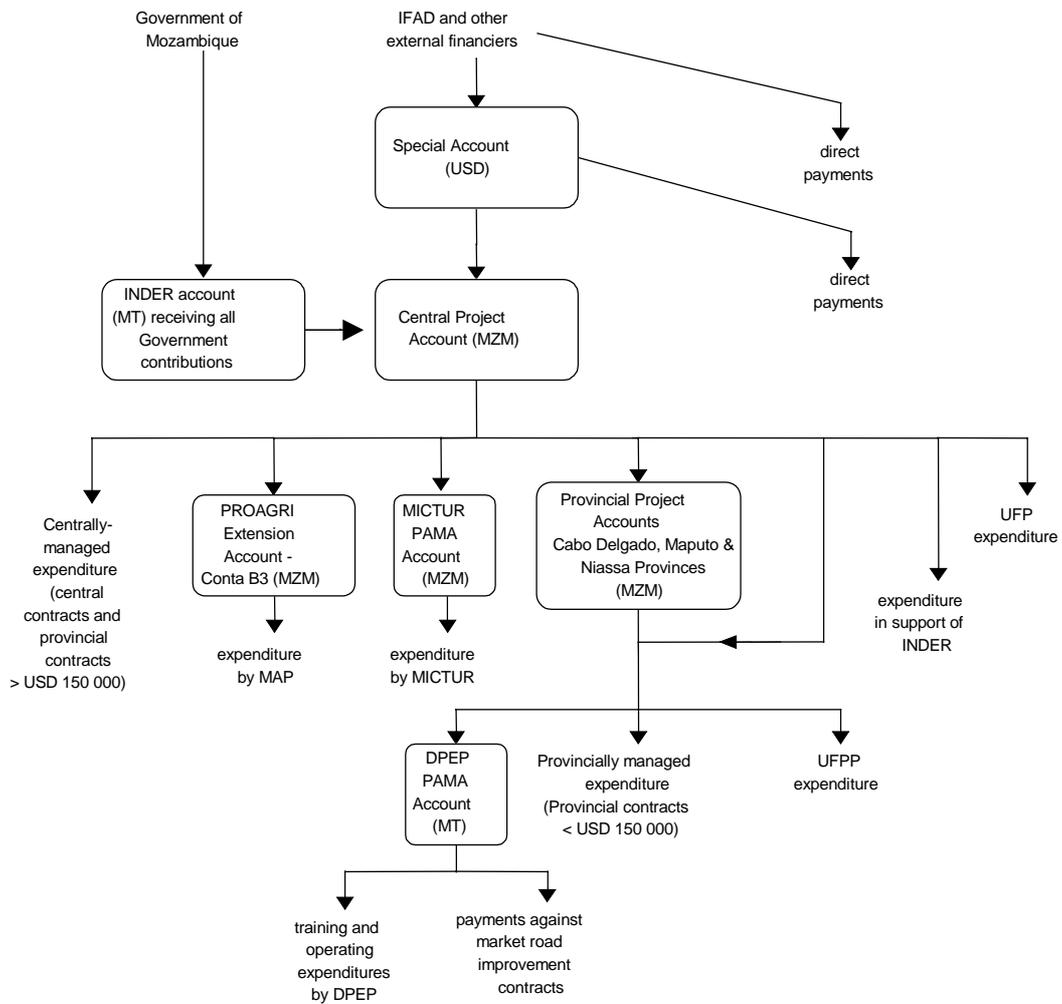


9





FLOW OF FUNDS



COST AND FINANCING

Expenditure Account by Components – Base Costs (USD '000)

