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Norway's Commodity Assistance and Import Support to Bangladesh

NORWAY'S COMMODITY ASSISTANCE AND IMPORT SUPPORT TO BANGLADESH

A STUDY COMMISSIONED BY THE NORWEGIAN MINISTRY OF DEVELOPMENT COOPERATION

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PREFACE

This evaluation study has been commissiond by the Norwegian Ministry of Development Cooperation and carried out under the responsibility of this institute. The study concentrates on commodity assistance only, comprising almost three quarters of Norwegian aid disbursement to Bangladesh in the last seven years.

Commodity aid can be disbursed quickly and therefore is of particular importance for developing countries facing short term balance of payments constraints. Bangladesh is in such a situation, and is eager to obtain as much commodity aid as possible from the various donors, bilateral as well as multilateral.

Most donors, however, including Norway, tend to see commodity assitance as a stop-gap measure, not directly conducive to the attainment of such objectives as they have set for their respective aid programmes. Donors, therefore, must be expected to contain or reduce the proportion of their aid that is provided in the form of commodity aid. In the case of Norway, the intention is to lower the share of commodity aid in total aid to one fourth, or about one third of what it has been in recent years.

The present study does **not** review Norwegian project aid; this will be done in the near future as part of a more comprehensive country study, also commissioned by the Ministry of Development Cooperation: "to evaluate the long-term orientation and volume of aid against the needs for and the effects of the aid provided". However, it is already clear that project aid has been implemented slowly, and that disbursements under both existing and new projects are unlikely to increase over the next few years. Under these circumstances and Norwegian preferences notwithstanding, commodity aid may well have to be maintained at a high level if overall Norwegian aid disbursements to Bangladesh is to be retained at present levels. Thus, stepped-up project specific aid from Norway to Bangladesh is unlikely to become in the near future a major vehicle for support to the generally accepted target groups for Norwegian aid, viz. poor people in general and special groups like women in particular. Since commodity aid also does not have such a direct impact, the authors of the present study recommend that the overall objective of Norwegian aid be sought through agreements with Bangladesh authorities on the appropriate use of counterpart funds generated from commodity aid.

In its review, the study shows that – with a few exceptions – the flow of goods delivered under Norwegian commodity aid has had beneficial general economic effects. Mostly, these commodities have been important inputs into essential economic activities. It is not possible to put meaningful figures to this impact, if for no other reason than the fact that most of the goods are so important that Bangladesh probably would have imported them anyhow, even if this particular source of financing had not been available. It is more realistic to consider Norwegian aid as part of the many different sources of foreign exchange that has permitted Bangladesh to maintain its rate of economic growth. As such, Norwegian commodity aid remains important and the study concludes that this form of aid, concentrated on bulk commodities that are indispensible for production of many important goods, should continue.

This evaluation has been undertaken in two phases. A preliminary study was undertaken in June-August 1985, the objective of which was to provide background material for the country programme discussions later in the year. Originally it was the intention that a joint evaluation should be carried out by Bangladesh and Norway in September 1985 to January 1986, but this could not be arranged and the Norwegian team therefore conducted the study on their own, but with the participation of a scholar from Bangladesh.

The present report incorporates the interim report of August 1985. Most of the factual information and observations contained in the first report was confirmed during the next stage of the work. Information has been brought up to date, but conclusions and recommendations remain largely as drawn in the interim report. However, the present report includes

more detailed information and analysis of a number of points, as well as some new ideas and suggestions, and additional conclusions and recommendations are presented.

The work has been done by 2 researchers from the Chr. Michelsen Institute: Mr. Ole David Koht Norbye (team leader) and Dr. Eirik Gjøstein Jansen. For the second phase of the evaluation they were joined by Professor Ashraf Uddin Chowdhury from the Economic Department, Dhaka University. The Norwegian members of the team visited Bangladesh twice; in June and in October-November 1985. Professor Chowdhury joined the team in October, and worked on the report in Bergen in December 1985.

In Bangladesh the team was greatly aided by numerous personalities from different ministries, government and private organisations as well as from a large number of enterprises, both private and government owned. The Norwegian representation in Dhaka was most helpful, and the Ministry of Development Cooperation in Oslo offered all possible assistance. Last, but not least, our thanks go to our colleagues at the Institute, with whom the progress of work has been discussed at several points, and to the librarians and secretaries at the Institute for their extraordinary efforts and willingness to sacrifice evenings and weekends for this work.

Chr. Michelsen Institute Bergen,
28 January, 1986.

Just Faaland
Director

NORWEGIAN COMMODITY ASSISTANCE AND IMPORT SUPPORT TO BANGLADESH

I. Introduction

The present evaluation of Norwegian commodity aid to Bangladesh has sought to review in some considerable detail the impact of deliveries of goods under this form for assistance. During the 7 year period 1978 to 1984 commodity aid amounted to NOK 690 million out of total Norwegian aid disbursements of about NOK 925 million. It accounted for almost three quarters of total aid disbursement and was by far the largest element of Norwegian aid.

The present report will mainly be concerned with the composition of the commodity assistance and import support programmes, and particular emphasis will be placed on the past experience with imports of different types of goods supplied as Norwegian commodity aid. We will examine the use and suitability of the commodities; their quality and price; the interference of these imports with local production; and where they can be identified, benefits and distributional effects of Norwegian commodity aid. An assessment of the administrative procedures will also be included as these have a definite influence on the composition, volume and timing of imports. Finally it contains some recommendations on the future direction and volume of commodity aid, and on the procedures that apply to it.

The term **commodity aid** is internationally used to cover all assistance programmes which aim at paying for imports of goods and services that do not form part of deliveries under specific projects. Imports of food are excluded when these take place under specific food aid programmes. In Norway the term commodity assistance is used for that proportion of the total commodity aid which is being administrated and purchased by NORAD's head office in Oslo. These commodities may be purchased in Norway or abroad. Most of the commodities purchased in Norway are of Norwegian origin. To avoid confusion we will refer to this category of aid as "commodity assistance", and use "commodity aid" as including all types of commodity assistance. The second category of Norwegian commodity aid, the so-called "import support", is tied to purchases from other developing countries. In practice, however, utilisation of both categories of aid is flexible, and frequently allocations have been transferred from commodity assistance to import support and **vice versa**.

The impact of Norwegian commodity aid must be assessed in relation to the volume, composition and forms of all aid that Bangladesh is receiving from all sources, and to commodity aid in particular, and in relation to total imports of Bangladesh. In current prices the situation in respect of total aid in recent years is as follows:

Table 1
Summary of total foreign aid to Bangladesh 1983-84 to 1985-86

		Million dollars		
		1983-84	**1984-85** (prelim.)	**1985-86** (estimate)
A.	**All aid combined**			
	Undisbursed balance ("pipeline") beginning of financial year	3,873 [1]	4,317 [1]	4,772 [1]
	New aid commitments	1,712	1,833	(1,886)
	Disbursements	1,268	1,378	(1,544)
	Disbursements in % of:			
	opening pipeline	32.7	31.9	(32.4)
	New aid commitments	74.1	75.2	(81.9)
B.	**Project aid**			
	Pipeline	3,373 [1]	3,703 [1]	4,153 [1]
	New aid commitments	882	1,050	(1,000)
	Disbursements	552	600	(706)
	Disbursements in % of:			
	opening pipeline	16.4	16.2	(17.0)
	New aid commitments	62.6	57.1	(70.6)
C.1	**Non-project aid: food aid only**			
	Pipeline	40	47	47
	New aid commitments	284	303	(311)
	Disbursements	277	303	(309)
C.2	**Non-project aid: non-food (commodity) aid**			
	Pipeline	460	567	572
	New aid commitments	546	480	(575)
	Disbursements	439	475	(530)
	Disbursements in % of:			
	opening pipeline	95.4	83.8	(92.7)
	New aid commitments	80.4	99.0	(92.2)

Source: Bangladesh: Economic and Social Development Prospects (4 volumes - restricted), World Bank, April 1985.

Table 1 shows the long time lag between aid commitments and utilisation for project aid; much less so for commodity aid; and hardly at all for food aid. The figures for total aid indicate that it takes on the average three years to disburse aid that is in the pipeline. This average is largely influenced by the time lag for project aid, which on the average requires no less than six years for disbursement. By contrast, food aid is disbursed promptly - the pipeline is very small in relation to annual disbursements and must be considered to be a minimum carry over amount needed for smooth operations - while for other commodity aid the pipeline represents about one year's disbursements. It is arguable that disbursements in the case of commodity aid to Bangladesh is slower than desirable and possible, (Note that the same argument applies **a fortiore** for project aid.) and that this could be improved by better administative prodecures. In this matter it is instructive to refer to illustrative calculations carried out by the World Bank. In one table (Table 7.2, Vol II, The World Bank op.cit.) a composite measure for the rate of commodity aid disbursement is given. The measure is based on the assumption that 75% of the pipeline of commodity aid at the beginning of the year is disbursed in the

1) These figures are those shown by the World Bank in Tables 7.11, Vol. II, and also in 7.2, Vol. II. But in Table 7.2 there appears to be a calculating mistake: pipeline figure are too low (approx. 280 mill.) as from 1982-83 (project aid and total aid). The explanation may also be that the World Bank has accepted the most recent figures from the Ministry of Finance for 1983-84 and 1984-85 without adjusting figures for earlier years, thus, introducing inconsistencies. As we are only interested in orders of magnitude, these discrepancies have no bearing on the arguments.

course of the year, and shows the relationship of the remaining disbursements of such aid during the year to new commodity aid commitments in the course of the year. The resulting ratio is an approximate measure of actual disbursements out of new commitments, both within the same year. This ratio appears to have fallen from 27 per cent in 1982-83 to 17 per cent in 1983-84 and – according to an early estimate – merely 10 per cent in 1984-85. While this measure may be a rough indicator at best, it suggests that there are growing difficulties in the disbursement of commodity aid.

There have been significant shifts in the composition of development assistance to Bangladesh in the course of the post-liberation period. Table 2 presents figures for aid commitments that show the development for the three main categories of aid during the period 1972-73 to 1984-85 in current and constant prices.

Table 2
Summary of aid commitments, 1972-73 to 1984-85

	Food aid	Non-food commodity aid	Project aid	Total
	Aid commitments, mill. US dollars			
1972-73	259	302	324	886
1973-74	155	172	224	551
1974-75	461	419	391	1 271
1976-77	143	304	298	745
1978-79	301	599	889	1 789
1979-80	270	285	623	1 179
1980-81	203	355	1 082	1 640
1981-82	218	492	1 234	1 943
1982-83	248	484	1 006	1 738
1983-84	284	546	882	1 712
1984-85(est.)	303	480	1 050	1 833
	US dollars, 1983-84 prices			
1972-73	(455)	(535)	(570)	(1 560)
1973-74	274	303	395	972
1974-75	(735)	(670)	(625)	(2 030)
1976-77	187	397	389	973
1978-79	(310)	(620)	(915)	(1 845)
1979-80	247	261	571	1 079
1980-81	183	320	977	1 480
1981-82	204	460	1 154	1 819
1982-83	239	467	971	1 678
1983-84	284	546	882	1 712
1984-85(est.)	303	480	1 050	1 833

Sources: Upper half, 1972-73 to 1982-83 World Bank, op.cit., Table 3.7, vol. IV; two last lines, ibid. Table 7.2, Vol. II; lower half, figures not in brackets, ibid. Table 7.1, Vol. II; figures in brackets, own, crude estimates (based on World Bank data and average price changes). The figures in brackets have been added because the World Bank source only showed data in constant prices for two years before 1979-80, and those two years happened to be those in which aid commitments were at their lowest level.

During the 1970s food aid varied considerably from year to year in response to shortages due to disruption in the wake of the liberation war and the famine conditions in 1974. In the 1980s food aid appears to have been on the increase, mainly due to exceptional flooding and droughts. Commodity aid also has fluctuated considerably and in constant prices it is at present below the level reached in some years in the 1970s. Project aid increased very rapidly in the 1970s, but has on the whole remained on a plateau during the first half of the 1980s. Commitments for project aid varied between 35 and 40 per cent of all aid commitments until 1976-77, but has since then fluctuated between 50 and 66 per cent of total commitments. As regards

disbursements the World Bank has not published any figures in constant prices. However, if we use the implied index for commitments it appears that the utilisation of commodity aid was clearly higher during seveal years in the 1970s than it has been in recent years. By contrast and not surprisingly the calculated rate of disbursements of project aid has risen over time, but seems to have reached a temporary peak in 1982-83.

The World Bank argues forcefully in favour of a shift in the composition of aid to commodity aid during the Third Five Year Plan period 1985-86 to 1989-90. The share of commodity aid in total aid commitments fell from 32 per cent (an unusually high figure in recent years) in 1983-84 to 26 per cent in 1984-85. The Bank suggests that this percentage should be raised to 31 in 1985-86 and continue to be raised to 36 per cent in 1989-90. The Bank's argument is based on the realistic expectation that the purchasing power of total new annual aid commitments may decline somewhat during the second half of the 1980s. In order to avoid a fall in the real value of the aid which Bangladesh will actually be able to utilise each year, a slight shift in favour of aid which is disbursed more rapidly is therefore necessary. Indeed, the Bank estimates that the proposed shift in the composition of aid, given its assumption of total aid commitments declining in real value by one per cent a year will permit a growth in the real value of aid disbursements of the order of 3 per cent per year between 1983-84 (when disbursements reached a bottom level) and 1989-90, provided that it is accompanied by an improvement in the rate of project aid disbursement.

This argumentation in favour of a certain shift from project to commodity aid is in line with the more general proposition that it is important for developing countries to receive support to maintain or enhance the import capacity, considered to be one of the effect of commodity aid, in order to be able to utilise existing production capacity and devote resources to maintenance of that capacity. The problem with this argument is that there is no clear evidence that commodity aid in fact is so composed as to predominantly and significantly increase the supply of input items for operation of existing capacity, or even the maintenance of existing capacity in good operational order. On the contrary, commodity aid is in fact to a significant extent used to import capital goods for projects not covered by project aid and therefore adds to rather than eases the problem of capacity utilisation and maintenance. The same problem arises in respect of the argument that the counterpart value of commodity aid (but not project aid) may be used as domestic financial resources needed to implement aided projects. However, to the extent the commodity aid is in fact used to cover foreign exchange expenditure under the Annual Development Programme, it does not result in more resources for capacity utilisation and maintenance.

Commodity aid constitutes an important part of Bangladesh' total foreign exchange inflow, but one should not exaggerate its significance. Available data on foreign trade and aid for the period 1972-73 to 1983-84 show that commodity aid (disbursements) covered a sharply falling proportion of commodity imports minus imports of food grain and capital goods. After exceptionally high and low figures in 1972-73 and 1973-74 respectively (88 and 25 per cent), commodity aid financed roughly one half of these imports during the rest of the 1970s, but in 1979-80 the percentage fell to 31, and to 25 only during the following two financial years. Since then, however, the proportion of these imports covered by commodity aid has been above 30 per cent (31 per cent according to the estimates for 1984-85). In contrast, project aid has, with one exception, corresponded to between 80 and 95 per cent of capital goods imports and food aid has fluctuated between 50 and 90 per cent to total food grain imports (51 per cent only in 1984-85 due to the extraordinary large rice imports caused by the flood damages)[1]. It is important to keep in mind that whereas commodity aid appears to enhance Bangladesh's capacity to import goods other than food and capital goods by between one third and one half, the country nevertheless retains considerable freedom of action as to what commodities to import. Thus if donor organisations refuse to let commodity aid be used for certain categories of goods and services, Bangladesh will still be able to import them by using its own foreign exchange resources (export earnings, emigrants' remittances, etc.). Indeed, payments under commodity aid for goods that donors agree with Bangladesh must be considered to be high priority items, indirectly releases other foreign exchange resources that can be used for any purpose.

