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**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

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**REPUBLIC OF MOZAMBIQUE**

**COUNTRY STRATEGIC OPPORTUNITIES PAPER**



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**CURRENCY EQUIVALENTS**

Currency Unit	=	Metical (MZM)
USD 1.00	=	MZM 23 200.00
MZM 1 000.00	=	USD 0.043

**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 <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 hectare (ha)
1 ha	=	2.47 ac

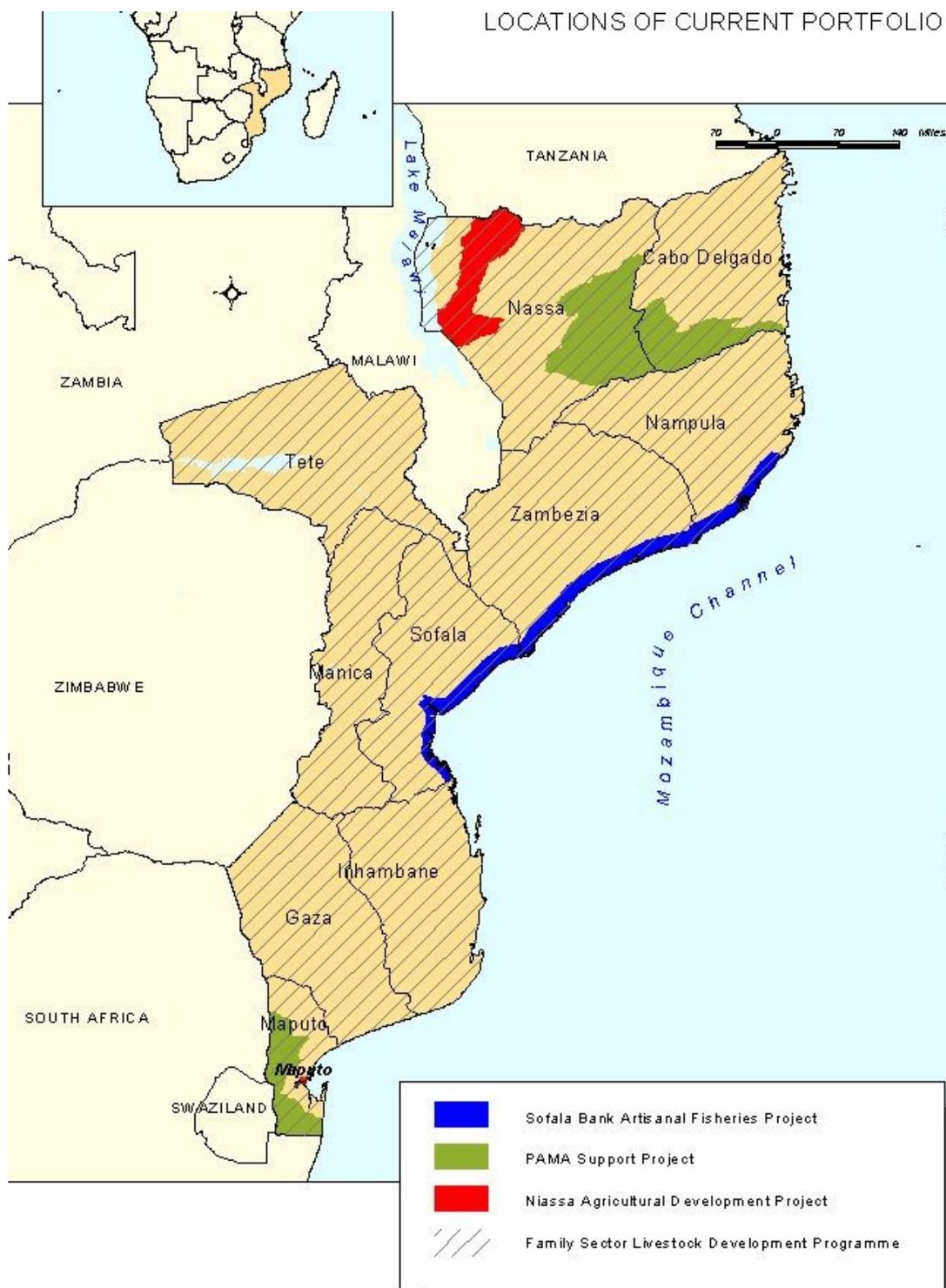
**ABBREVIATIONS AND ACRONYMS**

CLUSA	Cooperative League of the USA
COSOP	Country Strategic Opportunities Paper
GAPI	Sociedade de Gestão e Financiamento para a Promoção de Pequenos Projectos de Investimento SARL (Small Investment Promotion Company)
HIV/AIDS	human immunodeficiency virus/acquired immune deficiency syndrome
NGO	non-governmental organization
PAMA	Agricultural Markets Support Project (of the Government)
PARPA	National Action Plan for the Reduction of Absolute Poverty
PROAGRI	Agricultural Sector Investment Programme (of the Government)
SMEs	small and medium-sized enterprises

**GOVERNMENT OF THE REPUBLIC OF MOZAMBIQUE****Fiscal Year**

1 January-31 December

**COUNTRY MAP: LOCATION OF IFAD-FUNDED OPERATIONS**



Source: IFAD.

*The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.*

## PORTFOLIO OVERVIEW

**Region: Eastern and Southern Africa**

**Country: Mozambique**

Project/Programme Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
National Programme for Food Production in the Cooperative and Family Sector	IFAD	UNOPS <sup>a</sup>	HC <sup>b</sup>	31 Mar 82	23 Feb 83	31 Dec 86	L-I-93-MZ	SDR <sup>c</sup>	17 700 000	100
Second Agricultural Rehabilitation Project	IFAD	World Bank: IDA <sup>d</sup>	HC	10 Sep 87	26 Apr 88	31 Jan 96	L-S-8-MZ	SDR	11 850 000	70
Nampula Artisanal Fisheries Project	IFAD	UNOPS	HC	15 Sep 93	04 Nov 94	31 Dec 02	L-I-334-MZ	SDR	4 350 000	97
Niassa Agricultural Development Project	IFAD	UNOPS	HC	20 Apr 94	19 Oct 94	30 Jun 06	L-I-359-MZ	SDR	8 800 000	91
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	86
PAMA Support Project	IFAD	UNOPS	HC	08 Dec 99	07 Sep 01	31 Mar 08	L-I-515-MZ	SDR	16 550 000	23
Sofala Bank Artisanal Fisheries Project	IFAD	UNOPS	HC	12 Sep 01	02 Sep 02	31 Mar 09	L-I-566-MZ	SDR	14 050 000	15
Rural Finance Support Programme	IFAD	UNOPS	HC	18 Dec 03				SDR	6 650 000	

a United Nations Office for Project Services.

b Highly concessional.

c Special Drawing Rights.

d International Development Association

## EXECUTIVE SUMMARY

1. This Country Strategic Opportunities Paper (COSOP) sets forth a strategic framework and orientation for IFAD collaboration with Mozambique for the four-year period 2004-2008. It provides strategic direction for IFAD's programme of assistance in Mozambique, defining objectives and outputs linked to instruments available to IFAD. It has been developed in consultation with the Government and other partners, and focuses on IFAD's value added within the broad collaborative and programmatic framework that shapes the overall assistance and development effort in the country.

2. Since the peace settlement in 1992, the Mozambican economy has been developing at a fast pace, albeit from a low base. Market-based reforms and macroeconomic stabilization fuelled an impressive 7% average growth rate between 1997 and 2002. Growth has been broad-based in all sectors and is expected to reach 8% in 2004. Trade and services account for the largest share of gross domestic product (54.4%), followed by agriculture (19.8%).

3. Rural households are very poor, and their livelihoods are very vulnerable to shocks. Natural disasters, both extreme droughts and severe floods, constitute a major and widespread factor of vulnerability, particularly in the southern and central areas. In 2002, 66% of these households reported that they had lost their crops to natural calamities. High vulnerability to such 'shocks' also stems from the lack of income-generating activities to complement agriculture and assets. With high dependency ratios and low agricultural productivity, the most vulnerable need off-farm income opportunities, but there are not many options for this in rural Mozambique. Poor households have few assets to sell and their consumption is already low, so in times of scarcity they do not have much to buffer them from food insecurity.

4. Key issues in improving the livelihoods of the rural poor over the next few years revolve around two major themes. First, inasmuch as the vast majority of the rural population lives on less than one dollar a day, there is an urgent need to generate wealth in rural areas and increase family incomes through the development of viable and profitable productive activities. Second, in an environment where rapid changes are being determined by an increasing number of public and private players, poor rural men and women must be empowered to make their voices heard and to influence the making and implementation of rural development policy.