Support to Programme Framework Formulation	PAMA Support Funds		Institutional Capacity Building					Project Management and Coordination		Physical Contingencies		
	National PAMA Support Fund	Provincial PAMA Support Fund	INDER Institutional Support	National Directorate of Internal Trade (DNCI) Institutional Support	Ministry of Agriculture and Fisheries (MAP) Institutional Support	Provincial Directorates Of Roads and Bridges (DPEP) Institutional Support	Project Facilitation Unit (UFP)	Provincial Project Facilitation Units (UFPPs)	Total	%	Amount	
I. Investment Costs												
A. Civil Works, Equipment and Materials												
Civil works	-	-	-	-	-	-	45.0	15.0	60.0	10.0	6.0	
Equipment and materials	-	-	27.6	19.3	-	32.4	69.0	98.7	247.0	10.0	24.7	
Subtotal Civil Works, Equipment and Materials	-	-	27.6	19.3	-	32.4	114.0	113.7	307.0	10.0	30.7	
B. Vehicles												
Vehicle	-	-	-	-	-	60.0	115.0	235.0	410.0	5.0	20.5	
C. Technical Assistance and Studies												
International technical assistance	-	-	-	-	-	144.0	432.0	-	576.0	-	-	
National technical assistance	-	-	450.0	-	-	309.8	607.2	1 565.6	2 932.6	-	-	
Studies	180.0	-	-	-	-	-	348.0	-	528.0	-	-	
Subtotal Technical Assistance and Studies	180.0	-	450.0	-	-	453.8	1 387.2	1 565.6	4 036.6	-	-	
D. Training and Workshops												
Training and workshops	120.0	-	69.6	44.8	46.0	77.0	34.2	99.0	490.6	-	-	
E. Support Fund Management Contracts												
Support Fund Management Contracts	-	1 976.0	15 662.5	-	-	-	-	-	17 638.5	-	-	
Total Investment Costs	300.0	1 976.0	15 662.5	547.2	64.1	46.0	623.2	1 650.4	2 013.3	22 882.6	0.2	51.2
II. Recurrent Costs												
A. Salaries	-	-	-	76.8	28.8	-	-	-	105.6	-	-	
B. Allowances	-	-	31.5	7.2	21.0	-	112.0	91.0	262.7	-	-	
C. Operation and maintenance	-	-	80.7	-	44.5	68.6	436.3	407.8	1 037.8	10.0	103.8	
Total Recurrent Costs	-	-	112.2	84.0	94.3	68.6	548.3	498.8	1 406.1	7.4	103.8	
Total BASELINE COSTS	300.0	1 976.0	15 662.5	659.4	148.1	140.3	691.8	2 198.6	2 512.1	24 288.7	0.6	155.0
Physical contingencies	-	-	10.8	1.9	4.4	13.1	60.8	63.9	155.0	-	-	
Price contingencies	17.4	140.3	1 541.6	26.8	9.0	6.9	48.2	148.8	2 166.9	0.5	9.9	
Total PROJECT COSTS	317.4	2 116.3	17 204.1	697.1	159.0	151.6	753.1	2 408.2	2 804.0	26 610.6	0.6	164.9
Taxes	-	359.8	2 924.7	32.3	35.1	27.0	39.9	190.9	217.6	3 827.2	0.8	30.8
Foreign exchange	95.4	-	-	61.0	10.9	25.5	247.5	1 017.6	488.1	1 946.1	4.4	86.4



Disbursement Accounts by Financiers
(USD '000)

	IFAD		Government of the Republic of Mozambique				For. Exch.	Local (Excl. Taxes)	Duties & Taxes
			Total		Amount	%			
			Amount	%					
1. Civil works, equipment and goods	288.8	83.0	59.1	17.0	347.9	1.3	173.5	115.3	59.1
2. Vehicles	316.0	70.0	135.4	30.0	451.4	1.7	316.0	-0.0	135.4
3. Technical assistance and studies	4 345.8	100.0	0.0	-	4 345.8	16.3	845.1	3 500.7	-
4. Training and workshops	517.9	100.0	-	-	517.9	1.9	-	517.9	-
5. Support fund management contracts	16 035.9	83.0	3 284.5	17.0	19 320.3	72.6	-	16 035.9	3 284.5
6. Salaries and allowances	258.4	65.0	139.2	35.0	397.6	1.5	-	258.4	139.2
7. Operation and maintenance	1 020.6	83.0	209.0	17.0	1 229.6	4.6	611.5	409.1	209.0
Total	22 783.4	85.6	3 827.2	14.4	26 610.6	100.0	1 946.1	20 837.3	3 827.2