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1) These comparisons are merely indicative: project aid covers other costs than imported capital goods; food aid is also used for imports of other food than foodgrains (e.g. edible oil); and some capital goods are imported under commodity aid. But the comparisons referred to are good enough as indicators of the relationship between aid and different categories of imports.

II. The Sources of Commodity Aid

Most of the commodity aid is provided by 15 donors including Asian Development Bank, EEC, IDA, OPEC and the Islamic Development Bank. During the 3 1/2 year period July 1981 to December 1984 commodity aid averaged $ 460 million per year. Estimates for this period by the World Bank staff in Dhaka show that the main single sources were IDA with $ 100 million, Japan with about $ 75 million, and Canada, Netherlands and Saudi Arabia each with $ 30 to 35 million. Norway contributed an annual average of about $ 15 million, an amount of the same order of magnitude as 5 other bilateral and 4 multilateral donors. Norwegian commodity aid thus accounts for between 3 and 4 per cent of total commodity aid disbursements; in other words, Norway finances slightly more than one per cent of total imports of goods, other than food grain and capital goods.

The procedures and principles applied by the various donor countries differ considerably. In the following we review the commodity aid as practiced by some of the bilateral donors and the World Bank.

Canada.

Canadian commodity aid has much in common with Norwegian commodity assistance and import support as regards the composition of deliveries which consist of "industrial commodities" (viz. pulp, asbestos, copper and aluminium rod and ingot) and fertilizer (muriate of potash). During the last 5 financial years deliveries of industrial commodities have been slightly larger than of fertilizers, $ Can. 50 mill. against $ Can. 46 mill., but the situation was reversed during the last two years:

1984-85 ind. comm. $ Can 9.6 mill; fertilizers $ 11.2 mill
1985-86 ind. comm. $ Can 10 mill; fertilizers $ 11.2 mill

Both figures for 1985-86 may in fact be somewhat higher as unspent money from projects will be allocated to additional commodity aid. This aid is tied to purchases in Canada, and the buyers are public sector units (Bangladesh Chemical Industries Corporation, Bangladesh Steel and Engineering Corporation, Trading Corporation of Bangladesh, and Bangladesh Cable Shilpa Ltd). The importers undertake the purchases themselves, under international tender, but under control of CIDA in Canada which supervises the prices paid. Canada has had some problems in disbursing this aid, but not in 1984-85 when the allocation was overspent. The problem had been to get the responsible importers to make the necessary requests and comply with the formalities. Prices quoted by Canadian producers are C&F, and there are no problems with freight costs as no Bangladeshi ships go to Canadian ports. Instead there are delays caused by ships going through India and delayed there for various reasons, and the Canadian authorities have, in fact, tried to encourage the Bangladesh Shipping Corporation to sail to Canadian ports on the East Coast (i.e. from New York). The Canadian authorities are also interested in analysing the end use of the commodities to assert the impact on the development process. Example: does import of aluminium ingots for production of cooking utensils lead to less demand for traditional pottery, and thus deprive many people of their livelihood? Commodity aid constitutes less than 20% of Canadian aid. In 1984-85 food aid amounted to $ Can 50 mill., project aid $ Can 48 mill., and commodity aid $ Can 21 mill; total aid around $ 120 mill. It should be noted that goods are also delivered under project aid of which only 20% can be used for purchases from local or non-Canadian sources.

Denmark.

The Danish commodity aid is intended to be target group oriented, and for this reason it consists virtually only of fertilizers, apart from some insecticides and pesticides. Deliveries of fertilizers, in fact only TSP fertilizers, are negotiated from time to time within a given financial limit. In 1985 and 1986 it appears that it will be of the order of DKR 30 mill. (or NOK 24 mill.) per year. These commodities are delivered to Government organisations viz. Bangladesh Agricultural Development Corporation (BADC) and the Plant Production Division of the Ministry of Agriculture. As indicated later, in 1984 Danish commodity aid was evaluated in the joint DANIDA/NORAD evaluation report on fertilizers. For counterpart funds there is only one condition, viz. that they shall be used for government development programmes. This implies that they should be used as part of the resources for the Annual Development Programme. As in the case of several other bilateral donor countries, Denmark does not share the views of Bangladesh Government and the World Bank in favour of commodity aid, as they consider that such aid tends to weaken the motivation for raising more domestic resources. In recent years commodity aid has represented about 60 % of the total Danish aid disbursements.

Federal Republic of Germany.

West German commodity aid is nominally of the same order of magnitude as the Norwegian, DM 50-60 mill last year. But there were DM 120 mill. in the "pipeline". Previously German commodity aid was exclusively tied to purchases in Germany, but this has now been changed so that the allocation also can be used for purchases in other developing countries. Bangladesh imports goods from Germany for amounts far exceeding the commodity aid, and the reasons for the underutilisation of the commodity aid must have been administrative, i.e. purchases paid for from other sources were easier to undertake. To reduce the pipeline Germany agreed to reimburse Bangladesh government for purchases from Germany paid out of other resources as from the beginning of 1982. But certain conditions were attached, and out of claims for DM 120 mill. so far only DM 40 mill. have been reimbursed. Hence a remaining pipeline of DM 50 mill. The German commodity aid can be used for imports of a great variety of goods. There is a long "positive list" that includes industrial raw and auxiliary materials and semi-manufactures; industrial equipment and agricultural machinery and implements; spare parts and accessories of all kind; chemical products, in particular fertilizers, plant protection agents, pesticides, medicaments and dies; means of transport; "other industrial products for the development of The People's Republic of Bangladesh"; and advisory services, patents and licence fees. Excluded are luxury and consumer goods, and goods serving military purposes. The categories listed above do not include all types of goods that can fall under a given heading. For goods which are not on the positive list, prior approval by the German authorities is needed, and can be refused. Thus they did not approve the purchase of Mercedes buses because of lacking service facilities in Bangladesh. German aid is used both by private and government importers. Private imports are approved by the Chief Controller Imports & Exports, and their allocation is apparently well utilised whereas the public sector corporations have not utilised their entitlements. The purchases are undertaken by the Bangladeshi buyers and payments made by a German bank. Prices can some times be a problem but according the the German aid authorities in Dhaka the Bangladesh government will only charge counterpart costs corresponding to the world market prices. As is the case for many bilateral donors also the use of German commodity aid appears to be hampered by the lack of synchronisation of budget years; the German one being on a calendar year basis. But unspent money can be transferred to the next year.

Great Britain.

The British commodity aid last year was about GBP 10 mill. out of a total aid programme of GBP 32 mill. It will be kept at this level also during the current year, but out of a much larger total (GBP 50 mill.). It is firmly tied to purchases in Britain which are undertaken by the Crown Agents against a high commission (12 1/2 %), but it is argued that they handle not only purchases and transport, but also the local clearing problems in a very efficient manner. A large variety of items are being provided. 30% of last year's allocation went to the Chief Controller Imports & Exports, mostly for pharmaceutical and other chemical raw materials, but also for viscose, jute mill spare parts, and spare parts in general. Other larger allocations were for Bangladesh Chemical Industries Corporation (also pharmaceutical and other chemical raw materials),

Bangladesh Jute Mills Corporation for spares for jute mills and the RHD for steel bridges. In 1985-86 85% of the commodity aid allocations have been allocated to CCIE (50%), and BCIC and BJMC. Capital goods have been imported under commodity aid, but the British aid authorities try to shift such imports to projects. An example is the delivery of Bayley bridges that now is handled as a project. Another approach is to try to link the use of such aid to other high priority activities. To support the World Bank's deep tubewell programme, for example, the British support the setting up of a low speed (1500 RPM) diesel engine factory, initially as an assembly operation, but gradually with higher local content. The British have problems with the disbursement of the commodity aid. In August 1985 only GBP 4.2 mill. out of the GBP 10 mill. allocation had been utilised. Prices represent a problem – as the premium paid by importers for purchases of foreign exchange under the Wage Earners Scheme only is around 10 to 12%, importers have this alternative possibility if prices under aid are too high. Also the British want to reduce the proportion of their aid going to commodity aid as it is not target oriented, neither poverty oriented nor assisting in institution building. As an example on aid that in their opinion has contributed to institution building their support of the development of electricity supply and distribution was mentioned, which has included training elements that have contributed to a better functioning of the system.

Japan.

Japan is by far the largest bilateral donor of commodity aid, the pledge for 1985 being of the order of $ 75 million. It is not a grant, but a concessional loan at 1.25% interest, 10 years grace period and 20 years repayment period thereafter. It is untied, and less than half of the purchases are coming from Japan. It is also completely open-ended as regards commodity composition; the only exception being goods for military use. Thus capital equipment is included. Most of the sales are to public sector bodies, but some to the private sector through the Chief Controller Imports & Exports. The buyers undertake the purchases themselves, and the payments can be made in two ways: either a LC system in which the LC is guaranteed on request, or a reimbursement system through which imports that has been paid will be reimbursed. Japan has not had any difficulties in disbursing commodity aid as the amount pledged can be disbursed in the course of a two year period, and there has usually not been any problem in having the money disbursed in the course of such a period. There is one important clause in the commodity aid agreement: the counterpart funds that are generated must be deposited to a special account, and be used exclusively for development expenditure. It is accepted that it is used as block support for the Annual Development Programme.

The Netherlands.

Development assistance from the Netherlands is about equally divided between project aid and commodity aid. However, commodity aid is also granted on an ad hoc basis as balance of payments support. The amount of commodity aid is determined on the basis of a cash ceiling for disbursements, presently DFL 94 million per year. The additional balance of payments support amounts to DFL 40 million of which 75% is to be disbursed. The commodity aid is supposed to support assistance under Netherlands' aid projects and programmes, that are concentrated on the agricultural and handloom sectors. Subsequently commodity aid has been restricted to fertilizers for agriculture, and raw cotton that indirectly should serve the handloom industry. The Netherlands aid authorities have now some doubts about raw cotton deliveries primarily because it at present is only supplied to the Bangladesh Textile Mills Corporation, which no longer is the only producer of cotton yarn following the privatisation of close to half of its spinning capacity. They therefore examine the possibility of supplying raw cotton also to the private mills, and offered DFL 6 million for such purchases in 1985. This was agreed by the External Resources Division, but the Chief Controller of Imports & Exports announced that it would not be possible to disburse the money before the end of 1985 which was the deadline. As this was a new initiative the aid authorities were not aware of the rather complex procedures that still apply to private imports paid by foreign aid. Apart from trying to channel some of the raw cotton imports to private buyers, the authorities have taken new steps to diversify the import somewhat by including two more commodities, caustic soda supplied to Bangladesh Chemical Industries Corporation and black plain mild steel to Bangladesh Steel and Engineering Corporation. The Netherlands authorities characterize the aid as "partially untied", i.e. either tied to purchases in the Netherlands or from other developing countries. The purchases for the four public sector corporations, Bangladesh Agricultural Development Corporation, BTMC,

BCIC and BSEC are undertaken by the Netherlands government, "in order to speed up procedures." International tenders are opened. As regards disbursements there have been some difficulties during the current year, but they were satisfactory last year. Also the Netherlands government is concerned with the end use of the commodity aid, and who are benefitting from this form for aid. They plan an evaluation mission in order to get answers to these questions. The government also wants to reduce the proportion of aid going to commodity aid.

Sweden.

The 1985 allocation for commodity aid was SEK 58 million of which SEK 55 million tied to purchases in Sweden and the remaining SEK 3 million untied aid. The total represented about 40% of the total aid allocation of SEK 145 million. However, the money available for commodity aid was much larger due to a carryover from last year, viz. SEK 165 million of which SEK 50 million in untied aid. In negotiations between Bangladesh and Sweden the composition of commodity aid, with information on specific commodities, suppliers and prices, is determined at the outset of the financial year. The large carry over of untied aid was linked to a specific problem, deliveries of gas turbines for the Polash Fertilizer Factory that is under construction with Chinese aid.There were two bids, a higher Swedish and a lower Japanese, and the Swedish authorities preferred the Swedish bid for quality reasons, and in the end the turbines were paid out of Japanese aid. But there were also hesitations in Sweden, following the report on commodity aid by the Swedish National Audit (also referred to later in the present report) which objected against using this type of aid for capital equipment. In the past commodity aid was used for a variety of purposes, including the major 7 years rehabilitation programme of Karnaphuli Paper Mills, which amounted to a large sum of money. At present commodity aid pays for imports of pulp, aluminium and copper rods, ferro silicium, stainless steel strips, power cables, roller bearings, spares for Siriganj power station, and navigational aids. The last three items were accepted under doubt as they were capital equipment items, but they were approved as they were related to projects that had been supported by Sweden. In the future aid that implies modernisation will be avoided, but there will still be room for spares under commodity aid. SIDA's commodity aid goes only to public sector corporations. It has been argued that if they went to private buyers through the Chief Controller Imports & Exports, it would be difficult to follow the goods to the end use. The public sector "end users" are government owned factories and distribution networks for goods like cement and fertilizers. Procurements are undertaken by the buyers themselves. SIDA is a bit concerned with the prices charged which for an item like pulp that has accounted for as much as SEK 35 million in one year, but the corporations prefer to undertake the purchases themselves, understandably enough –. There have been some tendencies to try to channel the aid to target groups by refusing imports of some items, e.g. wheat for stock building (but not as aid after a cyclone) and additional quantities of rape seed as rape seed oil was assumed to be used only by more well to do consumers. Sweden does not tie the use of counterpart funds generated by commodity aid, partly for administrative reasons but also because they consider that it would not be appropriate to tie the aid twice. After the National Audit evaluation report steps have been taken on the one hand to simplify certain procedures, but on the other side to assure that the programme is monitored more closely than before. Also, as already indicated, the aim is to concentrate the aid on raw materials and semi-manufactured goods. But also Sweden wants to reduce the proportion of commodity aid towards 25% over the next few years. A major reason for this is that Swedish aid should be target oriented, as the case is for project aid, which is centered on education, health and rural employment. It is argued from the Swedish side, and also accepted by Bangladesh, that as Swedish projects contain a very large proportion of local costs and recurrent expenditure, at least two thirds of total costs (about 70% local costs in project aid in recent years), a shift from commodity aid to project aid should not imperil the balance of payments situation to a significant degree. As to the faster disbursement of commodity aid, the SIDA representation maintains that there are now so many operating projects in the pipeline that the rate of disbursement is quite satisfactory, and in fact there have also been significant disbursement problems for commodity aid.

In 1983 the Swedish National Audit Organization was asked by SIDA to evalutate the Swedish Commodity Assistance Programme. We would like to summarize some of the main findings and conclusions of this report as we believe they also are relevant for the Norwegian Commodity Assistance programme. The study was carried out in 1984 and focused on two countries: Bangladesh and Mocambique. The terms of reference for

the evaluation was limited to assess the procurement process of the commodities. Three particular aspects of this process were identified and studied: The identification of commodities which is the first phase in the procurement process; the second phase is the purchase of the commodity, including floating of tender; the last phase is monitoring and evaluation of the commodity delivered. The Audit Report expresses quite critical view-points to the way the commodity assistance is handled in all these three phases.