### **Strategic Focus 1: Increase the income of the rural poor**

5. In a context where national food self-sufficiency is being approached and most rural families produce for their own consumption with very limited market linkages, the challenge is to integrate smallholder agriculture and artisanal fisheries into the market economy and turn them into profitable economic activities that can generate income and jobs. IFAD will contribute to this objective by: (i) focusing interventions on the development and marketing of **high-value cash crops and fish** based on local comparative advantages and the growing scope for pursuing export-oriented production; (ii) promoting **public-private partnerships** in order to tap growth opportunities and bring smallholders and artisanal fishers into the productive sector; and (iii) **using IFAD funding as leverage** to help private operators gain access to investment financing and other types of support in exchange for more equitable distribution of profits between private operators and small-scale producers, thus allowing smallholders and fishers to retain a greater share of the value added and thereby raise their standard of living and develop their productive assets. IFAD will pursue these orientations through a range of complementary options that may have to be implemented simultaneously to ensure sufficient impact. These actions include: (i) **increase marketable production** of smallholders and artisanal fishers, both in quantity and quality, in order to increase the portion that is marketed; (ii) **strengthen access to advisory services**, inasmuch as small-scale producers will need to upgrade their technology through the use of modern inputs, better equipment and improved technologies in order to achieve better productivity and product quality; (iii) **develop**

**linkages with private-sector operators for input supply and marketing** through a two-fold contribution by IFAD: on the one hand, it will promote innovative approaches that test market-linkage interventions targeted at smallholders and artisanal fishers and provide direct economic benefits to the target group; and on the other, it will support the development of a policy, institutional and legislative environment that is conducive to the formation of market linkages in the agricultural and artisanal fisheries sectors; and (iv) **enhance sustainable access to financial services**, with IFAD pursuing two complementary objectives in response to the increased demand among the rural poor for rural financial services to support income-generating activities and rural enterprises: it will foster an institutional and policy environment that is conducive to the sustainable development of rural financial services, and it will pilot innovative initiatives to promote sustainable access to financial services by individuals, groups and enterprises in rural areas.

### **Strategic Focus 2: Empower the rural poor**

6. Empowerment of the rural poor and strengthening of their organizations are essential to ensure that they play an active role in decision-making processes, both locally and nationally. Through its various operations, IFAD will help to build the capacities of the rural poor so that they can articulate their needs and objectives, build strategies to attain them, and forge partnerships. More specifically, IFAD will focus on two strategic areas: (i) **promote small-scale producers' organizations**, since the development of associations of small-scale producers (be they smallholder farmers or artisanal fishers) is key to ensuring the success of all other strategic orientations; and (ii) **support decentralization and local partnerships for development**, promoting partnerships at the district level among local authorities, communities, economic agents and other civil society stakeholders to promote local development and increase the impact on the poor.

### **Strategic Focus 3: Cross-cutting issues: Mainstreaming of gender equity and HIV/AIDS prevention and mitigation**

7. **Gender equity.** There is broad scope for IFAD operations to contribute to redressing gender inequalities by supporting policy development and by devising innovative approaches to mainstreaming gender concerns. This requires that all operations: clearly identify the needs and constraints of both men and women; formulate appropriate responses, taking their specificities into account, to ensure equitable access of men and women to development benefits; set clear gender targets, including in the policy and institutional framework; and closely monitor targeted achievements using gender-disaggregated information.

8. **HIV/AIDS prevention and mitigation.** In accordance with the National Strategic Plan to Combat HIV/AIDS, IFAD's contribution will revolve around two key issues. First, it will **promote HIV/AIDS prevention and awareness** through information and education, with a focus on the community and district levels and on the development of workplace programmes for staff of IFAD-supported projects. It will also underpin efforts to **mitigate the economic impact of HIV/AIDS**.

9. The agricultural sector in Mozambique has an effective donor working group that coordinates donor support within the common framework of the Government's Agricultural Sector Investment Programme. It is within this context that the present COSOP has been formulated and will be implemented, with specific attention to how IFAD can enrich common activities by bringing to bear its focus on effective social and economic empowerment of the rural poor. Appendix V contains details on the synergy between IFAD and other donor activities in country.

## **Conclusions and Recommendations**

10. This is the third COSOP prepared for Mozambique, and its strategic thrusts are built on the experience gained from project implementation during the past seven years. IFAD's goal in Mozambique is to empower the rural poor so that they can reduce their poverty. The objective is to shape coherent national policies and an institutional framework conducive to smallholder development. The strategic framework identified herein (with its three main outputs of increased income, empowerment of the rural poor, and gender and HIV/AIDS mainstreaming) would guide current and future IFAD operations in Mozambique during the period 2004-2008. These outputs reflect the principal strategic thrusts identified by the Government and by IFAD as being core to rural development: markets, financial services, technology and natural resources. The COSOP will be made operational through the four implementation instruments available to IFAD: policy dialogue; programme support; pilot project developments; and knowledge management and partnership-building.

**REPUBLIC OF MOZAMBIQUE**  
**COUNTRY STRATEGIC OPPORTUNITIES PAPER**

**I. INTRODUCTION<sup>1</sup>**

1. This Country Strategic Opportunities Paper (COSOP) sets forth a strategic framework and orientation for IFAD collaboration with Mozambique covering the four-year period 2004-2008. It provides strategic direction for IFAD's programme of assistance in Mozambique, defining objectives and outputs linked to instruments available to IFAD. It will contribute to attainment of the Millennium Development Goals as adopted and pursued by the Government of Mozambique, and to operationalization of the country's poverty reduction strategy adopted in 2001. It also builds on the Government's Vision for Agricultural Development formulated in 2003 by the Ministry of Agriculture and Rural Development. This COSOP was prepared in close collaboration with the Government and other development partners, and was discussed and reviewed during a stakeholder workshop in June 2004.

**II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT**

**A. Country Economic Background**

2. **Natural regions.** Mozambique occupies an area of nearly 800 000 square kilometres on the south-eastern coast of Africa. It has a coastline of 2 750 kilometres and abundant land resources, of which 46% is arable but only 10% is cultivated. The central and northern provinces have high agro-ecological potential and generally produce agricultural surpluses. Southern provinces have poorer soils and scarce rainfall, and are subject to recurrent droughts and floods. Mozambique's population of 18.9 million is growing at an average rate of 2.3% per annum. About 80% of the population live in rural areas. As a result of the war and male outmigration in the south, women outnumber men (male-to-female ratio of 0.93). Thirty per cent of households are headed by women.

3. **Rapid economic growth.** Since the peace settlement in 1992, the economy has been developing at a fast pace, albeit from a low base. Market-based reforms and macroeconomic stabilization fuelled an impressive 7% average growth rate between 1997 and 2002. Growth has been broad-based in all sectors and is expected to reach 8% in 2004. Trade and services account for the largest share of gross domestic product (GDP) (54.4%), followed by agriculture (19.8%).

4. Inflation was brought down to 15% in 2002 through a tightened monetary policy. Tax reform and rationalization of public spending are expected to reduce the public deficit from 3.8% of GDP in 2003 to 1.7% in 2004. Economic stability and fiscal incentives have attracted considerable flows of foreign direct investment, mostly involving large-scale capital-investment projects in the energy and mining sectors. Foreign aid, with grant flows averaging 40% to 50% of public spending, has spurred the development of services and construction activity. However, more traditional and labour-intensive sectors (e.g. agriculture and manufacturing) – notwithstanding their encouraging performance – have not yet taken full advantage of the conducive economic environment. Despite robust economic growth, Mozambique (with GDP per capita of USD 210) remains one of the world's poorest countries, ranking 170 out of 175 countries on the Human Development Index (HDI). Social development indicators show a rising trend that is commensurate with the average economic growth rate: between 1995 and 2001, the HDI rose by 9.5%. All these indicators however hide major

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<sup>1</sup> See Appendix I for additional information.

differences between urban and rural areas and the preponderance of the capital city of Maputo, which is home to 10% of population, has an HDI nearly twice the national average, and concentrates 37% of the country's GDP.

## B. Agricultural Sector

5. **Agricultural production.** Against the backdrop of restored peace, market-driven approaches and an improved economic environment, agricultural production has grown rapidly, albeit mostly in the form of low-productivity subsistence agriculture. Total cereal production increased from 239 000 tonnes in 1992 to 1.8 million tonnes in 2001, and food aid decreased from 44% of total supply to less than 5% in the last decade. This growth has been uneven regionally, and poor road and marketing infrastructure has prevented the more fertile regions of the north from supplying less productive provinces in the south. However, the country is approaching overall self-sufficiency in food grain production. Only a limited part of agricultural production reaches the market: 20% for groundnuts, 14% for beans and rice, and 13% for maize, which is the main food crop. The fundamental challenge of poverty reduction is to move beyond immediate food security and address the issues involved in exchange and market production. Smallholders represent 99% of the country's farming sector. Food crops – mainly maize, cassava, beans, rice and groundnuts – cover 80% of the total farmed area and are essentially for family consumption. Most farm households continue to operate close to a subsistence level, with low yields and low returns (less than half that of neighbouring areas) owed to the limited availability of improved inputs, lack of appropriate technologies and lack of access to support services. Difficult access to markets, due both to poor development of the communication network and to limited market opportunities, acts as a disincentive to higher productivity levels. Additional factors constraining growth are: lack of access to financial services, rigidities in land access and use, lack of healthy and trained human resources, limited organizational capacity and vulnerability to disasters.

6. **Emerging agribusiness.** Notwithstanding the prevalence of quasi-subsistence production, a commercial agribusiness sector is gaining increasing importance, ranging from large, outgrowing/ agro-processing operations combining local enterprises and international investments to Mozambican-owned, small and medium-sized businesses focusing on export crops. The larger companies promote contract farming, mostly in the cotton and tobacco sectors, whereby they supply inputs and technical assistance to smallholder farmers in their concession areas in exchange for the exclusive right to purchase all their production at an agreed-upon price. Smaller marketing and agro-processing businesses are also developing and opening up new market outlets for small-scale producers in a wider range of traditional commodities and new high-value products.