PROJECT ORGANIZATION AND MANAGEMENT

A. Institutional Responsibilities for the Programme and the Project

1. INDER will be responsible for overseeing the implementation of the project for developing the broader PAMA, and will host the CCP and the UFP. It will approve project annual workplans and budgets. Together with the Ministry of Planning and Finance, it will be accountable for project funds and directly responsible for evaluation of the project. Day-to-day responsibility for supervision will be delegated to INDER's Department of Programme Coordination, which will be also responsible for establishing and hosting the LoNAT. Since INDER has no representation in the provinces, it will delegate responsibility at this level to the Provincial Governor, who will in turn determine the most suitable provincial-level institution to assume the responsibility.
2. The Ministry of Agriculture and Fisheries, primarily through its National Directorate of Economics (DE), will be responsible for ensuring the linkages with agricultural production and related activities; and, in particular, it will ensure that the activities of PAMA and PROAGRI are fully harmonized and complementary. As increased production is a prerequisite to increased market activity, there will also be need for close coordination between the project and the National Directorate of Rural Extension, particularly in the areas of extension and farmer group promotion. There will also be liaison with some other central departments in MAP, including the Communications Department which will cooperate in the development and dissemination of market linkage materials.
3. **The Ministry of Industry, Commerce and Tourism**, through its National Directorate of Internal Commerce (DNCI), will be responsible for ensuring the linkages with trade policy, relevant aspects of which include: creating incentives for agricultural market participants; supporting initiatives to create rural agricultural markets and related service associations; collecting and disseminating relevant market information; promoting, together with the Ministry of Public Works (MOPH), the rehabilitation and maintenance of access roads to areas with productive potential; and improving produce-handling conditions.
4. **Ministry of Public Works/National Roads Authority**. The Directorate of Regional Roads with ANE will take the lead in coordinating project activities in MOPH. In defining feeder road policy and coordinating planning for both road rehabilitation and maintenance, the Directorate will have a key role to play in ensuring the smooth functioning of market linkage activities. The provincial offices of ANE, which have now assumed much of the day-to-day responsibility for overseeing road planning and development, will be the main bodies with which the project will work.
5. **The Ministry of Planning and Finance** (MPF) oversees the budget process, has responsibility for financial oversight and is ultimately accountable for all government expenditures. Under the project, MPF will be responsible for ensuring the Government's financial contribution. It will also have administrative responsibility for the UFPP and for approving the provincial annual workplans and budget (AWPB) and forwarding it to the UFP for consolidation.
6. **Outside Government**. Project stakeholders grouped together and considered as outside government include: smallholder producers; agribusiness companies/processors; input suppliers, traders and trading enterprises; commercial banks and other financial institutions; local contractors, consulting companies and other local service organizations; the university and private institutes; local and international NGOs; and donors with relevant sectoral or location-specific interests. Either



directly or indirectly, all will participate in the project, either: (a) as collaborators in developing appropriate, effective and coordinated focal area activities, and in formulating the PAMA programme framework; or (b) as contracted service providers, implementing activities on the ground; or (c) as direct project participants and beneficiaries.