Concerning the first phase, the report notes that SIDA operates with a very unclear distinction between project aid and commodity assistance. Too many of the commodities have been dealt with according to the less strict guidelines which applies for commodity assistance while these deliveries should have been subjected to the more detailed requirements and guidelines of project aid. The report notes, however, that the particular assistance given should be dealt with according to its specific and inherent qualities and not only to the administrative category in which it is put (project aid/commodity aid). The report emphasizes that SIDA knows too little about the formal and informal system in the recipient country of why and how requests for commodities are formulated. In particular the report notes that SIDA does not have an adequate understanding of the "business culture" ("affärskulturen") and the role private agents play in the identification and formulation of requests. The report underlines the lack of clear guidelines between SIDA and the recipient countries in the phase of identification of the commodities and says that the recipient country often justifies its requests inadequatley. From the point of view of the staff in SIDA, the report notes that they are in many cases caught in a insoluble dilemma: The staff is supposed to promote Swedish commodities and at the same time justify that these deliveries satisfy the general aims of the Swedish Development Assistance. There exist no clear guidelines to solve this dilemma, the report notes.

Concerning the phase of purchase, the report states that SIDA seems to have inadequate knowledge about the formal and informal procedures of purchase in the recipient countries. In the agreement between SIDA and the recipient country there exist possibilities for SIDA to make investigations about the purchases. This possibility is seldom taken advantage of, the report notes. Also in the last phase concerning monitoring and evaluation of the commodity assistance the report comments on the lack of feed-back information SIDA obtains. According to the agreement between SIDA and the recipient country, SIDA has opportunity to follow and check what happens to the commodities after they have been delivered. This is very seldom done and SIDA also hardly receives any reports from the receiving institutions about the use of the commodities or any problems connected with the delivery. The report recommends that information about the use and utility of the commodities is regularly forwarded to SIDA by the recipient organisations. The report also recommends that a special position is created in SIDA for independent monitoring and evaluation of the commodity aid. This position should not be connected to the procurement office in SIDA. For each country receiving commodity assistance a national strategy should be drawn up. On the basis of macro- and micro-level considerations a programme of commodity assistance suited to the needs of the particular countries should be formulated.

A general conclusion of the report is that there should be no reason why SIDA should not expect the same development effect of commodity assistance as of project aid. There is, however, a striking contrast between the attention, personell and resources which is given to each of these two types of development assistance. Commodity assistance should therefore in the future be taken more seriously and allocated more resources and personell for administration of the programme, the report states.

The World Bank.

Four other international organisations – the Asian Development Bank,the European Communities,the Organisation of Petroleum Exporting Countries, and the Islamic Development Bank – also provide commodity aid to Bangladesh. But the International Development Association, IDA of the World Bank is by far the largest international supplier of such aid, with an annual programme of about US$ 100 million.The commodity aid from IDA is a loan that is granted as an adjustment assistance, and which has to be serviced under the usual conditions that apply to IDA loans. As regards the utilisation of the IDA commodity aid, it is only subject to two constraints: all purchases must be undertaken under international tendering, and not more than 25% must be used on one single STCS group of commodities. This limitation in reality only applies to

petroleum products. However, the IDA commodity aid is subject to stringent political considerations. Negotiations are held twice each year, and they concern policy measures which Bangladesh government undertakes in order to facilitate the adjustment process in the economy. Although the World Bank hitherto has not withheld any of the biannual allocations of commodity aid, those negotiations are always very tense, with the Bank pressing for further reforms and the Government referring to reforms that already have been undertaken. In Bangladesh the World Bank is criticized for pushing the Government towards undertaking too many measures in the direction of a free market capitalist economy too fast. Such criticism is not only heard from the political opposition, but also widely within the Government itself and in academic and business circles. It is an open question whether the World Bank is motivated by ideological considerations as many of its opponents maintain, or whether its recommendations are based on pragmatic judgments as it argues itself. It claims to have strong evidence which shows that a distorted price structure slows down growth and necessary adjustments and that many public sector operations are inefficient. There is also in Bangladesh considerable evidence that reforms argued by the World Bank may be appropriate under present conditions. This does not mean, however, that all reforms insisted on by the World Bank are equally essential or justified. Finally it should be recalled that the World Bank is strongly in favour of more commodity aid for Bangladesh as it can be disbursed much faster than project aid in general. We have also noted that many of the bilateral donors do not share the World Bank's view on this point. However, it must be admitted that under present circumstances with fairly gloomy and uncertain prospects for exports from Bangladesh, more quickly disbursing aid is needed if the economy is to continue to follow the present path of growth. Whether this pattern of growth is the best for Bangladesh is not a subject for evaluation in the present report.

III. Norwegian Commodity Aid

Tables 3, 4 and 5 present Norway's commodity aid, viz. "commodity assistance", "import support" and total "commodity aid". The figures are summarized in Table 6.

Table 3
Total Norwegian Commodity Aid 1978 to 1985
(Commodity assistance and import support)

In Norwegian kroner

	Value figures (N.Kr. mill.)			Percentage distribution		
	C.A.	I.S.	C.A. Total	C.A.	I.S.	C.A. Total
Fertilizers	105.3	112.4	217.7	36.3	24.8	29.3
Industr. raw materials	128.7	80.9	209.6	44.3	17.8	28.2
Construction material	0	201.9	201.9	0	44.5	27.1
Petroleum	0	35.0	35.0	0	7.7	4.7
Medicines	34.6	0	34.6	11.9	0	4.6
Misc. finished goods and equipment	21.9	8.0	29.9	7.5	1.8	4.0
Repair work (tanker)	0	15.6	15.6	0	3.4	2.1
Total	290.4	453.8	744.2	100	100	100

In United States dollars

	Value figures (US $ mill.)			Percentage distribution		
Fertilizers	16.7	18.4	35.1	37.1	25.1	29.6
Industr. raw materials	20.6	11.3	31.9	45.8	15.4	26.9
Construction material	0	34.2	34.2	0	46.7	28.9
Petroleum	0	5.4	5.4	0	7.4	4.6
Medicines	4.5	0	4.5	10.0	0	3.8
Misc. finished goods and equipment	3.2	1.3	4.5	7.1	1.8	3.8
Repair work(tanker)	0	2.7	2.7	0	3.7	2.3
Total	45.0	73.3	118.4	100	100	100

Sources: Information from INVA, NORAD.

The US $ equivalent has been calculated on the basis of the average N.Kr./US $ rate in Oslo, viz. 1978 5.25, 1979 5.08, 1980 4.95, 1981 5.75, 1982 6.45, 1983 7.40, 1984 8.16, 1985 8.58. (Source Central Bureau of Statistics, Oslo). As rounded figures have been used as basis for the calculations, rounding errors are possible, but do not disturb the overall picture.

Table 4 Norwegian Commodity Assistance
(purchases handled by NORAD)

N.Kr.mill.

	Total Amount	Per cent	1978	1979	1980 amount	1981	1982	1983	1984	1985
Fertilizers	105.3	36.3	5.2	8.5	13.4	16.4	14.4	26.5	20.9	—
Aluminium	30.6	10.5	(3.3)	5.0	4.2	8.3			6.6	3.2
Ferro alloys	19.0	6.5	(3.3)		8.0	1.9			4.4	1.4
Zinc	39.8	13.7	(3.2)	7.0	8.0	5.6			9.4	6.6
Copper rods	13.5	4.6		8.2	5.3					
Chemicals	0.7	0.2		0.7						
Pulp	25.1	8.6						4.5		20.6
Medicines	34.6	11.9				3.1		10.1	21.1	0.3
Insect sprayers	6.1	2.1					3.7	2.4		
Material for: Bangladesh										0.1
Bureau of Statistics	5.8	2.0					0.4	2.8	2.5	0.1
Material for: Marine Academy	10.0	3.4				3.2	2.0	2.4	1.1	1.3
Total	290.4	100	(15.0)	(29.4)	38.9	38.5	20.5	48.7	65.9	33.5

Source: Information from INVA, NORAD.

Table 5
Norwegian Import Support
(tied to purchases in Developing Countries)

N.Kr.mill.

	Total Amount	Per cent	1978	1979	1980 amount	1981	1982	1983	1984	1985
Fertilizers	112.4	24.8	17.7	13.0	14.1		40.2	10.4		17.0
Cement	151.4	33.4	5.5	22.2	15.9	17.0	43.3	20.6	9.0	17.9
Aluminium	61.3	13.5						25.0	13.0	23.3
Coconut oil	11.6	2.6		2.9	1.3	1.9	3.1		2.4	
Raw rubber	8.0	1.8	0.5		6.8	0.7				
Asphalt	50.5	11.1	15.0	19.5	16.0					
Petroleum	35.0	7.7					35.0			
Silo filter	5.7	1.3					5.7			
Machinery tea industry	1.4	0.3		1.4						
Equipment paper mill. (BSCIC)	0.9	0.2					0.2	0.7		
Repair of tanker	15.6	3.4				15.6				
Total	453.8	100	38.7	59.0	54.1	35.2	127.5	56.7	24.4	58.2

Sources: Information from INVA, NORAD.

Table 6.
Total Norwegian Commodity Aid

N.Kr.mill.

	Total Amount	Per cent	1978	1979	1980 amount	1981	1982	1983	1984	1985
Fertilizers	217.7	29.2	22.9	13.0	27.5	16.4	54.6	36.9	20.9	17.0
Cement	151.4	20.3	5.5	22.2	15.9	17.0	43.3	20.6	9.0	17.9
Aluminium	91.9	12.3	3.3	5.0	4.2	8.3		25.0	19.6	26.5
Ferro alloys	19.0	2.6	3.3		8.0	1.9			4.4	1.4
Zinc	39.8	5.3	3.2	7.0	8.0	5.6			9.4	6.6
Copper rods	13.5	1.8		8.2	5.3					
Chemicals	0.7	0.1		0.7						20.6
Pulp	25.1	3.4						4.5		
Coconut oil	11.6	1.6		2.9	1.3	1.9	3.1		2.4	
Raw rubber	8.0	1.1	0.5		6.8	0.7				
Asphalt	50.5	6.8	15.0	19.5	16.0					
Petroleum	35.0	4.7					35.0			
Medicines	34.6	4.6				3.1		10.1	21.1	0.3
Silo filter	5.7	0.8					5.7			
Insect sprayers	6.1	0.8					3.7	2.4		
Machinery tea industry	1.4	0.2		1.4						
Equipment paper mill (BSCIC)	0.9	0.1					0.2	0.7		
Material Bangladesh Bureau of Statistics	5.8	0.8					0.4	2.8	2.5	0.1
Material Marine Academy	10.0	1.3				3.2	2.0	2.4	1.1	1.3
Repair of tanker	15.6	2.1				15.6				
Total	744.2	100	53.7	88.4	93.0	73.7	148.0	105.4	90.3	91.7

Sources and notes, see Tables 4 and 5.

About 90 per cent of the total Norwegian commodity aid has been used for four main categories of goods: fertilizers, industrial raw materials, construction materials (mostly cement) and a relatively small quantity of petroleum; about four fifths of the commodity assistance, and around 95 per cent of the import support. Note that only 2 per cent of the import support has been used for miscellaneous finished goods, the remaining 4 per cent being the cost of repairing a tanker. Import support most probably can be used more easily in response to Bangladesh's own needs than commodity assistance. The use of import support mainly for these few commodities suggests that commodity aid is in high demand for such goods.

In Table 3 the figures have been shown both in Norwegian kroner and in US dollars to make them comparable with other statistics on aid. The counterpart value of the aid in taka is also of interest. The development of Norwegian commodity aid over time in Norwegian kroner, US dollars and Bangladeshi taka has been as follows (disbursements):

	1978	1979	1980	1981	1982	1983	1984	1985	Total
NOK, mill.	54	88	93	74	148	105	90	92	744
USD, mill.	10	18	19	13	23	14	11	11	118
BD taka, mill.	154	270	180	292	230	506	350	294	2276

The implied rate taka/kroner[1)] rose from 2.86 in 1978 to 3.43 in 1982 but fell subsequently to 3.11 in 1984. (In January 1986 it is probably up to about 4.00, due to the recent fall in the international value of dollar and a gradual devaluation of the taka). The development over time is easier to compare if we express the numbers as indices (1978 = 100):

	1978	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**
Total commodity aid in:								
Norwegian kroner	100	165	173	137	276	196	168	171
U.S dollars	100	180	190	130	230	140	110	110
Bangladesh taka	100	175	190	149	329	227	182	191

Thus, while the dollar value of the Norwegian commodity aid has risen considerably less in relation to 1978 as from 1981 than its krone equivalent, the counterpart value of the aid expressed in taka has risen significantly more. However, the decline in commodity aid disbursements from 1982 to 1984 has been steeper (44 per cent) expressed in taka than in kroner (39 per cent). We may note that in the peak year 1982 Norwegian commodity aid accounted for slightly more than 5 per cent of the total disbursed commodity aid to Bangladesh from all sources (calculated as the average of figures for 1981-82 and 1982-83), but the share fell to less than 2.5 per cent in 1984.

Fertilizers and cement account together for more than half of the Norwegian commodity aid. But fertilizer imports under Norwegian commodity assistance and import support during the seven year period 1978 to 1984 corresponded only to 4 per cent of total fertilizer imports of Bangladesh from all sources (calculated for the roughly similar period 1978-79 to 1984-85). As regards cement the Norwegian aid is comparatively more important: it financed about 10 per cent of total cement imports during the six years 1979 through 1984. Imports of medicines only under Norwegian commodity assistance in 1984 corresponded probably to about 10 per cent of the total imports of medicinal and pharmaceutical products from all sources in that year, but this was, of course, an exceptional year. Only as regards ferro alloys and non-ferrous metals does Norwegian commodity aid financee significant part of total imports. Trade statistics for 1980-81 and 1981-82 compared however tenuosly with figures of Norwegian commodity assistance show that in those years most of the ferro manganese and ferro silico alloys were imported from Norway; similarily more than half of total imports of zinc ingots had Norway as country of origin. As regards aluminium the value of Norwegian financed imports in 1980 and 1981 was somewhat below 10 per cent of the total imports of aluminium in primary form, but in 1983 and 1984 the share was considerably higher, probably as much as one quarter of total imports of primary aluminium. More than 85 per cent of the aluminium deliveries since 1983 took place under the import support programme and therefore were tied to purchases in other developing countries. In short, Norwegian commodity aid is a marginal source of finance for most commodities, even fertilizers, but is important as regards non-ferrous metals and ferro alloys. It has financed a significant share of cement imports (about one tenth), and of imports of medicines in one single year (10 per cent in 1984).

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1) Viz. the average taka/dollar rate in Dhaka divided by the average kroner/dollar rate in Oslo. For some transactions another rate will have been used.

IV. Overview of the Characteristics and Impact of Norwegian Commodity Aid

The composition of the commodity assistance and the import support has been shown in Tables 3 to 6. In that section of the report we also point out that in general Norwegian aid finances only a small proportion of imports of different commodities.

Use, suitability and utility

Fertilizers.

Fertilizer supply accounts for as much as 29 per cent of total Norwegian commodity aid, and 36 per cent of commodity assistance purchased by NORAD/Oslo. The DANIDA/NORAD Evaluation Mission on Fertilizer Grants to Bangladesh[1)] supports wholeheartedly the use of commodity aid for fertilizer imports. Imported fertilizers are being used and their utility is beyond doubt: increased use of fertilizers has certainly made a contribution to the relatively rapid growth of food grain production in recent years. From 1976 to 1984 food grain output increased by almost 5 per cent per year on average, while fertilizer consumption grew by nearly l0 per cent annually. As regards suitability the mission expressed some doubt about the need for more NPK fertilizer since it needed to be established more accurately under what circumstances such nutritients would be appropriate. No doubt was expressed with respect to TSP fertilizers which were found to be clearly in short supply. In the past fertilizers have been delivered in almost equal proportions under tied commodity assistance and import support. As Norway easily can deliver NPK, but not TSP, fertilizers ought to be available under both headings also in the future. In a separate case study on fertilizers we will provide some information on the growth of consumption and imports of fertilizers and will indicate the projected future demand and imports. Moreover, we will present some information on the research into the use of the composite NPK fertilizers. Finally, on the basis of some recent studies we will discuss the new Government policies concerning the distribution system and the withdrawal of subsidies for fertilizers.