## C. Rural Poverty

7. **Rural poverty.** In 1997, 72% of the rural population (13.6 million people) lived in poverty. Access to education is limited, with only 57% of Mozambicans having access to primary school in rural areas, as opposed to 82% in the urban areas. More than two thirds of the rural population are illiterate, although women are much more likely to be illiterate (84%) than men (48%). Access to health services is also problematic: two thirds of the rural population have to walk more than an hour to reach the closest health unit, and only 36% of rural women are attended by health workers during childbirth, resulting in high maternal mortality (1.5%). Access to safe water is enjoyed by only 60% of the rural population. Nonetheless, recent data indicate that rural areas have had a share in the national reduction of poverty, with a decrease in the incidence of rural poverty estimated at between 7% and 21%. Agriculture constitutes the main source of food and, to a lesser extent, of income for most of the rural population. Other income-generating activities include the exchange of labour for food or money, and petty trade. In coastal areas, fishing constitutes an important source of food and sometimes income.

8. **Limited assets and access to inputs and services.** The main asset of the rural poor is the land they cultivate, with an average of 1.3 hectares per household (for women-headed households, however, that figure is less than 1 hectare). The 1997 Land Act has equitable and sustainable development as its overarching objective and it creates the conditions for change through a process that allows local people to retain and use their land. Although 98% of households have access to land, less than 1% hold title to that land. As land becomes more productive and valuable, this situation may change and its evolution should be closely monitored. Currently, there are few land conflicts as there usually is sufficient land for family cultivation, the constraining factor being labour availability. Smallholders use mostly traditional farming methods, with low-yield seed varieties, manual cultivation techniques and little use of agro-chemicals. Low prices for marketable crops such as maize and cotton provide little incentive to expand the cultivated area and productivity. Public services and the state of rural organization also provide little basis for change: less than 18% of rural households have access to extension services, farmers' organizations are still poorly developed, and only 3% of farmers belong to an association.

9. **Household vulnerability.** Rural households are very poor, and their livelihoods are very vulnerable to shocks. Natural disasters (in the form of extreme droughts and severe floods) constitute a major and widespread factor of vulnerability, particularly in the southern and central areas. In 2002, 66% of these households reported that they had lost their crops to natural calamities. High vulnerability to such 'shocks' also stems from the lack of income-generating activities to complement agriculture and assets. With high dependency ratios and low agricultural productivity, the most vulnerable need off-farm income opportunities, and there are not many options for this in rural Mozambique. Poor households have few assets to sell and their consumption is already low, so in times of scarcity they do not have much to buffer them from food insecurity.

10. Most households have little income or real food security, and women-headed households have even less. The vast majority of **rural women** (90%) work in agriculture. They are primarily responsible for food crops, which offer limited opportunities to earn income. While the 1997 Land Act explicitly states that women enjoy equal access to land, in practice their lack of knowledge about their legal rights and the absence of law enforcement do not ensure women's land tenure security. Women have even more limited access to credit, extension services and technology. In addition to their agricultural activities, women are responsible for supplying household food, fodder, water and firewood, resulting in a much greater workload than for men. They are subject to poor health conditions as a result of high fertility rates, lack of mother-and-child health care and physical weakness owing to poor diet and heavy work. Women are also less educated and do not have equal participation in household decision-making.

#### **D. Constraints on and Opportunities for Rural Poverty Reduction**

11. **Access to markets.** The lack of access to profitable markets represents a major constraint to the development of agricultural production and smallholder incomes. In the absence of markets, smallholders have no incentive to produce. The disappearance of rural trade shops and the dismantling of the state marketing apparatus, compounded by the very poor condition of the road network, have left them with few trade linkages, which in any event are unreliable and often unprofitable. They also lack information on market opportunities and prices, and their organization and negotiation skills are weak. Various operators can play a role in securing new market channels, but they face specific constraints. **Small and medium-sized agribusiness enterprises** can provide new markets for agricultural production and create new jobs, generating additional income and benefits for smallholders as demonstrated by experiences associating the American non-profit organization TechnoServe and the Mozambican non-banking credit institution Small Investment Promotion Company (GAPI). However, the development of such enterprises is constrained by the lack of an appropriate legislative and regulatory framework, this sector's low technical and management capacity and limited knowledge of export markets, and the lack of financing and incentive packages to

invest in a still risky rural environment. **Farmers' associations** can provide multiple services to their members, from supporting production growth to marketing and credit supply. They also need to solve many pressing issues, which are reviewed below. **Major outgrowing/agro-processing companies** also offer important market linkages, but several areas need to be addressed to ensure more equitable distribution of profits to the benefit of smallholders. This would require: adapting the regulatory framework, which currently fosters inefficiency, lack of transparency and poor contract enforcement; developing farmers' associations, as a way to increase their bargaining power; and organizing mutually profitable support services, including research, extension and credit supply.

12. **Agricultural productivity.** To take advantage of new domestic and export marketing opportunities, smallholders must boost both productivity and production quality. Productivity growth and quality improvement, however, are constrained by three major factors. First, **public service delivery** is still weak. The public agricultural extension system covers only 18% of farming families. It is not demand-driven, it relies on a limited number of insufficiently trained staff focused on agricultural production to the exclusion of market development, and it has no gender focus. The research system has not been able to renew the stock of available technologies; moreover, it maintains a top-down approach, and has minimal linkage with extension. Reform of the research system is planned under the Government's Agricultural Sector Investment Programme but progress has so far been slow. There is, however, substantial scope to develop viable alternative sources of technical advisory services and research for the smallholder sector, not only with donor-funded non-governmental organizations but also with major agribusiness companies and, although still at a marginal level, with small and medium-sized enterprises (SMEs) and farmers' associations. The impact and comparative advantages of the various experiences available throughout the country need to be evaluated. Second, smallholders have **low access to technologies and inputs** due to the weak rural trade network; there is also an absence of assured marketing outlets that would allow them to recover their costs. Alternative solutions are taking shape, with farmers' associations providing farm tools and inputs to their members, agribusiness companies (including SMEs) supplying inputs on credit to smallholders, and private companies responding to incentive packages to move into rural areas and provide agriculture support services (including the leasing of equipment for animal traction and mechanization).

13. **Access to financial services.** An expanding range of rural operators are experiencing increased demand for a broad array of financial services, such as savings facilities, investment and working capital credit, consumption-smoothing loans and financial transfers. As marketing opportunities increase, the viability of investments in technology and advanced inputs improves and raises the bankable demand for smallholder and small-scale fishing loans. Demand for financial services to support non-farm rural activities is also growing, particularly among SMEs, whose development is constrained by the lack of affordable financing for investments and working capital. Similarly, rural traders are hindered by a lack of access to credit and other financial services. Although rural sector policies recognize that access to a wide range of financial services is essential to boosting production and income among the rural population, there is no explicit rural finance policy; nor is there any comprehensive framework that would bring key players together and ensure coordination. In addition, only very limited financial services are available in rural areas, where both transaction costs and risks are high. Formal institutions such as commercial banks operate almost solely in the larger urban centres. The microfinance industry, while showing impressive growth in recent years, is small and almost totally urban in its orientation. By far the main providers of credit to smallholders are the large agricultural companies, which supply their outgrowers with in-kind credit in the form of seasonal inputs. Other innovative solutions are emerging, such as the involvement of a local development finance company in providing seasonal loans to outgrowers, or the channelling of loans through SMEs.

14. **Economic infrastructure.** The poor state of economic infrastructure hinders rural households' ability to access goods and services needed to improve production and market output, and dramatically increases transaction costs. In central and northern Mozambique in particular, access problems keep traders from venturing inland from the main roads. Median distance to a market is 15 kilometres nationally, rising to over 20 kilometres in the northern provinces. Trunk roads are in relatively good condition, except in flood-prone zones and in parts of the north. The key problem continues to be the access roads connecting the main highways to the villages of the interior. While considerable donor support has been provided to this subsector since the end of the war, it is estimated that a further 10 000 to 12 000 kilometres of rural feeder roads need to be improved before an acceptable rural road network is in place. A Road Fund has been legally established, and open tenders for procurement of routine maintenance contracts have risen from 25% to 50%; during 2002-2003, 80% of routine maintenance was performed. There is no transport subsector specifically serving agricultural commodities. Large-scale traders have their own vehicles, while small-scale informal traders have to arrange for transport, with the waiting period now down to 1-2 days compared with two weeks in the past. Although work began on rehabilitating port facilities in early 1990, capacity is still low. The shipping costs for domestic destinations remain prohibitive for most market development between north and south. There are no north-south rail lines. The Mozambique Cereals Institute has considerable warehouse capacity, but most of that capacity is currently leased to private traders. Large private traders often have warehouse facilities in the main towns but rarely have storage elsewhere. The rural stores that existed in the past had small storage capacity, but most of them were destroyed and reconstruction has been slow. On-farm storage is a major problem, with losses due to pests and deterioration. During 2003, electrification of 120 out of 128 district capitals was achieved, but difficulties in maintaining and fuelling the isolated grids are resulting in limited service (60%-70% of the time).

15. Many of the constraints identified above are aggravated by the lack of organization of smallholders and artisanal fishers and by their limited participation in setting rural development priorities at the local level. Women are even more excluded from decision-making. The main constraints to the empowerment of local stakeholders are discussed below.