B. Central Project Oversight and Facilitation

7. **National PAMA Consultative Council.** The CCP, established under the auspices of the President of INDER, will be responsible for overseeing project implementation. Membership of CCP will comprise the key stakeholders concerned with PAMA and its implementation: MPF, MAP/DE, MICTUR/DNCI, MOPH/ANE, the Provincial Governors' offices; representatives from agribusiness, the commercial banking sector and the Road Contractors Association, NGOs and donors; and the project coordinator as secretary. The CCP will meet four times a year and more when necessary. Its role, which will be essentially consultative rather than authorizing, will be to:

- facilitate establishment of a policy and institutional framework which allows for active participation/interaction of smallholder producers, government, agribusiness, traders, NGOs, donors and other participants in the market linkage sector;
- through INDER, ensure high-level coordination with participating ministries and private sector organizations;
- review and make recommendations on: project AWPBs, focal area plans, and activity proposals for funding from the PAMA (and, when requested, Provincial) Support Fund;
- through INDER, recommend to government policy initiatives that will help create a positive environment for improved smallholder market linkages; and
- review quarterly progress reports and financial and audit reports, and monitor project implementation, performance, impact and effectiveness.

8. **Project Facilitation Unit.** Management and day-to-day running of project activities will be the responsibility of the UFP (which will additionally serve as a provincial facilitation unit for Maputo Province), assisted by two separate UFPPs in Cabo Delgado and Niassa. These units will be the working executives of the project with the right of review by the national and provincial PAMA consultative councils. The UFP's main responsibilities will include: (i) annual work planning and budgeting/programming; (ii) financial management; (iii) procurement, including contracting of service providers; (iv) planning and management of project training activities; (v) supervision of facilitation and implementation in the three provinces; (vi) reporting and M&E; and (vii) ensuring coordination and promoting dialogue among the various project stakeholders. In addition, and during the first year of the project, it will be expected to prepare a project implementation manual.

9. The UFP will be headed by a project coordinator who will report through the director of the Department of Programme Coordination to the Chairperson of INDER. He will be assisted by a contracts/financial manager, a monitoring officer, an accountant, and an administrative assistant. These staff will be nationals or locally-recruited professionals. An internationally-recruited agribusiness specialist will support the UFP coordinator for three years, and the need for further long-term internationally-recruited technical assistance will be assessed during the mid-term review (MTR).

C. Provincial Project Oversight and Facilitation

10. **Provincial PAMA Consultative Councils.** A CCPP will be established in each of the three participating provinces. Chaired by the provincial governors or their representatives, membership will comprise the main stakeholders in the provinces: from Government, from agribusiness and the commercial banking sector, donor representatives, NGO or civil society representatives, the leader of



the focal area reference group and a representative of the UFP. The CCPP will meet four times a year and on an ad hoc basis as and when necessary. Reporting through the coordinating provincial-level institution to the CCP, the CCPP's role will also be consultative rather than authorizing; and it will be similar in scope to that of the national CCP.

11. **Provincial Project Facilitation Units.** In Cabo Delgado and Niassa provinces, project implementation will be coordinated and facilitated by UFPPs staffed with a provincial coordinator/planner, a contracts/financial manager, a monitoring officer, an accountant, an administrative assistant and a driver. Each unit will report to a provincial-level institution to be designated by the relevant Provincial Governor, which will oversee the financial management of project within the province.

12. The UFPPs will have four main responsibilities: (i) developing mechanisms for ensuring complementarity of donor- and NGO-supported market linkage activities at the provincial level; (ii) coordinating, together with the LoNAT, the planning, implementation and monitoring of the focal area programme; (iii) contracting and managing service providers; (iv) managing the Provincial PAMA Support Fund. In a similar way to the central UFP, each UFPP will set up fora, working groups and workshops to facilitate interaction among the various stakeholders involved in smallholder market linkages. A major part of each UFPPs' workload will be facilitating implementation in the focal areas of the key project initiatives. They will solicit proposals from local organizations interested in facilitating market linkages with smallholders, evaluate them and submit their recommendations for funding from the Provincial PAMA Support Fund to the CCPP. Once approved by the designated provincial-level institution, they will issue the contracts with the selected service providers; and subsequently they will be responsible for monitoring the implementation of activities and the performance of contracted service providers.