Cement and asphalt.

Cement alone accounts for 20 per cent of total commodity aid and has only been delivered under import support (33 percent of total import support). It has been imported through the state owned Trading Corporation of Bangladesh (TCB) which in recent years has been competing with private importers. Cement imported by TCB appears to have found a market. Clearly cement is an essential commodity, the suitability of which as an item under Norwegian aid need not be questioned. In a case study we provide some further information on the distribution and use of cement. Asphalt was imported under import support in 1978 to 1980, and it accounted for about 11 per cent of total import support (and 7 per cent of all commodity aid). Imports of asphalt ceased after 1980 as it could be supplied in sufficient quantities from the domestic oil refinery.

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1) DANIDA/NORAD; Dhaka, December, 1984.

Industrial raw materials.

In total this group represented 28 per cent of all commodity aid; 44 per cent of commodity assistance and 18 per cent of import support. Metals accounted for most of this type of aided imports (22 per cent of all commodity aid; 36 per cent of commodity assistance and 13 1/2 per cent of import support); ferro alloys, zinc, aluminium and copper under commodity assistance have been imported directly by public sector manufacturing enterprises for current use as inputs. Under import support aluminium has been purchased by private industries as inputs mainly for manufacturing of cheap kitchen utensils. The other metals are inputs into a variety of goods (notably construction steel, galvanised corrugated sheets used for roofing, galvanised pipes, and electric cables and wires). Other industrial raw materials imported under these programmes are pulp (9 per cent of commodity assistance), coconut oil and raw rubber (import support). Pulp is used for blending purposes by local paper mills; coconut oil goes into soap manufacturing; and raw rubber is used mostly for footwear and for bicycle tubes and tyres. Once more the usefulness of the goods imported is indisputable, given the high utility of the goods manufactured on the basis of these materials. As regards industrial raw materials imported under the import support programme we have no information on the suitability of particular shipments of goods. As for those shipped under commodity assistance, they are standardised goods which appear to have met the buyers' specific needs. In order to provide a broader picture of the use of industrial raw materials, we have included a separate case study that describes in some detail the principal buyers of some of the raw materials and the end use of the products which are manufactured on the basis of them.

Petroleum

has only been imported once, as import support. Once more, its use, utility and suitability are not matters of any concern. The one delivery of petroleum has absorbed about 8 per cent of the total import support during 1978 to 1984.

Medicines.

The import of medicines under Norwegian commodity assistance is a controversial issue which is dealt with in considerable detail in section IV of the report. As part of the general overview it is sufficient to point out that the particular medicines imported in this manner are declared by the Ministery of Health to be essential and useful under Bangladeshi conditions and that they have in fact been used. Deliveries of medicines constitute an important share of the tied commodity aid (12 percent in Norwegian kroner).

Misc. finished goods.

These constitute 4 per cent of all commodity aid (7 1/2 per cent of the commodity assistance and only 2 per cent of the import support). We have not examined the purchases of tea machinery and machinery for small scale paper mills under the import support programme. The remainders are partly very controversial items (insect sprayers), and partly items which should be subject to some further questioning (equipment for the Marine Academy, and some of the deliveries to the Bangladesh Bureau of Statistics). As further elaborated in Section V the utility of expensive and somewhat sophisticated insect sprayers is very doubtful; moreover, most of these sprayers have apparently not been sold. As regards the material delivered to the Marine Academy and the BBS, all that can be said at this stage is that it has been accepted by the institutions concerned. Deliveries to both organisations are described in the case studies that follow.

Repair of tanker.

We have not looked into this use of the import support programme in 1981 as it was a rather special case linked to earlier Norwegian aid.

Quality and prices of goods supplied

We have considered it outside our terms of reference to look into the question of quality and prices of goods imported under **import support**. One reason is that Norwegian authorities have no direct influence on the purchases. In addition, the problem of quality, at least, is not very relevant for most goods that constitute the bulk of what has been imported under import support, viz fertilizers, cement, asphalt and petroleum. SIDA Dhaka commissioned a study of cement import under commodity aid and did not find any problems as regards quality and price. The DANIDA/NORAD evaluation mission report does not contain any reference to prices paid for fertilizers under import support. As indicated in the case study on cement, there is nevertheless some questioning of whether such imports are undertaken under sufficient control.

Apart from the case of insect sprayers dealt with below in section IV there does not seem to have been any general problems with **quality** for goods supplied as Norwegian **commodity assistance**. Cases of complaints have occurred, but there is no reason to believe that these are more frequent than what is normal in international trade. But as regards the **prices** paid for goods supplied under commodity assistance, it is difficult to draw any clear picture. On **fertilizers** the DANIDA/NORAD evaluation report states bluntly "according to BADC, practically all fertilizer grants are provided by their respective donors at a price level generally 10 - 20% above world market prices". But the team does not appear to have examined the issue further, nor have we at this stage. It would be surprising, perhaps, if Norway as a major exporter of nitrogeneous fertilizers should charge Bangladesh fob. prices above the world market level, but for the cif. price it may, of course, be different due to transport costs. The effect on landed cost of higher freight costs was mentioned to us in connection with **metals**. Apart form the extra costs incurred for sea freight from a far away place, we also came across a case in which the buyer complained that the price paid was well above competing offers. We have not been able to find out whether the discrepancy could be explained by the significant fall in the world price of aluminium which took place after the contract was concluded. Also in the case of **pulp** prices appear to have been a problem. In theory Norway should be fully competitive in traditional export products like fertilizers, metals and pulp, and higher prices may in some cases be justified in the world market by higher quality, but perhaps the quality difference is less important for the Bangladeshi buyer than the price difference. When we turn our attention to **medicines**, however, it seems likely that Norwegian prices might have been above world prices, although it would be difficult to obtain fairly accurate information on relevant import prices from other sources.

We have made no attempt to examine the prices of material and equipment delivered to the Marine Academy and the BBS. For standard goods (forms etc. for the agricultural census) it might be possible to make price comparisons, but the amounts involved for such items are too small to merit such an effort. On the other hand prices for specialised equipment that has been delivered to the Marine Academy and more recently to the BBS cannot be assessed without data from international competitive bidding to which these deliveries were not exposed.

To sum up, therefore, we have not found any proven evidence that prices have been too high on the bulk commodities that account for three quarters of the Norwegian commodity assistance, but as regards medicines and perhaps also some machinery and equipment there are reasons to suspect that prices may have been significantly above world prices.

Influence on local production

Bangladesh produces both urea and TSP **fertilizers**, but in neither cases does domestic production presently fully cover domestic demand. The shortfall is becoming marginal for urea which also is exported but is very substantial in the case of TSP. Whereas production of TSP is uneconomical, production of urea in Bangladesh based on the access to natural gas, is fully competitive internationally, and the capacity is being expanded. In the future, Bangladesh will no doubt be a net exporter of urea. There is a potential need for imports of both TSP and NPK fertilizers. For the former there is a local production capacity, but it is hitherto too inefficient for economic production. In the case of **cement** local production covers only less than one third of domestic demand. **Basic metals** delivered under Norwegian commodity aid are not manufactured in Bangladesh at all – the only domestic supplies are scrap metal in fairly small quantities. Due to serious shortages of domestic raw materials, the local output of pulp is inadequate, and imported **pulp** is needed also

for blending. In the case of **medicines** it is argued that imports from Norway of some of the drugs have seriously impaired local production and even led to closure of a factory. **Insect sprayers** are a special case: they are produced in Bangladesh, and imports are banned. For the **remaining commodities**, most of which have been imported in relatively small quantities under Norwegian aid, there is no evidence that it has hampered domestic production which is negligible or non-existant.

The benefits to the country of the goods imported and possible distributional effects

At the outset it is worth while recalling that Norwegian grants under commodity assistance or import support only covers a minor part of the total supplies of most of the commodities in question. Moreover, it should be noted once more that payment by donors of particular imports, makes it possible for Bangladesh to increase imports of other types of goods by using its own foreign exchange resources including those released by the finance provided for high priority imports. Nevertheless it remains important that commodity aid is not used for items of imports of so low priority that Bangladesh would not have allowed them to be financed out of own resources.

If we look at benefits to the country in general, and take the country's general policy orientation as given, we can safely maintain that most of the Norwegian financed commodity imports on balance have had a beneficial effect. This is obvious in the case of **fertilizers**; and although some of the ultimate uses of **cement, metals, pulp**, and **other industrial raw materials** may have been luxury housing, or products consumed by the well to do, access to these materials in larger volumes has permitted higher domestic production and employment, and larger supplies of goods and services in wide use. The aided import of medicines may also have had the beneficial effect of increasing the use of some essential drugs and thereby of improving the overall health situation in the country. The benefits to the country of support to the Marine Academy or the Bangladesh Bureau of Statistics cannot be assessed neither in specific terms nor qualitiatively.

When we turn to the distributional effects, we are very much in the dark. Have somewhat larger supplies of **fertilizers** primarily benefitted rich or poor farmers? It can be argued that in order clearly to benefit poor farmers, fertilizer supplies would have had to be increased so much that it had resulted in a buyers market with prices to farmers lowered so much that poor farmers would have had effective access to these inputs. When we turn to **cement** it is relevant to note that not only construction of essential things like grain and fertilizer storage facilities, bridges etc. is facilitated by larger supplies of building materials, but also the construction of luxury houses. It may very well be that larger suppplies have facilitated luxury uses more than anything else, but we don't know. Moreover, does large cement supplies reduce the use of bricks which are produced locally in labour intensive plants? **Aluminium** and **copper** rods are used to manufacture electric cables and wires. While better and more widely distributed electricity supplies will serve manufacturing industries that may create more employment and thus benefit poorer people, much additional electricity is also consumed by relatively well to do households. Moreover, some industries that are set up on the basis of better electricity supplies (e.g. rice and oil mills) may eliminate many more jobs than they create. **Zinc** is used to produce galvanised corrugated iron which is roofing material for the relatively poor, but certainly not for the poorest who cannot afford even such roofing. Similar considerations apply for the use of zinc for galvanised pipes for water supply and irrigation. **Medicines** is an interesting case. It can fairly safely be assumed that medicines bought by government with foreign aid will enhance the supply of medicines to government cliniques etc., and that at least some of the drugs will reach poor people who otherwise would have been unable to acquire them. Thus at least in one respect the deliveries of medicines under Norwegian commodity aid may have had the desired impact. With respect to the relative small imports of **asphalt, petroleum, pulp, coconut oil, raw rubber and supplies and equipment** of different types there is little point in trying to trace the distributional impact. However, **insect sprayers** are an exception. Their prices are so high that they certainly are beyond the reach of small jute growers, unless they would be heavily subsidised which apparently they have not been. As regards the impact on spatial income distribution between regions, nothing conclusive can be said. As the economy works in Bangladesh, it is possible that higher supplies of some types of goods will increase supplies to less favoured and peripheral geographical areas more than to the areas around the larger municipal centres. It is highly unlikely that Norwegian commodity aid has had such an effect.

V. Evaluation of the several commodities that constitute Norwegian Commodity Aid

In section IV we have in fact undertaken an evaluation of more important commodities supplied under Norwegain commodity aid, but each in relation to 4 major criteria: usefulness and use; prices and quality; effects on local production; and overall benefits including distributional impact. In this section we will summarise the results of the partial evaluation in the preceding section, and in addition we will present detailed case studies of several types of goods. These case studies will also deal with some administrative aspects that in general will be dealt with in section VI of the report.

Fertilizers.

As for the usefulness and justification of deliveries of fertilizers under Norwegian commodity aid, the DANIDA/NORAD Evaluation Mission report argues strongly in favor of this type of commodity aid. Two subsidiary questions have been raised, however: firstly whether prices of imports under tied Norwegian commodity assistance have been on the high side; and secondly whether it at present is justified to promote imports of NPK fertilizer from Norway. We should also note that import demand for fertilizers in the future may be limited to TSP and other non-nitrogenous fertilizers. Consequently, as Norway is not a low cost producer of TSP, most fertilizer deliveries under Norwegian aid should then take place under import support.

Cement.

Imports have accounted for an increasing share of total supplies during the last 8-9 years, and have now reached more than two thirds of the cement available. Even when the more imminent of the plans for expansion of domestic production have been implemented (and probably not until 4-5 years from now), will there be a continued need for cement imports. Past imports of cement under the import support programme have certainly been fully justified, and cement will remain an item that ought to be included under the import support heading.

Metals.

Most of the aluminium paid by Norwegian aid have been imported under the import support; the remaining deliveries of **aluminium**, and deliveries of **ferro alloys, zinc and copper** have been supplied under commodity assistance (but not always from Norway: copper rods were delivered from Sweden). In our best judgment all deliveries of metals as industrial raw materials have been justified as they are inputs in the production of useful goods, and there is no evidence of unreasonably high prices, inferior quality or unsuitable types of goods delivered under this heading. The import demand for these goods should be rising in line with or most probably faster than the growth of Bangladesh' economy. However, even if Norway is a producer of most of these goods, imports should be authorised both under commodity assistance and import support.

Other industrial raw materials.

These include **pulp** (under commodity assistance) and **coconut oil** and **raw rubber** (under import support). Imports of **pulp** has to be seen in relation to the existence of three major paper mills and a viscose rayon yarn and staple fibre factory which all suffer from inadequate raw material supplies for their own pulp production (wood, bamboo, jute cuttings, bagasse from sugar mills). In any case they also need imported pulp for blending purposes. All these factories are high cost producers and very capital intensive, but they exist and the paper mills produce a variety of paper and paper products for which there is domestic demand, and surplus output of newsprint is exported. Imports of pulp are therefore justified – the main problem is whether Norwegian pulp is competitive, freight costs taken into account. Pulp should be permissible under commodity assistance, but it should be realised that it may prove difficult to utilise advance allocations, and it should therefore be eligible for import support as well. **Coconut oil** has been imported under import support in 5 of the 8 years under review. As Bangladesh is short of indigenous raw materials for soap manufacturing, these imports seem to be of reasonably high priority, both to ensure operation of local soap factories and to supply a useful end product. It should certainly remain permissible under import support also in the future. Imports of **raw rubber** under import support have not taken place since 1981. Domestic manufacturing of rubber footwear and tubes and tyres depends on imported raw rubber. Tube and tyre manufacturers produce low quality goods at high prices to the detriment of the consumers, including the hundred thousand or more rickshaw pullers. Can donor nations manage to control their commodity aid to such an extent that they not only take into account the usefulness of finished products based on aid financed inputs, but also their prices and quality and consequently their impact on poor consumers? Unless the answer to this question is affirmative, and more severe criteria were adopted we find no reason to recommend that raw rubber should be excluded from the list of industrial raw materials that could be imported under import support in the future.

Asphalt and petroleum.

Asphalt was imported under import support in 1978 to 1980; **petroleum** in 1982. Both commodities are essential. The World Bank which is concerned with accelerating the utilisation of aid in the pipeline, argues in favour of using commodity aid to pay part of the petroleum imports. There is in our opinion no reason for not accepting petroleum as commodities that could be financed by import support (or by commodity assistance for that sake if it were seen to be economically worth while in Norway) provided that Bangladesh expressed interest in doing so.

Miscellaneous goods and services.