16. **Weak farmers' organizations.** Farmers' organizations offer a viable solution for providing technical assistance, extending credit, providing access to inputs and organizing collective marketing, thereby constituting an alternative to contract farming. Within the contract farming scheme, they are key to strengthening farmers' bargaining power and ensuring more equitable profit distribution, while at the same time reducing transaction costs for the contracting company. With the development of commodity chains based on export opportunities, there is also a growing need for strong farmers' organizations that can defend members' interests and negotiate with other actors in the chain. However, such organizations continue to be weak and have limited capacity. Further development is constrained by the lack of appropriate legal status and excessive bureaucracy for registration; lack of technical and management skills; weak internal democracy; limited women's membership and lack of women's participation in decision-making; and widespread illiteracy. Farmers are dispersed and poorly organized: only 5% of farmers are members of an association. However, the movement is developing, and the National Union of Farmers – an association that was created to strengthen farmers' capacities and organization and represent their interests – is gaining importance at the national level and is increasingly participating in consultation processes for policy development.

17. **Limited decentralization.** Although the 2003 Local Administration Act granted provinces and districts critical responsibilities in the areas of local development and coordination of line ministry activities, they are faced with a lack of resources and capacity, particularly at the district level. In addition, the lack of local democratic culture is compounded by weak organization of civil society in rural areas. However, recent developments point to a move towards increased deconcentration and community participation, even though Mozambique remains a centrally-managed state in which local bodies, communities and economic agents operating at the local level have limited participation in the

planning and implementation of development actions. There is thus clear scope for increased participation by local authorities and their constituencies. On the one hand, the Government has indicated its intention to strengthen district authorities through such means as block grants to be allocated at the district level. On the other hand, there is an increasing need to coordinate development efforts at the local level and promote synergy between various sector interventions and partners. As experience with the Government's Agricultural Markets Support Project shows, dynamic district authorities are key to promoting local economic development. However, most district administrations lack the institutional capacity and culture that are necessary to establish partnerships with institutional and economic stakeholders.

18. **Lack of participatory processes.** Recent legislative and regulatory developments (e.g. the recognition of the role of traditional authorities) provide increasing scope for community participation and the possibility of establishing local councils at various levels of administration. However, communities are poorly organized and have weak capacity, preventing them from taking full advantage of these new opportunities. At the same time, district administrations lack a democratic culture and do not use participatory processes to identify local development priorities or harmonize centrally defined sectoral priorities with actual local needs. Similarly, action by the Ministry of Agriculture and Rural Development at the local level remains very much supply-driven.

19. **Gender in rural development.** Although women play a crucial role in food production and in generating wealth, they have little access to or control over productive resources. They have fewer skills than men because of their more limited access to education, health care and extension services. They also have lower status and participation in decision-making. These factors affect the livelihoods not only of the women themselves but of their families, particularly considering that one third of them are heads of household. So far, however, the Government's Agricultural Sector Investment Programme has had little effect in redressing gender imbalances, and the latest draft for a second stage of the programme still lacks a clear strategy in this respect.

20. **Human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS).** It is estimated that 12.2 % of the sexually active population in Mozambique was infected with HIV/AIDS in 2000, up from 1% ten years earlier. Prevalence in adults is expected to increase and eventually stabilize at a national average of about 16% in 2010, leaving some 1.1 million orphans. By affecting the most productive members of households and draining already meagre resources to care for the ill or compensate for the death of adults, HIV/AIDS aggravates poverty and malnutrition. The higher incidence of HIV/AIDS results in greater demand for social services, particularly in the health sector, but also in greater demand for poverty-reduction measures.

21. **The private sector in rural areas.** Large marketing and agro-processing companies play a central role in smallholder production of cash crops through contract farming and the concession system, which involve 400 000 families, or 12% of the rural population. While contract farming provides smallholders with access to international markets and an opportunity to boost their incomes, it also engenders their complete dependence upon agribusiness companies and unbalanced distribution of profits (particularly in the case of concession-based enterprises). Small and medium-sized marketing and agro-processing enterprises can constitute an alternative to the concession system. Although their development is currently limited by the lack of financing, excessive bureaucracy, and limited entrepreneurial and management skills, there is growing potential for development with the opening of more international market linkages.

22. **Non-governmental organizations (NGOs).** NGOs widely complement the public sector and provide significant resources and technical support in rural areas. Their role is recognized by the Government not only with regard to extension and the empowerment of the rural poor, but also in marketing and financing where they offer innovative solutions to major constraints. NGOs also

participate in policy-making and implementation efforts, under the coordination of government institutions.

### **E. National Strategy for Rural Poverty Reduction**

23. **The National Action Plan for the Reduction of Absolute Poverty and public-sector reform.** The National Action Plan for the Reduction of Absolute Poverty (PARPA) – which embodies Mozambique’s Poverty Reduction Strategy Paper – provides a medium-term planning framework (2001-2005) for focusing on poverty reduction in the allocation of public resources. It aims at reducing absolute poverty to 52% by 2005 through: promoting economic stability and high, broad-based growth; improving access to education and health; developing basic infrastructure to stimulate the market economy and expand opportunities for the poor; promoting agriculture and rural development to increase income-generating opportunities, especially in the family (smallholder) sector; promoting good governance through decentralization and devolution of public administration, reform of public institutions and reduction of corruption; reducing vulnerability; and promoting empowerment of the poor. Acknowledging weaknesses in the public sector (and the need to transform its role), the PARPA attaches priority to the role of rural producers – and of the private sector – while recognizing that the public sector can assist in developing markets, lowering transaction costs and providing training to farmers.

24. **Agricultural Sector Investment Programme (PROAGRI).** This programme, which covers the period 1999-2004 and thus predates the PARPA, is the Government’s funding and programming framework of choice for agriculture and food security and has been supported by a wide range of donors, including IFAD, as the principal point of organization for Government-donor collaboration. The programme has been less a sectoral programme than an institutional change programme for the Ministry of Agriculture and Rural Development; it has successfully developed the ministry’s institutional capacity, set up a financial management system and moved forward with decentralized planning. In other areas, however, PROAGRI remains problematic, notably with regard to: the lack of an overall strategy integrating the various subsector components; the lack of impact on farmers; weak deconcentration to the district level; the absence of organizational restructuring; and the lack of a monitoring and evaluation system.

25. A successor to PROAGRI is currently being formulated with broad donor engagement. PROAGRI II will be based on the PARPA, the New Partnership for Africa’s Development and the Government’s Vision for Agricultural Development (2003), which resulted from a nationwide consultative process and – like IFAD’s regional strategy – is founded on four pillars: markets, financial services, technology and access to natural resources. PROAGRI II is intended to serve as a framework for supporting rural development, a new-generation sector-wide agriculture programme giving direction, coherence, and a common implementation platform for all donors. Although the programme is still under formulation, there is general agreement on some of its key features, including that it should be demand-driven, results-oriented and based on flexible mechanisms that make it possible to adapt interventions to a changing environment. The broader rural development approach of PROAGRI II requires participation by other ministries and entails the need to define a coherent strategy with clear expected outcomes. While still at a nascent stage, the system of priority-setting, programme development and financial mobilization for agricultural development in Mozambique is a vital point for donor coordination in order to ensure more effective pursuit of the Millennium Development Goals in a country that is overwhelmingly rural. IFAD’s strategy is to develop support operations within the PROAGRI II framework as it evolves, paying special attention to how principles of pro-poor engagement can be operationalized and monitored.

### III. LESSONS FROM IFAD'S EXPERIENCE IN THE COUNTRY

26. IFAD has financed eight loan-funded projects and programmes in Mozambique (see page iv). After the 1992 peace settlement, IFAD's first round of projects – the Niassa Agricultural Development Project, the Family Sector Livestock Development Programme and the Nampula Artisanal Fisheries Project – focused on rural poverty alleviation, rehabilitation and food security within a regional and subsectoral context. The emergence of a supportive political and economic environment – including the gradual move by the Government towards sector-wide programmes (PROAGRI) – provided a conducive context for more strategic and thematic programmes. As of 1998, based on implementation experience and reflecting IFAD's evolving regional strategy, the portfolio took on a more thematic focus; the PAMA Support Project was the first of the new wave of thematic programmes, followed by the Rural Finance Support Programme, addressing strategic issues in marketing and rural finance. Linked to the loan portfolio, IFAD has three grant-funded projects supporting: the Sofala Bank Artisanal Fisheries Project, helping to develop relevant approaches to combat HIV/AIDS; the Government's Agricultural Markets Support Project, through a pilot microfinance activity by GAPI and the Mozambican Association for Rural Development; and Ikuru, a local farmer-owned institution, to produce and market export crops, in conjunction with the Cooperative League of the USA (CLUSA).

27. The main lessons learned that are applicable to the COSOP can be summarized as follows:

- (a) The rapidly changing economic and institutional environment necessitates a responsive and flexible approach to development assistance with built-in targeting and feedback mechanisms that enable managers and planners to regularly take stock of progress and modify procedures, approaches and work plans as necessary. The implementation of a monitoring and evaluation system is of great relevance both to day-to-day management and as input for periodic evaluations.
- (b) Rationalizing donor support to allow the Government to play a more effective coordinating and facilitating role was an important part of the rationale for PROAGRI. While the case for rigorous coordination of donor assistance to support key rural transformation processes remains strong, experience shows that results are slow to come and perseverance is necessary. Donor disbursement and procurement procedures need to be harmonized so as to reduce processing times and costs. Adequate human resources are required for financial management in order to streamline budgeting, expenditures and flow of funds, including allocation of government resources and contributions.
- (c) Testing and piloting new approaches on a limited scale helps avoid costly mistakes and can lead to sustainable change processes. Allowing the private sector and market forces to drive development initiatives whenever possible, rather than relying excessively on government-led interventions to force the pace of development, can relieve public-sector implementation bottlenecks and permit the Government to focus on its facilitator role.
- (d) Experience with grass-roots organizations has shown very clearly that close attention must be paid to the development of rural organizations. In the absence of adequate internal structures, responsibilities and awareness, both the autonomy and the sustainability of organizations and their results could be compromised. Partnership-building, with both the private sector and grass-roots organizations, takes time and requires adequate investment of human and financial resources.