D. Annual Workplans and Budgets

13. The LoNAT and the focal area resource groups will identify activities to be implemented, which will provide the basis for preparation of each provincial annual workplan and budget (PAWPB). Preparation of the PAWPBs will involve wide consultation with stakeholders, service providers and implementing agencies. The UFPP, supported by the UFP, will be responsible for producing a final PAWPB for consideration by the CCPP and approval by the provincial-level institution designated by the Provincial Governor, prior to submission to the UFP. Given that programming of project activities will be time-bound by the Government's reporting and budgeting process, after approval at the provincial level, the UFP will have to receive both the PAWPBs and the AWPBs prepared by the relevant government agencies (MAP, MICTUR, ANE and INDER) by 1 June each year. The UFP will critically review the PAWPBs/AWPBs and modify them as necessary before including them in the global AWPB. The UFP will then compile the global AWPB, arrange for it to be reviewed by the CCP, and submit it for the approval of the Chairperson of INDER by 30 June each year. Once approved, the global AWPB will be submitted to IFAD for comments and to MPF for inclusion in the Government's tri-annual investment plan. On the basis of the approved global AWPB, an annual procurement plan will be prepared.

14. It has been assumed that project start-up will occur in June 2000. This requires that before the end of 1999, INDER will present to MPF an indicative budget for the period June-December 2000 for inclusion in the Triennial Public Investment Programme; and, that before project start-up, the AWPB for 2001 will also be prepared. A consultant financed by IFAD's Special Operations Facility will assist INDER in preparing a workplan for the second semester of 2000 and an indicative AWPB/procurement plan for 2001.



E. Monitoring and Evaluation

15. **Monitoring.** Supported and guided by the UFP monitoring officer, each UFPP monitoring officer will have responsibility for the definition and management of the project monitoring system for their respective province. A list of proposed indicators was defined in the appraisal report.

16. The basis for the monitoring system will be a quarterly project reporting structure. The UFPP, contracted service providers and implementing partners, will all report quarterly and annually to the UFP monitoring officer on project activities undertaken and the results achieved in the last period (quarter or year, respectively); all movements on the implementing agencies' accounts in the period (statement of accounts); physical acquisitions made with the expenditures; and M&E results. Such information will assist the managers of project activities to closely follow implementation progress and promptly make whatever modifications or adjustments are necessary to ensure achievement of outputs and objectives, as well as to justify activities planned in the AWPBs against past performance and demonstrated operational capacity. The UFP will then prepare the project quarterly reports, which will include the implementing agencies' quarterly reports together with the UFP review of the same; a similar report by the UFP on its own operations; statements of movements on the project accounts; and an assessment of the achievements relative to the project's global AWPB, the constraints faced and the responses proposed. Project quarterly reports will be presented to the CCP and INDER and semesterly reports to IFAD within two months of the period in question.

17. The project quarterly reports will be aggregated and possibly revised in an annual report that will cover the entire financial year. Each global annual report will include a detailed report on the annual review of each implementing agency's financial, physical and institutional progress during the previous year; consolidated statements of accounts and SOEs; an aggregated list of total project inventory procured or received under the project until the end of the respective reporting period, which will indicate clearly the condition of these physical assets; and any constraints impeding their use. Global annual reports will reach INDER and IFAD before the end of March each year.

18. **Evaluation.** The INDER economist/planner and the UFP monitoring officer will have overall responsibility for national-level impact evaluation, for planning and organizing the initial baseline assessment and subsequent impact assessment studies, and for assessing the impact of policy changes on smallholders and other stakeholders in the private sector. To that end, they will work in close conjunction with the LoNAT and frequently participate in follow-up fieldwork and case studies. The LoNAT will conduct some of the impact studies, while in other circumstances suitably qualified service providers will be contracted to do the work. The INDER economist/planner will be trained on the job by a short-term internationally-recruited M&E design specialist in how to plan and implement the participatory evaluation of project activities.