These include the following goods and services delivered under import support in the past: **silo filters**, **tea industry machinery**, **equipment for paper mill** through Bangladesh Small and Cottage Industries Corporation (BSCIC), and **repair of tanker**. We haven't looked into any of these cases. In principle we do not see any reason why commodity aid should not be used for imports of goods and services that allow **recurrent repair and maintenance** of existing installations, whether infrastructure or productive equipment. On the other hand we will argue that goods and services for **major** repair work and modernisation, and other imports of **capital goods** should **not** be a part of commodity aid. The reason is simple: both major rehabilitation programmes and new investments should be subject to an equally thorough project appraisal as aided **projects**. In retrospect we would have liked to know whether silo filters went for recurrent maintenance (which is probable), whether the modest import of tea machinery replaced worn out machinery (which is likely), and whether the repair of the tanker could be considered as cumulative recurrent maintenance (which is not unlikely either). But equipment for a paper mill through BSCIC does look like some kind of new investment which possibly should not have been financed through commodity aid. The lesson we would draw from this is that for such types of goods and services under commodity aid the donor agency will have to undertake a detailed scrutiny before approval. This has nothing to do with the ultimate usefulness of the activities supported in this manner. Yet, this aspect will, of course, also have to be taken into account.

In this rather summary evaluation of the different categories of goods delivered under Norwegian commodity aid, we have not reviewed two particular commodities, **medicines** and **insect sprayers**, nor have we dealt with the deliveries of various goods to the **Marine Academy**, and the **Bangladesh Bureau of Statistics**.

These issues are complex and a short summary would therefore easily give a false impression of the multitudes of problems that are involved. We are therefore compelled to direct the readers to the detailed case studies that follow.

In the following we present 7 case studies, firstly the four controversial cases that are referred to in the preceding paragraph. The second set of case studies on **fertilizers, cement** and **industrial raw materials** are included to give a more detailed picture of some issues involved in such deliveries that constitute the overwhelming part of Norwegian commodity aid to Bangladesh.

Delivery of Medicines

1. Introduction

In economic terms the value of medicines delivered to Bangladesh under commodity assistance is fairly small compared to fertilizers and industrial raw materials. The value of the medicines delivered over a 3 year period constitutes 12 per cent of the total commodity assistance given to Bangladesh since 1978. It is, nevertheless, an important commodity for several reasons: The delivery of the medicine illustrates clearly weaknesses and lack of knowledge both in the Norwegian as well as in the Bangladesh bureaucracy. In 1984 the delivery of medicines created quite an uproar in many circles in Bangladesh as the provision of medicines from Norway went against both the new drug policy of Bangladesh as well as the import policy. After the scandal in 1984, to many people's great surprise, Bangladesh again in 1985 requested medicines from Norway under the commodity assistance programme which went against both the drug policy and the import policy of the country.

However, at the same time the Government of Bangladesh also made a different request to NORAD for medicines which would be in full accordance with the new drug policy. Thus, one of the requests made by the Government of Bangladesh would undermine the country's own policy, while the other request would support this same policy. Since medicine is one of the few items in the Norwegian commodity assistance programme which **directly** could reach poor people, it is important to have a certain knowledge about the pharmaceutical industry in Bangladesh and the new drug policy of the country. This case study will provide a very rough framework of the information which is needed for assessing further requests which may come for medicines.

Since 1982 the delivery of medicines to Bangladesh should be assessed and evalutated in the context of the Essential Drug Policy. We will therefore in general terms give an outline of this policy in the next section. In the following section we will more specifically describe the deliveries of medicine from Norway. Then we will briefly describe the Essential Drug Company Limited. NORAD has received a request to provide raw materials for this company. The final section will conclude with some of our viewpoints about the experience with medicines as commodity aid.

2. The Essential Drug Policy 1)

Before 1982, drug laws in Bangladesh provided very little control of the pharmaceutical supply system. By early 1982, there were 4340 registered products of which 2600 were local and 1740 were foreign brands. A large number of these products were non-essential, engaging more than 50 per cent of the capacity of local production. Promotional activities of private manufacturers had created a demand for many non-essential drugs that had very little or no relevance to real health needs. Consumers were persuaded to undertake extensive self-medication with non-essential drugs. Many physicians also prescribed drugs at random, including many useless items. Drugsellers would often persuade illiterate people to buy vitamins and tonics, drugs on which the profit is higher than on many essential items. Manufacturers often did not find it

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1. The information contained in this section is derived from two main sources: H.K.M.A. Hye: *Action Programme on Essential Drugs: The Bangladesh Experience*; Francis Rolt: *Pills, Policies and Profit*, War on Want, London, 1985.

profitable to produce single-ingredient essential drugs as compared to more profitable multi-ingredient drugs and drugs of doubtful efficacy. There were no legal authority before 1982 for controlling the prices of pharmaceutical raw or packing materials. As a result the same substance was imported by various manufacturers at widely variable prices. The multinational companies in particular used to purchase raw materials at very high and inflated prices from favoured sources abroad. There are 177 licenced pharamceutical manufacturers in Bangladesh, but local production is dominated by eight multinational companies, which manufacture about 75% of the products. All the pharmaceutical companies are mainly engaged in formulation and they procure their raw materials by import, involving an annual US$ 20 million in foreign exchange.

The situation concerning extensive promotion and use of non-essential drugs in Bangladesh was in no ways unique in the third world. It was this situation which provided the background for the World Health Organization to address the drug policies and practices pursued in third world countries. WHO's Action Programme on Essential Drugs was part of WHO's wider aim and programme "Health for All by the Year 2000".

The Essential Drugs Action Programme is designed to rationalize the manufacture, sale and use of drugs all over the world. It suggests that third world countries, in particular, should restrict the import, manufacture and sale of all drugs to a limited list of about 225, those drugs which treat the most common and fatal diseases – "essential drugs". The majority of the world's governments voted in favour of WHO's Action Programme on Essential Drugs in 1978 and again in 1982.

A list of essential drugs was drawn up in Bangladesh as early as 1978 and the draft for a new drug law was also prepared that year. Due to persistent opposition from various quarters with vested interests connected to the existing system, the policy could not be enacted. In 1982, an Expert Committee consisting of eight members was set up by the Government to review and evaluate all the medicinal products in the country and to formulate the draft of a new National Drug Policy. Based on the recommendations of this committee, for the first time in Bangladesh, a National drug Policy was adopted by the government. On June 12, 1982, the Government enacted the Drugs (Control) Ordinance, incorporating the main elements of the new National Drug Policy. The Bangladesh Drug Policy closely folows the guidelines laid down by WHO. Some of the elements in the new national drug policy are: to ensure that people get the essential and necessary drugs easily and at a cheap rate; to guarantee that the drugs are of good quality and are useful, effective and safe; to ensure the price of the imported drugs should be brought within reach of the people; to entrust the local foreign companies with the responsibility of ensuring that all essential drugs are manufactured in the country; and to exercise control on the import of drugs that are already being produced in the country.

While most of the guidelines are based upon sound pharamceutical and therapeutic premises, some are purely of economic nature. For example, foreign companies are not to be allowed to manufacture simple products such as antacids (medicine that neutralises excess stomach acid) and oral vitamin preparations. Also no foreign brands are to be allowed for manufacture under licensing agreements with a foreign company having no factory in Bangladesh if such products or their substitutes are already being locally produced. Other aspects of the policy and the Ordinance also touch upon economics when it is provided that pharamceutical raw materials are to be imported only at competititve prices.

The policy identified 150 essential drugs for most therapeutic purposes. Of these 45 are selected for primary health care. Special protective and promotive measures are to be taken for increasing the supply of the essential drugs.

Since 1982 there has been a phased withdrawal of banned products (harmful and non-essential drugs and drugs produced abroad which is already manufactured in the country).

Opposition to the Drug Policy

The Third World drug market is worth about US$ 30 billion a year. Most of it is controlled by about 50 companies based in Europe and in the US. If WHO's Programme on Essential Drugs were to be

implemented successfully in the Third World by banning useless but profitable products and promoting national drug industries, this would threaten the market of the large multinational companies. Bangladesh hardly matters to the multinationals in economic terms. The drug market there is worth only US$ 80 million and any multinational could withdraw from Bangladesh with little effects on its international sale figures. What does concern the multinationals is the fear that the WHO recommendations might be adopted by a large number of Third World countries and even followed by the industrialized countries. (The Scandinavian countries already have restricted lists of drugs.) The multinationals are concerned about the example Bangladesh could set to many Third World countries. The strong and fierce opposition the Drug Policy faced in Bangladesh must be understood in this perspective. Prior to the adoption of the new drug policy, biased information and propaganda put out in Bangladesh by the multinational companies suggested that the companies would leave Bangladesh if the policy were to be implemented. The ambassadors from several large Western countries contacted the President and expressed their concern about the new policy. The West German Ambassador argued that the Policy had deterred foreign companies from investing and mentioned a group of German business firms as an example.[1] The press has been ambivalent towards the Drug Policy. Some influential papers have consistently opposed it, while others have supported it. This has created confusion among many consumers. Many individuals in the government, in the bureaucracy and in business have also reacted against it. These people identify with consumer patterns of the West. They interpreted the Policy as the first of a series of potential austerity measures.

Some results of the new Drug Policy

It is not possible to make a full assessment of the impact of the new national drug policy. Yet there are clear indications that the drug situation has positively changed for the better since the new measures were taken. The production capacity affected due to withdrawal of banned products has been more than compensated by the increased volume of production of essential drugs. This was exactly the underlying objective of withdrawing the fancy and useless products from the market in the first instance. The share of the 45 essential drugs for primary health care in local production from 1981 to 1984 is shown in Table 7. Whereas the share of these essential drugs was only 30 per cent (in terms of value) in 1981, their share in 1984 was more than 64 per cent. This is probably the most remarkable success of the new drug policy.

Table 7.
Share of the 45 essential drugs in local production.[2]

		1981	1982	1983	1984
(a)	Value of local production (Taka in crore)	173	216.0	226.0	283.0
(b)	Value of 45 essential drugs produced locally (Tk. in crore)	52.5	75.05	116.8	183.06
(c)	Share of the 45 essential drugs (:b' as % of :a')	30.3	34.7	51.7	64.7

Source: Drug Administration
1 Taka = NOK 0.33
1 crore = 10 million

Another effect of the new drug policy has been that the price of many imported raw materials has been reduced by 30-50 per cent. However, the full effect of the lowered raw material prices are not yet wholly reflected at the retail level. More important, the prices of essential drugs at the retail level are becoming more stable because of more competition.

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1. See: *Pills, Policies and Profits, op.cit.*, p. 42.
2. Quoted from H.K.M.A. Hye, *op.cit.*, p. 4.

The new drug policy is based on the premise that if companies are forced to compete with each other to produce a limited number of drugs, prices should come down and total production of essential drugs should increase. The problem of transfer pricing of the multinationals should be reduced as local companies take a bigger share of the market. Before the new drug policy the multinationals tried not to compete with each other. They tended to specialize in types of drugs and tried to build up a monopoly in that market. As many of the multinationals' most profitable items were banned by the new drug policy, they had to start poaching each others territory to maintain profit levels. According to the weekly newspaper **Holiday**, "before the Policy came into effect only four companies, two local and two multinational, produced the essential drug ampicillin. Now thirty-five do so, including all but one of the multinationals. The main reason for the fall in drug prices is increased competition between 9 multinationals and 25 medium-sized local companies".[1)]

Prior to the adoption of the new drug policy many thought that there would be a total disruption in local production and that Bangladesh would experience a drug crisis. This has turned out to be wrong. Many local firms are increasing their production capacities by introducing new and essential products. The multinationals had long been dominating the field of local production, but now the local Bangladesh companies are gradually increasing their share of the market. The changing pattern of local production is indicated in Table 8.

Table 8.
Share of the local enterprises in local production.[2)]

		1981	1982	1983	1984
(a)	Value of local production (Taka in crore)	173	216.0	226.0	283.0
(b)	Value of the products of local enterprises (Tk. in crore)	61.3	84.25	116.0	147.0
(c)	Share of local enterpr. in the loc.prod. (:b' as % of:a)	35.3	39.0	51.3	52.0

Source: Drug Administration

Thus, so far the new drug policy must be judged to be successful: the increased competition has led to lower prices, the share of the essential drugs have increased, transfer pricing is now under better control than in the past and local companies have grown. Many of the supporters of the new drug policy fear however, that if the policy is too successful in changing the nature of the pharmaceutical industry in Bangladesh, that in itself could be a main reason for influential quarters to press for the policy to be abandoned.

In the next section we will look at how the delivery of medicines from Norway under the commodity assistance programme has fitted into the new drug policy.

1. See *Pills, Policies and Profit, op.cit.*, pp. 78-9.
2. Quoted from H.K.M.A. Hye, *op.cit.*, p. 6.

3. Delivery of Norwegian medicines

For four years, 1981, 1983, 1984 and 1985 NORAD has given medicines under the commodity assistance programme for about 35 mill. NOK. The request for medicines from Norway came from the Ministry of Health. At that time a Norwegian pharmaceutical firm already provided medicine for Bangladesh (through UNICEF). It was the agent of this firm who made the firm aware of the needs of various types of medicines in Bangladesh. The Norwegian firm later merged with a few other Norwegian pharmaceutical firms. The former agent of the small firm now represents the larger firm in Bangladesh. The medicines from Norway have been supplied both to the Division of Health and the Division of Population Control in the Ministry of Health.

The medicines given to the Ministry of Health on a grant basis shall be channeled through the national health distribution system and be used in Government hospitals, cliniques, health stations and by health visitors etc. all over the country. Most of the medicines which the Ministry of Health distributes are purchased from local manufacturers. We were informed by officials of the ministry that the free provision of Norwegian medicines enabled the ministry to acquire and distribute larger quantities of medicines than the ministry could have purchased using only its own limited budget. We were told that medicines were bought by Government both from the revenue budget, about 120 mill. NOK, and from the development budget, about 30-45 mill. NOK from foreign aid.

When the request was made for the medicines the ERD informed NORAD that most of the medicines which were asked for was not produced in sufficient quantities in Bangladesh. This became, in fact, a main reason why NORAD agreed to this request. The medicines, in the main anti-malaria, anti-leprosy and anti-T.B.-pills are essential for protecting people against serious diseases. The medicines which were being sent to the Population Control Division in the Ministry of Health were to be used in various family planning programmes of the Government. We made an attempt to check whether the medicines from Norway had reached the rural cliniques they were intended for. In these cliniques we found some medicines of the type which are being produced in Norway. The staff could, however, not give us detailed information on their place of origin. Since the various types of medicines from Norway only constitute a fraction of the total stock of each type, it is difficult and also meaningless to try to identify the particular effects of the supply from Norway. There is no doubt, however, that if the medicines are being used as prescribed and intended they would be of great help to poor people.

Opposition to the medicines delivered from Norway

For many years the Bangladesh Association of Pharmaceutical Industries, of which the largest pharmaceutical companies in Bangladesh are members, have argued against import of medicines to Bangladesh which already are being produced in the country. Many donors have since the 1970's provided medicines which ICI Bangladesh and other firms in Bangladesh produce in the country. On every occasion ICI and Bangladesh Pharmaceutical Industries have written to the Government – with copies to the ERD, the Ministry of Health, the Ministry of Industries (which can exercise a "right of refusal" of imports), the Director of Drug Administration, the Director Central Medical Stores Department – to inform them that the production of drugs manufactured in the country is being hampered by medicines received on a grant basis from foreign donors. After the new drug law was passed in 1982, many of these medicines were put on the banned list, but still continued to be imported. The letters which subsequently followed from the Bangladesh Association of Pharmaceutical Industries and ICI pointed out that the Government imported medicines against the laws which the Government itself had already adopted.