#### IV. STRATEGIC FRAMEWORK FOR IFAD

28. The most pressing challenge in Mozambique is to create an effective and broad framework of private and public initiative that provides a platform for small farmers and the rural poor to pursue new economic opportunities and channels for their voice to be heard. Public resources are limited, as are human and institutional capacities. Consequently, it is imperative that the Government receive coordinated support focused on the key rural development issues confronting the poor. The Government's Vision for Agricultural Development provides an accurate statement of the challenge and the response within the framework of the PARPA, and it is an invaluable starting point for IFAD and donors – not least with regard to the preparation of PROAGRI II.

##### A. IFAD's Strategic Niche and Proposed Thrusts

29. IFAD's present programme in Mozambique basically covers four broad strategic areas: (i) agricultural production support services; (ii) artisanal fisheries (resource management and income generation); (iii) rural market linkages; and (iv) rural financial service development. These areas are among the key issues identified in the Government's Vision for Agricultural Development, and IFAD's future strategy will principally involve deepening and broadening critical capacity and activities in these areas with regard to the key smallholder issues identified above. The emphasis would be on promoting effective private-sector partnerships rather than seeking to expand the responsibilities of the public sector beyond its capabilities and mandate.

30. **Increase marketable production.** In order to increase the marketed share of output by smallholders and artisanal fishers, both the quantity and quality of production need to be boosted. This effort must be directly linked to the existence of markets, which will determine the kind of products for which expanding demand exists. To this end, small-scale producers will receive assistance in identifying and developing the most promising commodities based on local comparative advantages and on accessible markets, both domestic and international. To enhance their productivity and product quality, small-scale producers will need to upgrade their technologies through the use of modern inputs, better equipment and improved technologies. IFAD can play an innovative role by promoting partnerships among public services, farmers' organizations and agribusiness companies to develop and transfer new technology to smallholders. These private-sector partnerships would combine the complementary capacities and resources of the various partners, with IFAD providing capacity-building and initial cost-sharing. Successful implementation of innovative schemes could warrant replication on a larger scale and contribute to policy development in the fields of research and extension, at a time when the Government is involved in broad restructuring of the sector.

31. **Develop linkages with private-sector operators for input supply and marketing.** IFAD will support the development of a policy, institutional and legislative environment that is conducive to the formation of market linkages in the agricultural and artisanal fisheries sectors. Support, including discrete infrastructure actions, will be provided for the **development of marketing and processing SMEs** with a view to promoting rural economic diversification and the creation of alternative sources of income and jobs, opening new outlets for marketing agricultural production, and expanding the supply of inputs and technical assistance. The second orientation is to **improve contract farming** with major outgrowing companies to ensure a higher share of profits for smallholders and decrease farmers' dependence.

32. **Enhance sustainable access to financial services.** To respond to the increased demand among the rural poor for rural financial services to support income-generating activities and rural enterprises, IFAD will pursue two complementary objectives: it will foster an institutional and policy environment that is conducive to the sustainable development of rural financial services, and it will pilot innovative initiatives to promote sustainable access to financial services by individuals, groups and enterprises in rural areas. This range of interventions constitutes a comprehensive and flexible setting within which

new approaches responding to actual needs and the evolution of the economic environment will be developed. A new area could be to **support private investment in rural areas**. Although opportunities for viable rural businesses exist, the risks attached to investing in rural areas largely dissuade both commercial banks and potential entrepreneurs. IFAD could promote the financing of rural SMEs by helping to develop policy measures and attractive financial packages. Another promising area for expanding credit access in rural areas is to support **credit supply by private companies**, devising financial packages for outgrower companies or agribusiness SMEs to extend short-term loans for small-scale producers to finance agricultural inputs. The definition of the specific areas of focus will be dictated, inter alia, by experience gained under the programmes (a role played by the Government's Agricultural Markets Support Project in the case of linkages with private-sector operators).

33. **Empowerment of the rural poor and strengthening of their organizations.** Through its various operations, IFAD will support decentralization and capacity-building among the rural poor to enable them to articulate their needs and objectives, build strategies to attain them, and forge partnerships. More specifically, IFAD will focus on the four areas described below, bearing in mind that the development of associations of small-scale producers is the key to ensuring the success of all other strategic orientations. The first area of concentration is the **delivery of services to members**. Small-scale producer organizations should be developed to provide cost-effective and responsive services to their members, including input supply, provision of technical advisory services, product collection, storage, marketing, quality control, etc. The second area is **integration in the market economy and organization of commodity chains**. The income of the rural poor is increasingly dependent on national, regional and international markets, and small-scale producers face harsh competition. To enhance their capacity to market their products and receive the highest possible share of profits, they need to develop strong organizations that are able to represent the interests of smallholders and artisanal fishers in commodity chains. The third area is **participation in policy-making**. Small-scale producers' organizations will receive support in order to actively participate in national policy-making and to voice their concerns in the formulation of pro-poor policies and strategies. IFAD will help build their skills and facilitate their participation in key consultative structures, such as PROAGRI's future multi-stakeholder agricultural and rural councils or the PARPA consultation framework. A fourth area is to **support decentralization and local partnerships for development**. At the district level, IFAD will promote partnerships among local authorities, communities, economic agents and other civil society stakeholders to promote local development and increase the impact on the poor.

## B. Main Opportunities for Innovations and Project Interventions

### Cross-Cutting Issues: Mainstreaming of Gender Equity and HIV/AIDS Prevention and Mitigation

34. **Gender equity.** There is broad scope for helping to redress gender inequalities through the implementation of IFAD operations that support policy development and innovative approaches to mainstreaming gender concerns. The first goal is to **increase gender equality in access to productive resources and earning opportunities**. Women must be given equal opportunities to increase their agricultural production, which means that their access to technology and technical support services, credit and markets must be improved. The second goal is to **promote greater women's participation in decision-making processes**. IFAD will support the empowerment of rural women by having its operations promote women's active participation in local planning and implementation of development activities and in local institutions, including farmers' organizations and district consultative councils. Literacy training, capacity-building and gender training will be crucial in this respect.

35. **HIV/AIDS prevention and mitigation.** In accordance with the National Strategic Plan to Combat HIV/AIDS, IFAD's contribution will revolve around two key issues. First, it will **promote HIV/AIDS prevention and awareness** through information and education, with a focus on the community and district levels and on development of workplace programmes for staff of IFAD-supported projects. Second, it will support efforts to **mitigate the economic impact of HIV/AIDS** by promoting appropriate income-generating activities and financial products to improve the livelihood security of households that have chronically ill adults or are affected by adult deaths, and by developing improved agricultural technologies that require little labour and capital and can be more easily used by women, children and the elderly.

### C. Outreach and Partnership Possibilities with NGOs and the Private Sector

36. Several NGOs are already partners of IFAD operations in strategically selected areas where they test innovative approaches with potential for further programme development. TechnoServe will implement a project supporting the emergence and strengthening of SMEs in the cashew growing and processing subsector. CLUSA will launch a pilot to organize the commodity chain for four products through a farmer-owned and controlled company in Nampula. The Mozambican Association for Rural Development, a Mozambican NGO specialized in microfinance, will set up and implement the new Revolving Fund to Support Agricultural Markets together with GAPI, a credit institution. Helvetas, a Swiss NGO specialized in supporting civil society and self-help efforts of the poor, will develop a participatory, district-based approach to promote rural development. Many other NGOs are managing important initiatives in various sectors, and are important potential partners with which IFAD could forge alliances and share knowledge in pursuit of its development objectives. Linkages will also be established with private-sector operators under other existing and future programmes, such as the Government's Agricultural Markets Support Project and the Rural Finance Support Programme.

### D. Opportunities for Linkages with Other Donors and Institutions

37. Within the agricultural sector, PROAGRI and its donor working group constitute the principal framework for coordinating donors' support to the agricultural sector and harmonization; this multilateral platform for collaboration largely supersedes the bilateral partnerships of the past. IFAD will continue to take an active part in PROAGRI in close relation with other donors. IFAD's Field Officer makes it possible to maintain ongoing participation, develop knowledge-sharing and, in liaison with IFAD headquarters, actively contribute to policy dialogue with the Government. Strategic linkages with donor agencies to promote policy and institutional change within the PROAGRI framework will be sought through the process of programme development. Currently the United States Agency for International Development, the Danish International Development Assistance, the European Union and the World Bank are working with rural finance and SME development; and the World Bank, the United Nations Capital Development Fund and the Canadian International Development Agency are involved in district and community-based development initiatives. Appendix V lists ongoing and planned activities of donors and their synergy with IFAD's strategy.