19. **Mid-term review.** An MTR is tentatively scheduled for the last quarter of PY 3. Its purpose will be to assess progress of the project against the established objectives, identify key implementation issues, and reshape the project activities and implementation arrangements to the extent required in order to achieve the project objectives. The findings and recommendations of the MTR will be the basis on which the project continues up to PY 7. The Government will have overall responsibility for conducting the MTR. The precise timing of the MTR will be influenced by: the loan disbursement rate, project implementation progress, and implementing agencies' performance; and progress made in formulating the PAMA programme framework and the output of that process. A series of impact studies are proposed during PY 2 and PY 3 leading up to the MTR which will provide data and analysis to help the MTR team assess the impact of project activities. The findings of the impact studies may also highlight issues on project design and implementation, which might be more appropriately considered by an early MTR.

20. The MTR will focus on key issues, including:



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- performance and financial management of the UFP and the UFPP, and of the contracted service providers;
- implementation progress and impact of project components and activities;
- modifications to project design and implementation arrangements required in order to ensure achievement development objectives;
- continuing relevance of preparation of PAMA and donor support and interest in the same;
- review of the provinces and focal areas for project implementation from PY 4 to PY 7;
- the need for continued international technical assistance for project implementation and PAMA framework development;
- the funding arrangements for INDER contracted staff - LoNAT officers, farmer group development officer, economist/planner and the media officer - and the proposed strategy for their absorption into INDER's budget; and
- the need and use of the PAMA Support Fund unspecified balances.

FINANCIAL AND ECONOMIC ANALYSIS

1. The project should result in an increase in volumes and value of traded agricultural produce and a reduction in marketing and transport costs. In addition, it should reduce the risk of variability in quantities and values marketed by increasing the diversity of commodities traded. A formal financial and economic analysis, however, has not been undertaken as there are a number of difficulties in quantifying *a priori* the project benefits:

- It will not provide direct production support, yet through its support for road improvements, farmer group development and other measures to improve market access for produce and market availability of inputs, it will contribute to the feasibility of increased volumes of production and trade. Large increases in productivity will, however, rely largely on farmers adopting improved technologies, which will in turn be dependent on the field extension services financed under PROAGRI.
- Support for coordination and promotion of PAMA formulation, which is expected to lead to improvements in the policy, legal and financing framework, will have positive but not quantifiable results on the ground.
- Available information on smallholders' and traders' current levels of sales, costs and returns is very scarce or non-existent.

2. Notwithstanding the difficulties in quantifying the impact of project activities on the focal areas, some quantitative indicators can be given. These draw on previous experiences, particularly with respect to farmer group development and road improvement.

3. **Volumes traded.** The opening up of the economy has had a major impact on the volumes of commodities traded. This is particularly so in the north where there is high agricultural potential, but even in the south there have been measurable increases in agricultural trade. The impact of the focal area activities in Cabo Delgado and Niassa alone could be substantial. It is estimated that these two provinces could generate potential agricultural sales, mainly through cotton and maize, with a value of about USD 8 million and USD 6 million, respectively. For Maputo Province, which has lower rainfed production potential than either Cabo Delgado or Niassa, the volumes of marketed surplus would be lower, though most of the marketable surplus would be high-value irrigated horticultural produce.

4. **Prices and marketing margins.** It is not possible to estimate the impact of the project on prices and marketing margins. However, two things are clear. First, farmer groups are obtaining higher prices for their cotton than individual farmers, up to 12% higher in 1998. Secondly, an increased number of well-financed traders with improved access to rural markets would increase competition, which in turn would put the smallholders in a more advantageous bargaining position. The result should be reduced marketing margins and better prices paid to smallholders.