In meetings with representatives of ICI and Bangladesh Association of Pharmaceutical Industries we received a large number of copies of the various letters these two institutions had sent to the Government. Below we quote from one such letter. The letter was written by the Bangladesh Association of Pharmaceutical Industries to the Minister for Health and Population control on November 5, 1984.

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1. Quoted from H.K.M.A. Hye, *op.cit.*, p. 6.

"It has come to our knowledge that the following products were ordered in 1983-1984 against NORAD grant by the ERD against requirements received from the Ministry of Health:" (Here the letter lists up 15 medical products which will be sent to Bangladesh in 1983 and 17 products which will be sent in 1984 and the quantities to be supplied of each item.) After this listing, the letter continues:

"We would like to point out the following:

1. Most of the items are manufactured in adequate quantitites by our members.

2. Most of the items are **not eligible for import** under the Import Policy Orders 1983-84 and 1984-85.

3. One item Chloroquine Phosphate tablet is not only manufactured by many companies in Bangladesh, but its basic raw materials is also manufactured locally by one of our members (ICI BML). (Chloroquine Phosphate constitutes by far the greatest amount and value of the Norwegian medicines supplied *(our comment).*)

4. We understand that Ministry of Industries exercises its Right of Refusal for the import of any product by Government agencies which is locally manufactured and that the above products fall under this category.

5. Two items viz. **Tetracycline syrup and Multivitamin are banned both by the Drugs Policy and the Import Policy.**

The same day this letter was written the Bangladesh Association of Pharmaceutical Industries was informed through the press that the banned medicines from Norway had already been imported to Bangladesh. In a P.S. to the letter of November 5, the Association makes this statement concerning the Norwegian consignment for 1983/84:

"Furthermore, the quantities of Chloroquine Phosphate tablets and Dapsone tablets are substantial, i.e., 100 million and 40 million respectively and represents one/two years' production and requirements in the country. This will greatly affect the local industry and might lead to close down of the plant. ...We have reasons to believe that these Chloroquine Phosphate tablets and Dapsone tablets have been imported by the Ministry of Health giving an incorrect information to ERD that these products are not made in sufficient quantities in Bangladesh and have therefore to be imported".

The newspapers in Bangladesh became aware of this illegal import and Bangladesh Observer wrote several articles about the delivery in early November 1984. **Pulse**, a weekly medical journal, which is published in Bangladesh, was the first magazine to bring out the story. In its October 28 issue, in a headline covering the whole first page, it says:

"Stop further shipment of drugs from Norway, amply manufactured locally

GOVT. VIOLATES DRUG AND IMPORT POLICIES

Health Ministry officials have once again proved that they are above the law of the land and even above the laws made by their own ministry. In total disregard to all norms and practices the Health Ministry has ordered several crore taka worth of medicines (either banned by the Drug Policy or the import policy of the country) from Norway.

The Health Ministry has not only allowed the import of these medicines but have gone all out to convince the External Resources Division by giving an incorrect picture of the production capacity of our local manufacturers of anti-malarials and anti-leprosy drugs...

The Health Ministry could have imported other items from NORWAY against this tied aid that are not manufactured in the country. If other medicines were not available they could have obtained surgical instruments, X-Ray equipment and if it was absolutely essential that medicines had to be procured then they could have obtained the basic raw material and made the products in our own plants.

What is essential as a first measure is immediate cancellation of further shipment of these medicines to save further loss.

The remaining order of medicines must be cancelled and the persons responsible must be charged for –

(A) Importing items not in the Import policy.
(B) Giving an incorrect picture of our local production capacity.
(C) Ignoring Drug Policy and Cabinet decisions, Industries Division's guidelines on protection of local industries.

The Defence Force Intelligence, the National Security Branch Criminal Investigations Dept. and the Cabinet Division must take up this case in right earnest and bring the culprits to book and punish persons responsible.

The Norwegian Government is trying to help the country by giving aid, if they find out that we are importing items that can be made locally in sufficient quantity they will equally condemn the importers. They are giving aid and have no intention of fleecing the nation. It is our responsibility to give them the correct picture of our requirements and not encourage people to make a fast buck on aid".

Because of the turmoil which was created due to the illegal import of medicines from Norway, meetings about this matter were convened in the Ministry of Health on November 12 and 19, 1984. Representatives for many local pharmaceutical firms, including ICI and the Bangladesh Association of Pharmaceutical Industries participated, were present together with representatives from various ministries. In a letter of November 22 to the Ministry of Health ICI gives a summary of this meeting.

"IMPORT OF MEDICINES AGAINST NORAD ASSISTANCE

...We thank you for convening two meetings on the 12th and 19th November 1984 respectively to discuss the subject matter. We appreciate your understanding of the problem and also for allowing a frank exchange of views from ERD, Ministry of Commerce, Ministry of Industries, CMSD and Drugs Controller, who attended the meeting.

After a threadbare discussion you kindly concluded the meeting with the following observations:

1) Pending further clarification and discussion within your Ministry, you have asked ERD to request NORAD to suspend pending shipment of chloroquine phosphate tablets and Dapsone tablets to which ERD informed that they have already requested NORAD to stop shipment of all medicines until further communication from the Ministry.

2) Before ordering medicines in future against such Grants/Aids, Ministry of Health will refer the matter to the Drugs controller, Ministry of Commerce and the Ministry of Industries for their opinion and Exercise of Right of Refusal.

3) Efforts shall be made in future to utilise such foreign Grants/Aids to procure the raw material for the local manufacture of chloroquine phosphate bulk chemical which would help the Ministry of Health's anti-malarial and such-like programmes and also assist and encourage local basic manufacturers".

At the time this summary was made, only a part of the Norwegian medicines which had been ordered had been shipped to Bangladesh. In August we were informed by NORAD, Oslo that the remaining part of the banned anti-malaria pills, worth 2 mill. NOK, had been cleared in Bangladesh, despite the promise made in the meetings on November 12 and 19. We were not able to obtain information about how the decision of November 19 was changed and what role NORAD may have played in this connection. The pills were shipped from Norway in July/August 1985.

In interviews we conducted with officials of ICI we were told that their plant which was producing chloriquine phosphate was closed down in June 1985 because, and only because of the delivery of the Norwegian medicines. This plant which produced the raw materials for the anti-malaria pills supplied another 5-6 national firms with this raw material. According to information we received from ICI, the international price for 1000 anti-malaria pills were in 1983 Taka 220; ICI supplied the same amount to the Government for 280 Taka. The price the Norwegian firm had obtained was NOK 107 per 1000 pills; which then was equivalent to 320 Taka.

New request for medicine

In 1985 NORAD/Dhaka again received request for medicines. One new type of request concerned provision of raw materials for the newly established Essential Drug Company Limited. In the next section of this case study we will discuss this request. The other request originated in the Ministry of Health. The Ministry again

requested that a large number of different types of medicines should be procured under the commodity assistance programme. In a letter from the Ministry of Health to ERD with a copy sent to NORAD/Dhaka it is stated explicitly that the list of medicine, enclosed with the letter, did not contain any banned item under the Drug Ordinance and that the medicines are not manufactured in Bangladesh.

We brought these lists of medicines to the Director of the Drug Administration. The Drug Administration is responsible for giving permission for import of medicines. For medicines procured by the Government on a grant basis, the Drug Administration is only occasionally asked for advice. The Director informed us that the Drug Administration has in its practice adopted a relaxed attitude to allow import of medicines which the Government receives as aid even if these deliveries hamper local production. The reason for this is that the free provision of medicines from foreign donors enable the Ministry of Health to acquire and distribute larger quantities of medicines than the Ministry could have paid for using only its own limited budget. The Director of the Drug Administration was nevertheless very surprised and shocked to see the lists of medicines which were requested from Norway for 1986. In two lists, one containing 28 types of different medicines, the other 16 types, the Director informed us that almost all the medicines requested were produced in Bangladesh in sufficient quantities and thereby, in strict terms, banned by the Import Policy. What particularly surprised the Director was that 5-6 types of medicines were also banned under the Drug Policy because they had been deemed to be harmful and/or useless. The Director told us that these lists had not been sent to the Drug Administration and he could not understand how such lists could be set up in 1985 after the scandal of 1984. He thought the list must have been made by mistake or by an incompetent person. In the future he would make efforts to have the Ministry of Health consult the Drug Administration before the lists of request were finalized. The Director told us that there were other ways in which NORAD could improve the drug situation in Bangladesh than by supplying finished products manufactured in Norway: Raw materials could be given to the Essential Drug Company Limited and/or financial support could be provided so that the Government could purchase medicines produced in Bangladesh. The way by which NORAD supported the Ministry of Health in 1981, 1983, 1984 and 1985, he considered to be the least desirable alternative.

Concerning the type of medicines which were requested, we do not share the view of the Director of the Drug Administration that the lists were made by mistake or by an incompetent person. According to the letters NORAD has received about the request for 1986, we can see that the Ministry of Health wants to obtain the medicines from a Norwegian firm. In a letter of September 17, 1985 from the Ministry of Health to ERD with copy to NORAD/Dhaka this is stated clearly:

> "On allocation of NOK 10.0 millions, NORAD may kindly be advised to procure the drugs of Norwegian origin from the manufacturer viz, ..., Norway and ensure full utilization of the allocated fund".

As was the case for the previous deliveries in 1981, 1983 and 1984, we believe that the agent of the Norwegian firm, despite the turmoil in 1984, again has been able to convince the Ministry of Health about the products from the Norwegian firm.

4. The Essential Drug Company Limited

One of the requests NORAD/Dhaka has received for 1986 is to support the Essential Drug Company Limited (EDCL) with raw materials. The EDCL is an integral part of the new drug policy. We will below very briefly outline the history and purpose of the EDCL.[1)]

The predecessor of the EDCL was Government Pharmaceutical Laboratory established in 1962, later named the Pharmaceutical Production Unit (PPU). The prime objective of the PPU was to manufacture common drugs and to supply them through Central Medical Stores of the Ministry of Health and Population Control for onward supply to Government hospitals, health complexes and to meet emergencies in case of natural calamities. The PPU received assistance from UNICEF and WHO in the form of machinery and short-term

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1. The information we present was obtained through a "Brief on Essential Drugs Company Limited" and an interview with the Director of the EDCL.

and long-term consultants. However, in spite of increased capacity for production, the production did not grow and the quality control of the medicines was poor. In 1980 the Ministry of Health received a loan of US$ 9 million from Asian Development Bank for procuring raw materials and balancing equipments for the PPU. The loan was made effective from January 1981, having a closing date on December 31, 1983. By June 1983 the utilization had hardly reached 5 per cent.

With this poor performance of the PPU the Ministry of Health looked for new ways to improve the performance of the PPU. This was particularly pertinent since the Government had declared to implement the policy of "Health for All by The Year 2000". In August 1983, the Government converted the PPU into a private limited company under the name "Essential Drugs Company Limited". The Government, however, controls all the shares. The EDCL started functioning in September 1983. At that time it was impossible to maintain Good Manufacturing Practices (GMP) necessary for production of drugs and medicines, since the machines had not been cleaned or overhauled. With substantial efforts the whole organization and physical set-up of the production of the EDCL was changed and improved in 1983 and 1984. During the period of PPU, only 9 products were manufactured but by 1985 the EDCL produced 37 of the 45 drugs required for Primary and Secondary Health Care. The production has increased manifold as the Table 9 below will show.

Table 9.
Production of the PPU and EDCL[1)]

Qty/Value in Lakh Taka

Products	PPU 1974 - Aug.'83 (116 months)		EDCL Oct.'83-June '84		EDCL 1984-85		EDCL Projection for 1985 - 86
	Qty.	value	Qty.	Value	Qty.	Value	Qty.
Tablets	2660	Not known	1025	180	3798	655	4400
Capsules	176	Not known	161	63	386	394	700
Oral Rehydration	—	Not known	4	10	30	74	22
Salt Injections	4	Not known	1	1	10	8	17
Dry Syrup	—	Not known	—	—	1	6	3,5
			Lakh TK 254		Lakh TK 1137		

From this table we can see that the medicine produced in 1983/84 was worth 25 million Taka, in 1984/85 114 million Taka and for 1985/86 the estimated value of the projected production is 180 million Taka.

In 1984-85 EDCL supplied 50 per cent of the Central Medical Stores' requirement and in 1985-86 the estimated production will meet 75-80 per cent of the requirement of the Central Medical Stores, and in addition, the company will be in a position to supply some products to D.G. Family Planning. The financial performance of the EDCL is also satisfactory; the company has since 1983/84 increased its profits every year.

The EDCL established a new factory in Bogra with assistance of the Japanese Government. The factory will also manufacture essential drugs and supply medicines through the Government's distribution system. The factory started to operate in 1985. The EDCL already plans to build two more factories in different districts of Bangladesh and has started to approach various potential donors. Thus we can see that the pharmaceutical supply system is changing in Bangladesh. The EDCL's could if they continue to expand and perform well, sufficiently supply the requirement of the medicines needed by various Government health programmes and the Government distribution system. This is in full accordance with the Essential Drug Policy.

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1) Table quoted from: Brief on Essential Drugs Company Limited, undated, p. 4. – One Lakh = 100,000.

Foreign assistance to the EDCL could, however, encounter the same difficulties as the delivery of Norwegian medicine to the Ministry of Health and Population Control. In a meeting we had with ICI, we were informed that during 1983/84 the Directorate of Supplies and Inspection floated a tender for import of 5 metric ton of Chloroquine Phosphate under a loan from Asian Development Bank for the EDCL. ICI who is the basic manufacturer of that particular raw material in Bangladesh protested against this import to the Ministry of Health. Their factory which can produce 30 tons of Chloroquine Phosphate annually is far from being utilized to its full capacity. The protest was accepted and the tender was withdrawn. The lesson from this experience is that the Government policies also have to be adhered to when foreign assistance is supplied to the EDCL. There is, however, no doubt that tailored support to EDCL which does not violate the policies of Bangladesh, is assistance which is in full accordance with ideas and principles behind the new drug policy of Bangladesh. There is also no doubt that increased supplies of essential drugs is very much needed in the Government hospitals and cliniques, particularly in the rural areas. It would also be a sort of aid which harmonizes very well with the principles of Norwegian development assistance.

5. Our comments

This case study of the delivery of Norwegian medicines to Bangladesh illustrates a number of issues which have relevance beyond this specific case. The important role agents for foreign firms can play in establishing requests for commodity assistance is very much in evidence in this case. After the scandal of 1984, which we dealt with above, the agent of the Norwegian firm has twice been able to push through the Government of Bangladesh requests for medicines which all parties knew were illegal to import. First, the remaining quantity of medicines from the allocation of 1984, which was banned, was sent to Bangladesh in July/August 1985. Secondly, the Government again for 1986 requested medicines which were on the banned list. NORAD/Dhaka declined to accept this request under the commodity assistance programme for 1986.

This case also shows that the control system in Bangladesh which should ensure that the Government policies are adhered to, is very weak in this field. The Drug Administration and the Ministry of Industries (which can exercise its "right of refusal") have either not been consulted or not done their job properly.

NORAD has for this commodity had a peripheral role and apparently possessed little knowledge about the sector to which the commodity was supplied. It would have been very easy to undertake an independent investigation about the need for these medicines. Such investigation should have been carried out, particularly in light of NORAD's knowledge about the skill with which the import agents arrange to have the products of their foreign firms requested by the Government.

Before any further deliveries of Norwegian medicines are to be provided under the aid programme the lessons of this experience must be reflected in NORAD's procedures. NORAD must carry out an independent investigation in connection with future requests, and acquire more knowledge about the drug policy of Bangladesh, about the pharmaceutical sector in the country in general, and in particular about the new Essential Drug Company Limited and Gonoshasthaya Kendra, an independent private company which undertakes both production and distribution in conformity of the new drug policy of Bangladesh.