### E. Areas for Policy Dialogue

38. Throughout programme implementation, policy dialogue will be based on actual experiences and programme-derived needs and will aim at promoting pro-poor policy, legislative and institutional changes in support of rural poverty reduction. The current portfolio is already shaped to facilitate policy dialogue and will focus on: **agricultural development**, with IFAD actively participating in dialogue on policy issues within PROAGRI, focusing on continued support for development of a rural development strategy, developing viable models of public-private partnerships to provide advisory services to smallholders, and developing district-based participatory planning and resource allocation mechanisms; and **diversification of market linkages**, with IFAD supporting the policy and institutional changes needed to expand the range of viable marketing outlets for small-scale

producers. Policy dialogue will concentrate on key policy and institutional bottlenecks currently preventing three economic agents from playing a stronger role in the commercialization of small-scale producers: (i) SMEs; (ii) producers' organizations; and (iii) contract farming companies. In the area of **rural finance**, IFAD will support the creation of a conducive and supportive pro-poor policy and legal framework and an appropriate institutional environment for the development and sustainable supply of rural financial services.

#### **F. Action Areas for Improving Portfolio Management**

39. **Programme support.** As a lending institution, IFAD supports its country programmes mainly through loans, the principal instrument available to it. The current portfolio, already well positioned and responsive to the objectives identified in this COSOP, will continue its activities and, where required, sharpen its focus on achieving the outputs through the regular annual planning and mid-term review processes. The next lending programme has already been identified and will support PROAGRI II, focusing on productivity increase as a priority area for support, inasmuch as IFAD already has programmes supporting marketing and rural finance. IFAD's key government partners will continue to be the Ministry of Planning and Finance, the Ministry of Agriculture and Rural Development, the Ministry of Industry and Trade, and the Ministry of Fisheries. Based on the present COSOP, dialogue with the Government and partners will continue to identify relevant future programmes. A well functioning monitoring and evaluation system to capture experiences is crucial not only to improve implementation and impact, but also to provide the basis for relevant policy dialogue and knowledge management.

40. **Pilot project development.** Projects will be developed to explore areas where more understanding and learning is required, often using the grant programme and NGO partners. In 2003 a number of initiatives were launched in support of the loan portfolio. Lessons learned from these experiences will be crucial for developing IFAD's future programme in Mozambique. Based on programme findings and requirements, IFAD will continue to fund pilot projects aimed at increasing knowledge and supporting the country programme to achieve its objectives.

41. **Knowledge management and partnership-building.** Within the agricultural sector, PROAGRI and its donor working group constitute an effective framework for coordinating donors' support to the agricultural sector and exchange of knowledge. IFAD will continue its active support for PROAGRI in close relation with other donors. The IFAD Field Officer makes it possible to maintain ongoing participation, develop knowledge-sharing and, in liaison with IFAD headquarters, actively contribute to policy dialogue with the Government. Strategic linkages with donor agencies will be sought through the process of programme and project development. Several NGOs are already partners in IFAD operations in strategically selected areas where they test innovative approaches with potential for further programme development; these contacts will be expanded. There is also growing potential for partnerships with the private sector.

#### **G. Tentative Lending Framework and Rolling Programme of Work**

##### **Lending Scenarios**

42. **Low-case scenario.** In the low-case scenario, economic growth staggers and the Government faces problems in implementing poverty-reduction policies, leading to a less favourable environment for programme development. Less government commitment affects portfolio performance and the disbursement rate. Under this scenario, IFAD would reduce new commitments and focus on more advocacy, more policy dialogue and more partnerships with potential change agents, in close coordination with the Government and donors. Programme development would be slowed and minimal conditions to start the formulation of new projects would be defined.

43. **High-case scenario.** In the high-case scenario, annual GDP growth is expected to remain around 7%, which has been the average growth rate since 1997. The Government proceeds with satisfactory implementation of the PARPA, including increased pro-poor spending as a percentage of resources. An enabling framework for undertaking pro-poor interventions in rural areas is gradually established, including: restructuring of the Ministry of Agriculture and Rural Development, allowing district offices to provide responsive services, together with an efficient monitoring and evaluation system to track PROAGRI implementation and its impact on the rural poor; consultative mechanisms are in place in the Ministry of Agriculture and Rural Development and the Ministry of Industry and Trade to ensure that the views of the rural poor are taken into account in policy development processes. Under this scenario, programme implementation progresses smoothly and substantial loan funds can be committed. Grant-funded pilot projects demonstrate the feasibility of innovative approaches with regard to farmers' organizations. Programme development is initiated to foster private-public partnerships for delivering agricultural support services and to support the development of farmers' organizations, in pursuit of the COSOP's objectives.



APPENDIX I

COUNTRY DATA

MOZAMBIQUE

<b>Land area (km<sup>2</sup> thousand) 2001 1/</b>	784	<b>GNI per capita (USD) 2001 1/</b>	210
<b>Total population (million) 2001 1/</b>	18.07	<b>GDP per capita growth (annual %) 2000 1/</b>	11.5
<b>Population density (people per km<sup>2</sup>) 2001 1/</b>	23	<b>Inflation, consumer prices (annual %) 2001 1/</b>	9.1
<b>Local currency</b>	Metical (MZM)	<b>Exchange rate: USD 1.00 =</b>	MZM 23 200.00
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1995-2001 1/	2.2	GDP (USD million) 2001 1/	3 607
Crude birth rate (per thousand people) 2001 1/	40	Average annual rate of growth of GDP 1/ 1981-1991	1.2
Crude death rate (per thousand people) 2000 1/	21	1991-2001	7.3
Infant mortality rate (per thousand live births) 2001 1/	125	Sectoral distribution of GDP 2001 1/	
Life expectancy at birth (years) 2001 1/1	42	% agriculture	22
Number of rural poor (million) (approximate) 1/	n/a	% industry	26
Poor as % of total rural population 1/	71.9	% manufacturing	12
Total labour force (million) 2001 1/	9.38	% services	52
Female labour force as % of total 2001 1/	48	Consumption 2001 1/	
<b>Education</b>		General government final consumption expenditure (as % of GDP)	10
School enrolment, primary (% gross) 2001 1/	92 a/	Household final consumption expenditure, etc. (as % of GDP)	70
Adult illiteracy rate (% age 15 and above) 2001 1/	55	Gross domestic savings (as % of GDP)	20
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1997 2/	2 183	Merchandise exports 2001 1/	703
Malnutrition prevalence, height for age (% of children under 5) 2001 1/	n/a	Merchandise imports 2001 1/	1 063
Malnutrition prevalence, weight for age (% of children under 5) 2001 1/	n/a	Balance of merchandise trade	-360
<b>Health</b>		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2001 1/	4 a/	before official transfers 2001 1/	-2 261
Physicians (per thousand people) 1999 1/	n/a	after official transfers 2001 1/	-1 604
Population using improved water sources (%) 2000 3/	57	Foreign direct investment, net 2001 1/	139 a/
Population with access to essential drugs (%) 1999 3/	50-79	<b>Government Finance</b>	
Population using adequate sanitation facilities (%) 2000 3/	43	Overall budget deficit (including grants) (as % of GDP) 2001 1/	n/a
<b>Agriculture and Food</b>		Total expenditure (% of GDP) 2001 1/	n/a
Food imports (% of merchandise imports) 2001 1/	14	Total external debt (USD million) 2001 1/	4 466
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	37	Present value of debt (as % of GNI) 2000 1/	28
Food production index (1989-91=100) 2001 1/	124	Total debt service (% of exports of goods and services) 2000 1/	3
Cereal yield (kg per ha) 2001 1/	821	Lending interest rate (%) 2001 1/	23
<b>Land Use</b>		Deposit interest rate (%) 2001 1/	15
Arable land as % of land area 2000 1/	5		
Forest area as % of total land area 2000 1/	39		
Irrigated land as % of cropland 2000 1/	3		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD ROM 2003

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2003

## LOGICAL FRAMEWORK

Strategic Goal	Objective	Outputs	Instruments	Main Indicators
<p>To empower the rural poor so that they can reduce their poverty.</p>	<p>To develop coherent and supportive national policies and a conducive institutional framework for smallholder development.</p>	<p><b>A. Increased income for the rural poor through:</b></p> <ul style="list-style-type: none"> <li>• agricultural production</li> <li>• technology/knowledge</li> <li>• marketing and the private sector</li> <li>• access to finance</li> </ul> <p><b>B. Empowerment of the rural poor through:</b></p> <ul style="list-style-type: none"> <li>• grass-roots organization</li> <li>• partnerships</li> <li>• participation</li> <li>• decentralization</li> </ul> <p><b>C. Cross-cutting issues:</b></p> <p><b>Mainstreaming of gender in programmes through:</b></p> <ul style="list-style-type: none"> <li>• gender balance</li> <li>• equity in access</li> <li>• participation</li> </ul> <p><b>Mainstreaming of HIV/AIDS issues in rural development programmes through:</b></p> <ul style="list-style-type: none"> <li>• prevention</li> <li>• information</li> </ul>	<p><b>Policy dialogue</b></p> <p>Conducive and supportive policy and legislative frameworks and appropriate institutional environment for sustainable pro-poor development.</p> <p><b>Partnership development and knowledge management</b></p> <p>Linkages with strategic partners in the Government, donors, civil society and private sector for joint programme implementation and exchange of experiences.</p> <p><b>Programme support</b></p> <p>Within the framework of sector-wide programmes – uniting government and donor efforts – the current and future lending programme will support smallholder development with an eye to higher incomes and empowerment.</p> <p><b>Pilot project development</b></p> <p>Grant-based learning projects in areas where more experience or understanding is required.</p> <p><b>Monitoring and evaluation</b></p> <p>Strong monitoring and evaluation applied across all areas – including across other instruments – to facilitate better impact, learning/knowledge and reporting.</p>	<p>Increased income of smallholders</p> <p>Functional strategies for rural development, marketing and rural finance</p> <p>Financial services operational in rural areas</p> <p>Smallholders accessing markets</p> <p>Participation and representation of the rural poor in policy and political processes</p>

## STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Institution	Strengths	Weaknesses	Opportunities/Threats	Remarks
<b>Ministry of Agriculture and Rural Development</b>	<ul style="list-style-type: none"> <li>• Joint donor programme support, based on improved coordination and openness.</li> <li>• Improved planning process at central and provincial level through PROAGRI.</li> <li>• Good network of provincial and district offices.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of an overall strategy integrating the various subsectors.</li> <li>• Weak deconcentration to district departments, which have few linkages with farmers.</li> <li>• Poor management of human resources.</li> <li>• Weak extension and research.</li> <li>• Lack of a monitoring and evaluation system.</li> </ul>	<ul style="list-style-type: none"> <li>• PROAGRI II will continue to receive broad donor support to convert the ministry into a demand-driven and results-oriented institution.</li> <li>• Rural development strategy under preparation to define a multisectoral strategic framework for reorienting public investment in rural areas.</li> <li>• Emerging agribusiness companies, SMEs and farmers' organizations constitute possible alternatives to deliver advisory services and research.</li> <li>• Expected social cost could delay ministry's restructuring.</li> </ul>	<ul style="list-style-type: none"> <li>• Clarification of ministry's role with regard to overall rural development; restructuring of ministry and installation of a monitoring and evaluation system in the agricultural sector are key requisites for PROAGRI II.</li> </ul>
<b>Local governments</b>	<ul style="list-style-type: none"> <li>• Local Administration Act (2003) establishes districts as budget units and makes them responsible for local development and coordination.</li> </ul>	<ul style="list-style-type: none"> <li>• Decentralization is limited to urban municipalities. 128 rural districts are run by appointed administrators and are under the authority of provincial governments.</li> <li>• Lack of financial resources and capacity at both the provincial and district level.</li> <li>• Lack of participatory processes compounded by poor organization of rural communities.</li> </ul>	<ul style="list-style-type: none"> <li>• Public reform strategy identifies decentralization as a priority.</li> <li>• National strategy for decentralized planning and finance under preparation.</li> <li>• Increased need for coordination at the local level.</li> </ul>	<ul style="list-style-type: none"> <li>• Donor support for local governments and local coordination of development actions is key to ensure further progress with decentralization as well as the success of PROAGRI II.</li> </ul>
<b>Private sector</b>	<ul style="list-style-type: none"> <li>• Emerging agribusiness sector providing market linkages and agricultural support services.</li> <li>• Emerging SME sector offering new market outlets and jobs in rural areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Low efficiency, lack of transparency and poor contract enforcement in the agribusiness sector, with unbalanced distribution of profits to the detriment of smallholders.</li> <li>• SME development limited by lack of an appropriate legislative framework, lack of financing, excessive bureaucracy, and limited entrepreneurial and management skills.</li> </ul>	<ul style="list-style-type: none"> <li>• Growing private-sector business opportunities in agricultural marketing and processing based on increasing international market linkages.</li> <li>• High dependence of small-scale producers in current organization of contract farming.</li> </ul>	

Institution	Strengths	Weaknesses	Opportunities/Threats	Remarks
<b>Financial institutions</b>	<ul style="list-style-type: none"> <li>• Availability of funds/liquidity</li> </ul>	<ul style="list-style-type: none"> <li>• Limited outreach in rural areas and general aversion to agricultural loans.</li> <li>• High transaction costs and interest rates that exclude a large part of the rural population.</li> <li>• Minimum deposit for opening savings account is too high.</li> <li>• Limited number of microfinance institutions in rural areas.</li> <li>• Lack of a conducive policy and legislative environment for the development of rural financial services.</li> </ul>	<ul style="list-style-type: none"> <li>• Agribusiness companies offer new opportunities to develop credit access.</li> </ul>	
<b>Farmers' organizations</b>	<ul style="list-style-type: none"> <li>• Growing importance of the National Union of Farmers.</li> </ul>	<ul style="list-style-type: none"> <li>• Union continues to have limited outreach.</li> <li>• Lack of appropriate legal status and excessive bureaucracy for registration of farmers' organizations.</li> <li>• Lack of technical and management skills.</li> <li>• Limited participation of women.</li> </ul>	<ul style="list-style-type: none"> <li>• Union is called by the Government and donors to participate in policy-making.</li> <li>• Innovative experiments with farmers' organizations delivering agricultural support services.</li> <li>• Illiteracy.</li> </ul>	
<b>NGOs</b>	<ul style="list-style-type: none"> <li>• Strong financial support from international donors.</li> <li>• Key role in rural areas, particularly with regard to extension, empowerment of the rural poor, marketing and microfinance.</li> </ul>	<ul style="list-style-type: none"> <li>• High operational costs.</li> </ul>	<ul style="list-style-type: none"> <li>• NGOs regarded as major development partners and participate in policy-making.</li> </ul>	<ul style="list-style-type: none"> <li>• NGOs play a crucial role in testing innovative approaches that can later be developed under loan-funded projects.</li> </ul>

## IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Programme Response
<p><b>Very Poor</b></p> <p>Small-scale, predominantly subsistence producers and crews on artisanal fishing boats</p> <p>Female-headed households</p>	<p><i>Poverty level</i></p> <ul style="list-style-type: none"> <li>Cover less than 50% of food requirements</li> <li>Have only 4-6 weeks of food reserves</li> <li>Own few small animals and sell their labour</li> </ul> <p><i>Causes of poverty</i></p> <ul style="list-style-type: none"> <li>Lack of assets and access to factors of production</li> <li>Lack of significant surplus to sell</li> <li>Illiteracy</li> <li>Poor nutrition/health, HIV/AIDS</li> <li>Women-headed households cultivate smaller surfaces, have fewer assets, less access to productive resources and lower productivity</li> </ul>	<ul style="list-style-type: none"> <li>Risk minimization through diversification of productive activities</li> <li>Trading of labour for food, other goods or cash</li> <li>Reduction of meals and consumption of wild fruits and plants</li> </ul>	<ul style="list-style-type: none"> <li>Food security</li> <li>Risk reduction</li> <li>Savings generation</li> <li>Beginning of asset creation</li> </ul>	<ul style="list-style-type: none"> <li>Demand-driven support services</li> <li>Promotion of marketable production</li> <li>Solidarity group and savings and loan association development</li> <li>Literacy training</li> <li>Gender strategies and gender awareness</li> <li>Mitigation of socio-economic impact of HIV/AIDS and HIV/AIDS sensitization and awareness</li> </ul>
<p><b>Mid-Level Poor</b></p> <p>Small-scale cash crop producers, artisanal fishers, small-scale traders and entrepreneurs</p>	<p><i>Poverty level</i></p> <ul style="list-style-type: none"> <li>Combine crop and non-crop income, including petty trade and sale of labour</li> <li>Few assets</li> </ul> <p><i>Causes of poverty</i></p> <ul style="list-style-type: none"> <li>Limited marketable surplus</li> <li>Limited access to labour and other factors of production</li> <li>Lack of organization and</li> </ul>	<ul style="list-style-type: none"> <li>Risk minimization through diversification of productive activities, including petty trading and handicrafts</li> <li>Contract farming and labour on other people's farms</li> <li>Labour migration / itinerant trade</li> <li>Women's savings and loans associations</li> </ul>	<ul style="list-style-type: none"> <li>Access to improved and appropriate production methodologies</li> <li>Increased assets</li> <li>Access to savings facilities and credit on viable terms</li> <li>Access to organized markets and market information</li> <li>Organizational skills</li> <li>Increased participation in</li> </ul>	<ul style="list-style-type: none"> <li>Demand-driven support services</li> <li>Promotion of marketable production</li> <li>Development of market linkages</li> <li>Support for farmers' organizations</li> <li>Promotion of rural financial services</li> <li>Gender strategies and gender awareness</li> </ul>

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Programme Response
	negotiating power <ul style="list-style-type: none"> <li>Periodic poor health, HIV/AIDS</li> </ul>		decision-making and negotiating of economic transactions	<ul style="list-style-type: none"> <li>Mitigation of socio-economic impact of HIV/AIDS and HIV/AIDS sensitization and awareness</li> </ul>
<b>Less Poor</b>  Medium-scale producers, traders, processors and artisanal fishing gear/boat owners and captains	<i>Poverty level</i> <ul style="list-style-type: none"> <li>Cover up to 80% of food requirements</li> <li>Have most basic family assets and different types of animals, including cattle</li> <li>Combine several income-generating activities, including the sale of agricultural production or animals, cash crops, formal employment and trade</li> </ul> <i>Causes of poverty</i> <ul style="list-style-type: none"> <li>Limited access to markets, limited negotiating power</li> <li>Lack of access to technology, poor communications and weak organization</li> <li>Minimal access to savings and credit facilities</li> <li>Impact of HIV/AIDS, asset depletion</li> </ul>	<ul style="list-style-type: none"> <li>Marketing of own products</li> <li>Resorting to formal employment, including emigration</li> <li>Joining associations or other groups to improve crop marketing and increase bargaining power</li> </ul>	<ul style="list-style-type: none"> <li>Linkages and access to institutions, markets and financial institutions</li> <li>Organizational development</li> <li>Increased participation in decision-making and negotiating of economic transactions</li> </ul>	<ul style="list-style-type: none"> <li>Demand-driven support services</li> <li>Promotion of marketable production</li> <li>Development of market linkages</li> <li>Credit and development of flexible financial products</li> <li>Promotion of partnerships with private sector to access services, credit and marketing</li> <li>Support for delivery of financial services (incl. insurance) and enhanced institutional and policy framework</li> <li>Gender strategies and gender awareness</li> <li>Mitigation of socio-economic impact of HIV/AIDS and HIV/AIDS sensitization and awareness</li> </ul>

## ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED

Donor	Strategic Areas	Most recent Country Assistance Strategy	Status of Implementation	Potential for Synergy with IFAD
World Bank	Private and financial sector, infrastructure, agriculture and rural development, environment, education, HIV/AIDS, public sector, judiciary and legal reform	2003-2008	Under way	Strong
European Community	Agriculture and rural development, infrastructure, budget support, transport and health	2002	Mid-term review to be carried out during 2004	Strong
African Development Bank	Private and financial sector, infrastructure, health, education and social protection	2002		Strong
Austria	Agriculture and rural development, social protection and public sector	2002		Moderate
Australia	Agriculture and rural development, health and education	2003		Moderate
Canada	Agriculture and rural development, environment, education and HIV/AIDS	2003		Strong
Belgium	Agriculture and rural development, public sector and infrastructure	2000-2004	Bilateral country program to be revised in 2004 and the Belgian Survival Fund for the Third World by 2010	Strong
Denmark	Agriculture and rural development, infrastructure, education, judiciary and legal reform, peace and safety	2000	Under way, with review taking place during 2004	Strong
Finland	Health, forestry, budget support and education	2002	Under way	Moderate
Germany	Agriculture and rural development, education and HIV/AIDS			Strong
Japan	Agriculture and rural development, infrastructure, education and health	2003		Moderate
Ireland	Agriculture and rural development, education, health, infrastructure, HIV/AIDS, rural finance budget support, education, gender and good governance	2002- 2006	Under way	Strong
Italy	Private and financial sector, infrastructure, agriculture and rural development			Strong
Netherlands	Public sector, water, education and health	2000		Moderate
Norway	Health, fisheries, energy, budget support, public sector, private sector and cross-cutting issues (environment, HIV/AIDS)	2001-2004	Under way, to be revised during 2004	Moderate
Portugal	Education, budget support, public-sector institutional capacity-building, health, agriculture and rural development, community development culture, good governance, judiciary and legal reform and infrastructure	2004- 2006	Under way, recently revised in 2004	Strong

<b>Donor</b>	<b>Strategic Areas</b>	<b>Most recent Country Assistance Strategy</b>	<b>Status of Implementation</b>	<b>Potential for Synergy with IFAD</b>
Spain	Agriculture and rural development, health, education, judiciary and legal reform, peace and safety	2001		Moderate
Sweden	Infrastructure, agriculture and rural development, health, education, public sector, good governance, civil society, HIV/AIDS, peace and safety	2002- 2006	Under way	Strong
Switzerland	Agriculture and rural development, health and public sector	2002 -2008	Under way	Moderate
United States	Private and financial sector, good governance and democracy, infrastructure, agriculture and rural development, environment, HIV/AIDS and health	2003 -2010	Under way	Strong

## RURAL POVERTY AND AGRICULTURAL SECTOR ISSUES

Priority Area	Major Issues	Actions Needed
<b>Agricultural production</b>	<ul style="list-style-type: none"> <li>• Small holding size, with small proportion of available land cultivated due to difficulty in accessing markets.</li> <li>• Extension services are inefficient, outreach is limited and adapted technological packages are lacking, resulting in low productivity and quality.</li> <li>• Very limited use of improved inputs in agricultural production.</li> <li>• High vulnerability to disasters.</li> <li>• Recurrent spread of animal diseases.</li> </ul>	<ul style="list-style-type: none"> <li>• Link increased productivity and quality improvements to market opportunities by promoting cultivation of high-value commodities, based on identification of local comparative advantages and market demand.</li> <li>• Improve public extension and research services by making them more demand-driven and results-oriented.</li> <li>• Promote partnerships among public services, farmers' organizations and agribusiness companies for new technology development, delivery of advisory services to smallholders, input supply and marketing.</li> <li>• Develop smallholders' income and assets by fostering better performance in agriculture and promoting rural SMEs.</li> </ul>
<b>Fisheries production</b>	<ul style="list-style-type: none"> <li>• Low catches in artisanal fisheries because of poor equipment and limited skills.</li> <li>• Limited access to markets and lack of refrigeration and marketing facilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop access to credit and financial services.</li> <li>• Develop technical advisory services.</li> <li>• Build economic infrastructure.</li> <li>• Promote catch of fresh, high-value fish and shellfish and develop market linkages.</li> </ul>
<b>Economic infrastructure</b>	<ul style="list-style-type: none"> <li>• Very poor road network, especially north-south linkages and feeder roads.</li> <li>• Lack of storage facilities for agricultural products.</li> <li>• Lack of market infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>• Build infrastructure to support community demand and market opportunities.</li> </ul>
<b>Marketing of agricultural and fisheries products</b>	<ul style="list-style-type: none"> <li>• Lack of market access for small-scale producers.</li> <li>• Policy and legislative environment not conducive to development of a dynamic market.</li> <li>• Lack of roads and marketing facilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a policy, institutional and legislative environment that is conducive to development of market linkages in the agricultural and artisanal fisheries sectors.</li> <li>• Increase market linkages for smallholders and artisanal fishers by empowering producers' organizations, facilitating access to markets and credit, and promoting small-scale processing activities.</li> <li>• Support the development of marketing and processing SMEs and improve contract farming with major outgrowing companies to provide new market outlets.</li> <li>• Improve road network, storage and market infrastructure.</li> </ul>

Priority Area	Major Issues	Actions Needed
<b>Farmers' organizations</b>	<ul style="list-style-type: none"> <li>• Lack of appropriate legal status and excessive bureaucracy for registration of small-scale producers' organizations.</li> <li>• Lack of technical and management skills; illiteracy.</li> <li>• Limited participation of women.</li> <li>• Unbalanced distribution of profits in contract farming with outgrower companies.</li> </ul>	<ul style="list-style-type: none"> <li>• Modify the legislative status of producers' associations and simplify the registration process.</li> <li>• Support the professionalization of small-scale producers' organizations so that they can provide cost-effective, responsive and gender-balanced services to their members (input supply, technical advisory services, product collection, storage, marketing, quality control, etc.), interact with markets and commodity-chain actors, and enter into profitable partnerships with public and private entities.</li> <li>• Support second-level organizations, including the National Union of Farmers and its provincial/district unions.</li> <li>• Promote literacy programmes, especially for women.</li> </ul>
<b>Rural finance</b>	<ul style="list-style-type: none"> <li>• Difficult operational environment: large distances, poor road network and low monetization.</li> <li>• Near total absence of financial services in rural areas, due to high risk and transaction costs.</li> <li>• Lack of harmonized government policy for rural financial services.</li> </ul>	<ul style="list-style-type: none"> <li>• Create an institutional and policy environment that is conducive to sustainable development of rural financial services.</li> <li>• Pilot innovative approaches in rural finance: group savings mobilization and credit, development of new financial products, formation or strengthening of rural finance institutions.</li> <li>• Promote financing for rural SMEs by helping to develop policy measures and attractive financial packages that combine affordable financing and other types of incentives.</li> <li>• Develop credit supply through outgrower companies or agribusiness SMEs to finance agricultural inputs.</li> </ul>
<b>Gender</b>	<ul style="list-style-type: none"> <li>• Limited access to and control over productive resources.</li> <li>• Higher vulnerability to food insecurity.</li> <li>• Limited membership in farmers' organization and low participation in decision-making.</li> <li>• Low female literacy levels, especially in rural areas.</li> <li>• Lack of a gender strategy in the agricultural sector and of gender-balanced agriculture policies and programmes.</li> </ul>	<ul style="list-style-type: none"> <li>• Design detailed gender strategies and action plans to ensure that projects provide gender-balanced approaches in these areas.</li> <li>• Ensure that women producers have access to technological advances and technical assistance and are not adversely affected by the introduction of new crops and practices.</li> <li>• Support the empowerment of rural women by promoting their active participation in local planning and implementation of development activities and in local institutions, including farmers' organizations and district consultative councils.</li> <li>• Promote literacy programmes.</li> <li>• Develop gender awareness and gender policies in sectors of IFAD involvement.</li> </ul>
<b>HIV/AIDS</b>	<ul style="list-style-type: none"> <li>• Increasing prevalence expected to reach 16% by 2010.</li> <li>• Loss of adults leads to decrease in cultivated surfaces, selling off of assets and higher vulnerability.</li> </ul>	<ul style="list-style-type: none"> <li>• Mainstream HIV/AIDS in IFAD-financed projects and provide required technical assistance.</li> <li>• Promote HIV/AIDS prevention and awareness.</li> <li>• Mitigate the economic impact of HIV/AIDS through the promotion of adapted income-generation activities.</li> </ul>