5. **Transport costs.** This is the area in which the project could have the most impact. Average rural transport costs in Mozambique are extremely high, in the order of USD 0.50 per tonne/km on tertiary roads. Such high transport costs drastically circumscribe the radius of viable marketing. The following factors contribute to these high costs: (i) the poor condition of the roads, which increases the risk to the vehicle operator that he will lose the use of his vehicle, increases the time necessary for each journey, increases repair and maintenance requirements, and shortens vehicle life; (ii) the lack of adequate repair and maintenance which can sideline a vehicle for long periods; (iii) the shortage of suitable vehicles for local transport; and (iv) local fuel costs, which can be up to 15% higher in the interior than in locations well served by the road/rail network. By rehabilitating, repairing and



maintaining selected roads, the project will contribute substantially to a reduction in transport costs, estimated at around USD 0.12 to USD 0.15 per tonne/km, or by 25-30%, and in some situations considerably more.

Benefits and Beneficiaries

6. The target population in the three focal areas is estimated at 230 000 smallholder households. Of these, a sizeable majority should benefit from reduced market transaction costs, given that most rural households sell or barter some produce and enter the market to buy foodstuffs. The way in which each of the identified focal area investments will benefit the target group is summarized as follows.

7. **Farmer group development** is expected to improve the literacy and management and negotiating skills of smallholder producers, and to enhance their access to training, services and markets. Economies of scale will allow them to access inputs more cheaply and provide a more attractive lower-risk option for credit providers; while better market knowledge and negotiating skills, and their ability to bulk produce and reduce the cost to buyers, will result in higher unit prices for produce sold. Ultimately, farmer group development will result in increased smallholder incomes: farmer groups supported by the Cooperative League of the United States of America showed an increase of 66% in the value of marketed produce between 1996 and 1998. Significantly, these groups have shown no bias against poorer farmers or women farmers.

8. **Market access roads improvements** will promote agricultural growth by reducing transportation costs and increasing the availability of transport. In a virtuous cycle, this creates new markets, thereby increasing the number of traders serving the area. The activity directly will benefit most rural households by improving their physical access to markets, goods and services, and by reducing transport costs. In addition, use of labour-intensive methods will provide employment for workers from adjacent communities, thereby providing a local fiscal stimulus through the wages earned.

9. **Rural inventory credit** will increase the ability of small traders and possibly registered farmer associations to purchase produce from (and supply goods and services to) smallholders, with more traders able to offer cash for crops and increased competition between traders. Lack of competition and the inability of many traders to offer cash for produce are among the factors inhibiting many farmers from increasing their marketed output.

10. **Produce-trader training** will improve the ability of small and medium-sized traders, who represent the commercial first point of contact for the smallholder, to develop their businesses successfully. This will enhance their outreach and the competition among them, so leading to improved produce marketing services for smallholder producers and increased producer prices at the farmgate, and ultimately encouraging increases in production and marketed surpluses.

11. **Rural retailer training** in agricultural input supply management and linking them to input supply wholesalers will enable retailers to supply smallholders with inputs in a timely and market-oriented fashion, which will result in increased use of inputs, productivity gains leading to enhanced food security, and income improvements among smallholders.

12. **The trader credit network facility** will promote exchange of information between rural traders, credit providers and microfinance practitioners on best practices, and provide advisory and training services. This will translate into better marketing possibilities for smallholders, and higher prices through enhanced commercial activity and competition in rural areas.



APPENDIX VIII

13. **The dissemination of market information** to rural traders and smallholders will increase market transparency and rural traders' and small producers' knowledge of market opportunities and trends.
14. **Smallholder crop initiatives** aimed at identifying new market opportunities along commodity lines should help smallholders to diversify their production and result in higher returns to them, and to traders and processors, through more efficient management of the marketing chain.
15. **Small processor support** should result in more viable development of small-scale processing and development of more stable market outlets for smallholder production and opportunities to diversify into new cash crops.