Our own viewpoint is that NORAD should stop providing finished medicines from Norway. If NORAD, however, still wants to continue its support of supplying medicines, financial support to purchase medicine locally could be considered in the form of project or programme aid. The request to supply raw materials for the Essential Drug Company Limited is another way for NORAD to support the new drug policy of Bangladesh. Without having detailed knowledge, we are, however, more sceptical about supplying machinery to the new factories EDCL plan to establish. There already are many factories in the country which are far from using their full capacity.

A closer scrutiny of the pharmaceutical industry in Bangladesh will also reveal that there are other ways to support the new drug policies of Bangladesh. The choice made between the different alternatives, have different implications. Some implications will be more in conformity with the ideas behind the new drug policy than others. In order to be able to discover these alternatives and their different implications, detailed

knowledge about the pharmaceutical industry and the new drug policy is needed. Any provision of medicines to Bangladesh should therefore in the future be subjected to the guidelines which project aid has to be assessed in relation to.

Handsprayers

Background for request of handsprayers

A Norwegian company delivered in 1982 10,500 handsprayers, valued at 6,1 mill. NOK to the Government of Bangladesh through the commodity assistance programme. The handsprayers, when containing insecticides, were to be used for protecting the jute plants.

The background for this delivery was, according to a report written by one of the directors of the Norwegain company, the following: in the autumn of 1980 the Ambassador of the Bangladesh Embassy (located in Stockholm), visited in Norway. During this visit the Norwegian company was informed by the Ambassador of the role the firm could play in Bangladesh. After this meeting the company contacted NORAD who gave the company guidelines about how it could become involved as a supplier under the commodity assistance programme. In January 1981 a director of the company together with a representative of the Norwegian Ministry of Commerce visited the Bangladesh Ambassador in Stockholm and discussed the plans for meetings in Dhaka in order to supply goods under the 1982 the tied commodity assistance programme. In March 1981, the commercial attaché of the Bangladesh Chamber of Commerce in Copenhagen visited Norway and was informed about the company's products and activities and about the company's trip to Bangladesh in May. In April, the Deputy Prime Minister of Bangladesh led a delegation to Copenhagen and informed representatives of various Scandinavian industrial firms about the possibilities and prospects these firms would have, if they were to export goods and/or establish themselves in Bangladesh. The company on this occassion told the Bangladesh delegation about their visit to the country the following month.

In the meetings the company had in Dhaka a high-ranking representative of the Ministry of Commerce of Norway participated. Several meetings were also attended by members of the NORAD representation in Dhaka. The company had meetings with the most senior officials in several ministries and a number of the company's products were discussed and evaluated in relation to Bangladesh's need for imported goods.

In the end, however, handsprayers for agricultural purposes was the only item for which a clear demand was established . The Minister for Agriculture and Forestry informed the company that he would apply for support for handsprayers under the commodity assistance programme. One of the largest private trading and manufacturing companies in Bangladesh which represents a number of multinational firms in Bangladesh was appointed agent for handsprayers produced by an English firm, a firm owned by the Norwegian company.[1)] In the meetings with the company, it also expressed interests in import and possible joint production of a number of other products manufactured by the Norwegian company.

During the country programme negotiations in the autumn of 1981 the ERD asked for 10,500 handsprayers of a value of 6,1 mill. NOK over the commodity assistance programme and NORAD agreed to this request. In May 1982 an agreement was signed between NORAD and the Norwegain company about the delivery of the handsprayers. The justification for accepting these handsprayers under the commodity assistance programme was in the main that local production was not sufficient to cover the needs of the country and also that quality of the locally produced handpumps was poor.[2)] Initially the request came from the Jute Farmers Association which in co-operation with the Government planned to implement an Intensive Jute Cultivation Scheme, and the handprayers should be used in this scheme. Another reason why the Government of Bangladesh made a request for these handsprayers was that, if a demand were to be created for them, the two interested Norwegian and Bangladeshi companies would consider to set up a joint venture factory for the production of these handsprayers in Bangladesh.

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1) Both the Bangladeshi and Norwegian authorities believed that the sprayers would be produced in Norway; that they were manufactured in England led also to some objections in Bangladesh.

2) See Notat til Direksjonen fra Administrativ avdeling, 7. mai 1982.

Delivery of the commodities

In August 1982 the English manufacturer started producing the 10,500 handsprayers (type: CP 100) and by the end of the year the consignment was ready for delivery to Bangladesh. In June 1982 the Government of Bangladesh had already banned the import of a large number of items which were being produced in Bangladesh. Handsprayers for agricultural purposes were on this list. After the ban was introduced a long and tedious process of obtaining special permission for importing the 10,500 handsprayers was started. For many months the handsprayers were stored in Europe. During this period the CP 100-handsprayers were nevertheless tested out by a Government Standarization Committee. This committee, which includes technical experts from the Bangladesh Univeristy of Engeneering and Technology, tests out all handsprayers, foreign and locally produced, before they can be released for sale. The handsprayers failed the technical test first time they were tested, but passed on the second trial after some changes had been made.

Finally in August 1983 the Government of Bangladesh gave permission for import and the Plan of Operation was signed. The handsprayers arrived in Chittagong in October 1983. Some time during the first part of 1984, NORAD was informed by the Embassy of Norway in Islamabad about the handsprayers. A Pakistan newspaper, **Dawn**, wrote that 10,500 handsprayers given by NORAD were being stored under poor conditions in the harbour of Chittagong. Many of the handsprayers were already damaged, according to Dawn. The Norwegian firm investigated the handsprayers and reported to NORAD about poor and leaking shipping containers and long period of storage under varying climatic conditions. The Norwegain company, however, promised to ensure all sprayers made 100 per cent quality, and to cover all the expenses for this reparation.

One reason, but apparently not a major one, why the handsprayers had been stored for a long period in Chittagong was that the containers had been sent to the wrong address, the Jute Farmers Association. In 1982-83 the Ministry of Agriculture had been reorganized and it was the Plant Protection Scheme, Ministry of Agriculture, which was to receive the handsprayers. The main reason for the long delay of picking up the handsprayers seems to have been that the Plant Protection Scheme did not want to pay 17,4 million Taka in taxes and duties for obtaining the handsprayers. In letters to ERD the then Director of Plant Protection Scheme, stated that the unit had never asked for foreign handsprayers and with the amount of duties and taxes they had to pay for the 10,500 handsprayers, they could purchase 15,000 locally produced handsprayers.[1)]

In the end the problem concerning taxes and duties was resolved and the handsprayers, which now should be of "100 per cent quality", were distributed to all the districts of Bangladesh. During late 1984 and the first part of 1985 reports started coming back from the various districts with the information that the sprayers did not function properly and the farmers did not want to use them. Most of the sprayers have been returned to the stores in the various districts from which they were initially distributed. Representatives of the company went to Bangladesh in April 1985. They admitted that a poorly designed gasket coupled with the previously mentioned bad storage facilities had made the handsprayers to be of poor quality. The company promised that a new type of gasket would be produced and tried out. In June, the prototype of this gasket arrived in Bangladesh and by the end of November 800 new gaskets arrived in Dhaka by air.

In the meantime problems arose with the relief valvets of the handsprayers. According to information received from NORAD/Oslo in early January, 1986, 2500 new relief valvets together with 2600 new gaskets had been shipped to Bangladesh by the English manufacturer. The remaining gaskets, about 7000, and another 2500 relief valvets will be sent by boat during the first months of 1986. NORAD will not have to pay for the new gaskets and the relief valvets.

When the handsprayers are fully operational, they will be tried out by the farmers. The handsprayers will be handed over to the farmers on a lease basis. The import agent in Bangladesh declined to organize this lease operation and the responsibility of this task has been given to the Plant Protection Scheme.

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1) Information presented in a meeting July 1, 1985 to the Study Team by the Director of the Plant Protection Scheme, Ministry of Agriculture, later confirmed in a letter to the team "Brief History of NORAD grant CP-100 Hand Sprayer".

Use and effect of commodities

According to investigations in Bangladesh by the Norwegian supplier the firm's handsprayer CP 100 would, if operated properly, be of a better quality than the locally produced handsprayers. One reason for this is that the nostril of the CP 100 is constructed in such a way that the handsprayers can economize with the content of insecticide in the sprayer. There is no doubt that good quality handsprayers are important for improved jute cultivation.

In an interview with the import agent, we were informed that if the handsprayers were not being subsidised by the Government their price would be three times as high as the locally produced handsprayers after taxes and duties have been paid, and twice as high before duties and taxes were paid. During meetings with officials of the Plant Protection Scheme, Ministry of Agriculture, we were told that the locally produced handsprayers, which are being manufactured by a dozen different firms, have gradually become more sophisticated. Most local firms now provide a two year guarantee for their handsprayers. According to Mr. D.U. Khan, FAO-consultant to the Ministry of Agriculture, previously Director of the Plant Protection Scheme, Bangladesh needs to have in operation 400,000 handsprayers of good quality. On the average a handsprayer lasts for 6-7 years; this means that 60-70,000 handsprayers have to be produced anually. The local firms manage this according to Mr. D.U. Khan. These figures provided by Mr. D.U. Khan do not correspond with the information NORAD has obtained on the same issue.

According to leaders of the Plant Protection Scheme, Bangladesh does not need any foreign assistance for import of handsprayers or setting up joint ventures between foreign and local firms in this field. A typical statement made to us runs like this. "If we were to receive any assistance it would only have to be on a very limited basis; provision of some raw materials and better welding equipment". A newspaper article, written in 1982 after the Bangladesh press had heard about the handsprayers supplied under a NORAD grant, brings out this view quite strongly:

"BANNED, BUT STILL BEING IMPORTED

Banned articles are being imported in contravention to the national interest. An influential company is strongly pursuing the matter. The import of handsprayers had been banned. Yet arrangement for importing sprayers worth Tk. 1 Crore 80 lacs under the NORAD grants is in progress. The External Resources Division of the Govt. has allocated funds through a Circular. The Ministry of Agriculture has requested the Ministry of Commerce for necessary permission for this import. The import of hand sprayers has been banned after the promulagation of Martial Law. As a result, the local manufacturers have manufactured more sprayers than their initial target.

Now 4 local manufacturers hold about 20,000 sprayer machines in their stocks. These companies have a capacity of manufacturing upto 5,000 sprayers a year each. During the Pakistan era these manufacturers were able to meet the requirement of the then East Pakistan.

The local manufacturers inform that they manufacture the sprayers with some components imported under license from the Ministry of Industries. The locally manufactured sprayers are cheaper and of better quality than the imported ones. A company named BEXIMCO is trying to import sprayers under the NORAD grant.

It may be mentioned that, many national project may be financed under the NORAD grant. Therefore there is no reason for wasting exchange of foreign currency for importing sprayers.

A spokesman for the local manufacturer said that the NORAD office in Dhaka is importing these sprayers without any import formalities. From here delivery will be made to the local agents, BEXIMCO. He added that pressure is being created for withdrawal of above ban. The local manufacturers will be very much in distress if such a withdrawal takes place. He said that it is not clear as to why the Govt. is resorting to alternative measures when it is possible to meet BADC's demand for sprayers from local sources".

(Reporter, dated October 8, 1982.)

Administrative procedures

There is a striking contrast between the speed and efficiency with which interested firms in Norway and Bangladesh and the Government of Bangladesh operated in 1980-81 in order to get the handsprayers on the commodity aid programme and what happened afterwards. After the agreement was signed between NORAD and the supplier in May 1982 a series of unfortunate and unexpected events occurred. More than three and a half years after the contract was signed it is still most uncertain whether the handsprayers will ever be put into use. With other administrative routines, NORAD might not have allowed the delivery of handsprayers to be included under the commodity assistance programme in the first place. Even after they had been included, some at least of the unfortunate incidents which subsequently occured should have been avoided.

In the planning stage NORAD and the Norwegian Ministry of Commerce assisted in an active manner to make it possible for a Norwegian company to introduce their products to the Government of Bangladesh. NORAD does not seem to have carried out independent investigations about the need for handsprayers. NORAD accepted the view forwarded by the import agent and later ERD that there was a lack of handsprayers in Bangladesh and that the quality of the handsprayers had to be improved. The fact that there could be conflicting interests concerning the delivery of handsprayers does not seem to have been considered explicitly in NORAD, nor the possibility that there could be "vested interests" influencing the nature of information provided about the need for the handsprayers. Within the Government of Bangladesh, however, there were different views in respect of the handsprayers under the NORAD grant. In interviews conducted with the present and former directors of the Plant Protection Division, Ministry of Agriculture, they expressed their clear opinion about the transaction: "The Norwegian handsprayers were pushed on us from above"; and in a letter to ERD, the (now)former director wrote in 1982: "We are taking these handsprayers most unwillingly and with resistance".[1] The information in the files of NORAD on these themes is very scarce indeed.

After the request from ERD and after the agreement was signed between the supplier and NORAD, NORAD played an active role in sending the handsprayers to Bangladesh. This active role was necessary since handsprayers had been put on the banned list of imports. However, after the handsprayers had arrived in Chittagong, no follow up was carried out by NORAD.

Our comments

It should be recognised that the case of the handsprayers was complicated by a number of unfortunate events: the ban of import of handsprayers came after the request had been made; the reorganization of the Ministry of Agriculture resulted in reduced motivation of the receiving institution for import of the handsprayers; the delivery of the handsprayers was slow and painful; and finally there were technical problems, perhaps unforeseen, with the handsprayers. Nevertheless, the way NORAD played its role in the "identification of needs" of the commodity and in the "follow up stage" was clearly deficient and at best peripheral. It should be obvious that handsprayers should not again appear as an item in the tied commodity assistance programme.

The task of repairing the handsprayers and of creating a motivation for their use is formidable. Considerable expense will have to be incurred on repairs and on the training of personell who can instruct the farmers. The chances of creating a future market in Bangladesh for the Norwegian handsprayers seem very remote. However, the Director of the large company in Bangladesh which acted as import agent told us in July: "We have not yet given up all hope".

A general lesson to be learnt from the case of the handsprayers is how organizations with vested interests can with efficiency and speed push a request for a commodity through the necessary institutions and have it

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1) Information obtained in a meeting July 1, 1985 to the Study Team by the Director of the Plant Protection Scheme, Ministry of Agriculture.

officially established in Bangladesh and in Norway as a commodity needed for import. A skillful and influential agent can apparently succeed in establishing a need, and convincingly justify import of almost any type of commodity. Through interviews with NORAD officials in Dhaka and Oslo it is clear that they know the role agents of foreign firms can play in identifying and establishing needs for certain commodities.[1] NORAD appears not to have drawn the consequences of this knowledge, nor have changed their procedures in the planning, implementation and follow-up of commodity aid.

Deliveries of equipment to the Marine Academy

1. The Marine Academy

The Marine Academy in Chittagong was established in the first half of the 1960s - the first batch of "pre-sea cadets" left school in 1964, after 2 years of training. It is located "on the lush, green hilltops of Juldia" in the predominantly rural area on the East Bank of the Karnaphuli River about 20 km. South of Chittagong, opposite the airport and the industrial area in Patanga. Communications with the major port city of Chittagong is maintained through a launch service along and across the river – the road to Chittagong that crosses the river on a bridge is much longer, 45 km.

The physical installations are very impressive. About 40 hectares (97 acres) of land is allocated to the school which has a large number of buildings and other facilities: a great variety of buildings for the school itself, such as class rooms, workshops, the new three floor navigational training building (which is built in the shape of a ship, surrounded by a moot, and will eventually face a large pond that is on the point of being dug out, and which will serve as training area for the use of boats instead of the nearby river. The architectural idea, though, is that the students should feel that they are at sea when they are on the balcony, or rather "bridge", of the building.) In addition there are buildings for the administration, the medical centre, dormitories, dining hall, officers club, gymnasium, staff housing, a shopping centre under construction, primary and secondary schools still under construction. There are also various other installations such as a large tarmac parade ground, another equally large ground with basket and volley ball courts, a fully sized grass soccer field and swimming pool. Students, teachers, other staff and their families constitute a community with about 2,000 people.

Up to now there have been 96 students under training as pre-school cadets per year – with an annual intake of 48 pupils. This year, however, only 30 pupils were admitted, out of about 3,000 applicants. In addition there are some shorter and longer courses for former students who return to school to pass higher level examinations after their obligatory sea experience. But we have no figure for the average school attendance, which probably does not exceed 150 students.

The school has two branches, nautical and engineering, both with an normal annual intake of 24 students. The pre-sea theoretical and practical training is two years. For the nautical students the further training possibilities are: Following 3 years (or 39 months) obligatory service on ships, they will return to sit for examination for class III and IV certificates (as second mate), after having followed a six months course. Another 1 1/2 year experience as officer at sea allows them to return to appear for class II certificate (as first mate), and finally after 1 1/2 to 2 1/2 years service they can sit for the class I (ship master) certificate. The engineering training follows much the same pattern.

The certificates are given according to standards set by the British Department of Trade. Examiners from Great Britain are still being used. However, the Academy also has technical assistance from the International Maritime Organisation (IMO), and our impression was that also IMO standards are taken into account.

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1) The information we present on the role of agents for foreign firms is discussed in greater detail in the Swedish Report on Commodity aid - "Importstödet i biståndet" – Granskning av SIDAs verksamhet, Revisionsrapport, Riksrevisionsverket, 1984. (Import support in aid – Evaluation of SIDA's operation, Audit report, National Audit Organization, 1984.)

Since 1964, 830 cadets (including 2 Iranians) have passed their pre-sea exams. No data were given for how many higher level certificates that have been issued. The head of the Academy – the Commandant – thought that the number of cadets who had passed their exams after the independence of Bangladesh probably corresponded roughly to the demand for officers on the ships in the seagoing merchant fleet (25 ships owned by the Bangladesh Shipping Corporation, and 9 privately owned ships). He stressed that the Navy has its own school and does not recruit civilian marine officers. Some officers leave the sea, of course, but the reduced intake of students this year reflects increasing difficulties in finding openings for the pre-sea cadets. The students appear to be of very high quality, which is not surprising when only one per cent of the applicants are admitted. The expatriate teachers confirmed that the students are of a very high standard.

The same teachers, however, also said that the school is very well equipped, but that the equipment is underutilised due to shortage of teachers. There is a shortage of local teachers due to unattractive salaries, the relative isolation of the school; and low quality school for the teachers' children. We don't find it unlikely that the Academy also could accept more students. In this connection it should be pointed out that there are plans to turn it into a regional Maritime Academy. One reason is that neighbouring countries, including India, apparently do not have the equipment to undertake such advanced training as the Marine Academy in Chittagong. There are no immediate plans and prospects to broaden the field of activities for the Academy at present, but such an expansion would, of course, justify investment in even more advanced equipment.

2. Assistance to the Marine Academy

Until 1979 the Academy received support from the British Government. Thus, three of the commandants after Liberation were Britishers. The commandants are normally naval officers. One of the former commandants was Rear Admiral M.A. Khan who was Deputy Chief Marshall Law Administrator (DCMLA) and Minister of Ports, Shipping and Inland Water Transport. The British also provided teachers. When the British aid ceased UNDP started a technical assistance project which includes instructors (7 or 8 posts, we were told, of which only 3 are filled for the time being by 2 Britishers and 1 Egyptian). The executing Agency is IMO, and a development project was drawn up in 1980 for the period up to the end of 1987. UNDP provides a good deal of hardware (various instruments as well as the usual input of vehicles, air conditioners etc.)[1], but not sufficient to meet the needs of the development plan. This is the background for Norwegian assistance through the commodity aid part of the country programme. This matter was first raised in July 1979 before the country programming negotiations that year. During these it was turned down by NORAD. However, early in 1980 IMO took contact directly with NORAD in Oslo which through its representation in Dhaka approached ERD. In March 1980 ERD did not want to include it as all resources under the country programme had been committed and suggested that Norway should support the Academy under its multilateral programme. The possibility of offering support under commodity assistance was also raised in 1980 but as late as in August 1980 the ERD had not agreed to such a solution. From an administrative point of view various NORAD officials had reservations about this kind of assistance which they considered that they would not be able to control properly. But on the positive side they noted that the list of equipment requested was worked out on the advice of the IMO to support the UNDP project. Finally, at some stage in 1980 it was mutually agreed between the two countries that equipment should be supplied under commodity assistance. Negotiations and placing of orders started in 1981, and a formal plan of operation was signed in June 1982 which contained following items:

Radar/Navigation similator	3.8 mill. NOK
Motor Launch	0.8 mill. NOK
Radio Equipment	0.9 mill. NOK
Mobile Crane	0.5 mill. NOK
Total	6.0 mill. NOK

1) The budget for the UNDP project is USD 2,336,000 of which USD 941,000 for equipment. (Source: Statistical Data, United Nations in Bangladesh.)

Some changes have been made in the course of implementation. Thus, the mobile crane was replaced by a fork truck. Some items which proved to be necessary were added, including emergency generator, airconditioning, transformer, voltage stabilizers, some construction work, some minor items, spare parts and extra installation costs etc.

The deliveries of the launch (from a British yard) and the fork lift truck did not create any particular problems. (Launch ordered in December 1981, fork lift truck in August 1982). The navigation simulator was ordered in 1981 from a Norwegian firm and could already have been delivered at the end of 1981, but was to be kept in store until the new navigation training building would be completed. The radio equipment was ordered from another Norwegian firm in the beginning of 1982. For both these deliveries a whole series of serious problems arose due to delays in the construction of the building, due to the designs of the rooms in which the equipment should be installed, and due to such technical problems as which system of airconditioning to use, and how to assure stable supply of electricity.

The navigation training building was formally opened in May 1983 by the DCMLA and in the presence of the Norwegian ambassador, about 1 1/2 year after the equipment that should be installed there had been ordered. However, it was not yet ready to receive the fragile equipment, which could not be installed before all finishing work had been completed, and it also needed airconditioned surroundings. However, the Commandant urged that the equipment should be shipped and received before the end of the Bangladesh financial year in June 1983, because his funds to pay for duties etc. would expire then. In spite of the fact that it was not desirable to send the equipment, it was done to avoid administrative complications.

At the end of July 1983 a representative of the supplier came to inspect the building, and also the state of the equipment that had been shipped. He demanded modifications of the building, and central airconditioning, and was unable to inspect the shipment (as boxes were piled on the top of each other). In order to speed up matters it was later in the year arranged that a local firm should install the airconditioning, and an offer from this firm was accepted by NORAD in January 1984. The building work (ducts etc.) was supposed to be finished quickly, but when technicians from Norway came to install the equipment in March 1984, building work was still going on (finished in April). Moreover, the airconditioner had not yet arrived, so the conditions under which the equipment should be installed were highly unsatisfactory. The airconditioner arrived to the port at the end of April, but this was only the beginning of another problem: how to clear it? The root of this problem was that it had not been imported by NORAD directly, but by the firm, and moreover it had been bought with free currency (the WES currency market) with no import licence in advance. That the clearance was supposed to be done by a small clearing agent, did not facilitate matters. The airconditioner was cleared in August 1984, after the Norwegian Embassy had intervened, and also had advanced the duty payment (which was duly reimbursed by the Academy).[1)] Even so it took some extra time before the airconditioner was installed, as some additional building work had to be done. It turned out, however, that the system that was installed was aircooling and not airconditioning, with subsequent humidity problems which have not yet been adequately resolved.

When the airconditioner finally was in place the next hurdle was when the Norwegian technician would be able to come back and finish the installation. He did not arrive until February 1985; installation finished in March; but in April the Academy informed NORAD that the system did not work, and that the technician had to come back, with spares. This was done in the spring, but then more parts were needed from Norway. However, when we visited the Academy in October 1985, at least some of the simulators were working well enough to serve their purpose as teaching equipment. But they did not work fully. The story of the installation of the navigation simulator is full of details about a variety of complications. We have only outlined the main events. We should add that due to transport and clearance difficulties, high NORAD officials had to carry spares for the Marine Academy with them on their travels from Norway to Bangladesh.

It should be added that this is not an exceptional case in Bangladesh. One of the authors of this evaluation report worked recently in Dhaka, and in his project visitors from the United States always carried spares and

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1) The government has now introduced more flexible procedures for payments of duty and sales tax on equipment bought by Government institutions, which now can have the goods released upon their guarantee of payment.

replacement parts for the personal computers used by the project. We would therefore stress that installation and servicing problems caused by the geographical distance between the country that supplies equipment and Bangladesh is **not a reason for not supplying this kind of sophisticated equipment**. Bangladesh needs a certain amount of high tech equipment, and regardless of who supplies it and how careful advance preparations are, there will inevitably arise some particular problems during installation, and subsequent problems as regards servicing. As more electronic equipment is installed in Bangladesh, the capacity for local servicing will most certainly be markedly improved.

The radio equipment was installed at the end of 1983. This is in a way an even more disturbing case, where lack of pre-planning once more is evident. Some examples: an aerial was supposed to be installed – later it appeared that the Academy had no authorisation to transmit radio signals by a large antenna. Also no information about radio frequencies which could be used was given to start with – when a frequency was allocated, it turned out that the transmitor could not use it. Lack of voltage regulator made it impossible to use the equipment. The voltage regulator that had been shipped, had been damaged in transit. When the replacement regulator arrived in August 1984, the installation team had left. They did not return immediately because also the Academy's radio technician left, and the completion of the installation was to be postponed until another radio technician had been posted to the Academy. The main part of the story is that since the beginning of 1984 most of the radio equipment has not been operative. Only now at the end of 1985 are steps taken to finish the installation. As the Norwegain supplier is part of a multi-national company attempts are now being made to get its Asian representatives to diagnose what has to be done before the Norwegian subsidiary will send people to Bangladesh again. This is sensible, but apparently quite time consuming. In the meantime equipment ordered in the beginning of 1982 will be out of use for at least 4 years.

3. Lessons can be drawn from this experience

In retrospect it seems obvious that this kind of deliveries should not have been done as commodity aid, but under procedures which apply to projects. This could conceivably have been done in cooperation with the existing UNDP/IMO project. There is no reason to blame the Norwegian authorities that they agreed to deliver some of the equipment which was included in a project designed with the help of IMO, and approved by Government. But **ex post** we have to realize that due to the need for appropriate environment for the equipment, a particular study and work plan should have been made in advance of orders, deliveries and installations. We have also observed that these deliveries have created an inordinately high administrative burden on NORAD, both in Dhaka and in Oslo. Thus, on the basis of the files in the Representation in Dhaka we noted that the commodity aid to the Marine Academy alone required about as many communications per year as the entire import support programme (and as noted elsewhere – a large proportion of the correspondance regarding import support dealt with allocations, i.e. decisions which did not require any extensive work on the part of Norwegian authorities). Moreover, it is reflected in the correspondance that the Representation and the NORAD head office had to undertake a lot of work that is not reflected in the number of communications. Thus, commodity aid in this form is not administratively simpler than project aid. On the contrary, due to the absence of personnel who is supposed to be specialised in handling a project, the administrative burden is even heavier and more complex.

4. Assistance to the Marine Academy in the future

When the new Navigation Training Building was opened in 1983, the management of the Marine Academy put forward requests for additional major equipment supplies from Norway, first of all a ship handling simulator. The justification for asking for this equipment is that a Navigation Control Course has been introduced by IMO as part of the training leading to a Class I (ship master) certificate. During this festival occasion the Norwegian Ambassador could hardly do anything but promise to communicate the request to the Norwegian authorities with the recommendation that it be considered sympathetically. (We do not have the text of the Ambassador's statement, but the Ambassador is a very experienced diplomat and administrator who certainly has not made any promise which in any case even an ambassador is not entitled to make.) However, the management of the Academy insists on treating the Ambassador's statement as a promise, and a new Project Proforma was drawn up with total costs tk. 362.55 mill. of which assistance from NORAD tk.

81.7 mill. (at that point of time NOK 27-28 mill.). This is 4-5 times the amount of the original Plan of Operation (NOK 6 mill.).

This request has been turned down by the Norwegian authorities. It is, of course, encouraging to note that in spite of the difficulties encountered hitherto with deliveries of some of the Norwegian equipment, the Academy wants to continue to buy Norwegian installations. Also the UNDP has bought some Norwegian teaching equipment. There have been offers from other sources, including Japan, but the Academy prefers to wait for supplies from Norway.

We were told that the revised Project Proforma, after some hesitation on the part of the Planning Commission, has been approved both by the Planning Commission and the External Resources Division of the Ministry of Finance. From that point of view there are no problems involved in continued support to the Marine Academy.

But if such support should be contemplated at all, both for practical grounds, and for reasons of principle, it would have to be in the form of a project, and only in cooperation with the existing UNDP/IMO project. It should be noted that the ship handling simulator alone would cost around NOK 10 million. Norway also has reasons to question whether high priority should be given to the installation of such costly equipment. If used for a national Academy only, with a very small number of students training for the Class I certificate, it seems to us to be completely unjustified to undertake such an investment. Even if candidates had to be sent to Europe or some other place in Asia for supplementary training, costs would be small compared to the capital cost of the simulator (which, in addition, well may become outdated relatively quickly due to the very rapid advance in computer technology). If a decision was taken to create a regional Marine Academy in Chittagong, the situation would be different, but an investment of this magnitude should, in our opinion, not be undertaken merely on the basis of the hope that some time in the future the Academy might become a regional institution.

When we visited the Academy we were approached by several of the instructors who put forward their particular wishes: e.g. the Chief Engineer wanted a diesel engine simulator (which could simulate explosions); the doctor in charge of the medical training of the cadets, needed three advanced instruments costing USD36,000. Other items were also mentioned. Although these are not included in official requests, they suggest that the support to the Marine Academy could become a rather open-ended operation.

The Norwegian authorities are willing to provide additional assistance out of the commodity aid in order to make the equipment that has been delivered fully operative, and possibly also assist in establishing well functioning servicing arrangements.

During the years 1981-1985 NOK 7.8 mill. were paid by NORAD for equipment etc. delivered to the Marine Academy, compared to the NOK 6 mill. contained in the Plan of Operation. More than NOK 1 million will be needed to complete the installations, furnish some auxiliary equipment, replace damaged parts, and undertake the rest of the training programme. A tentative list for what will be supplied in 1986 includes:

A standby airconditioner (to allow servicing from time to time of the existing one);
Air dehumidifiers;
Emergency battery (to bridge the gap between power failure, and the start of the standby generator);
Installation of the radio equipment; and
Service contracts for simulator and radio equipment (probably for 2 years).

During the country programme negotiations in November 1985 Norway stressed that no additional equipment will be provided under Norwegian aid.

Another problem has to be resolved as well, i.e. the servicing of the navigation simulator. As a short term solution the management of the Academy suggested that the Norwegian supplier appointed an agent in Bangladesh who could keep spares in store. It has been suggested by the supplier that spares worth NOK 0.2 mill. ought to be provided. It is recognised that Norwegian assistance will be needed to assure prompt servicing through the establishment of service agreements with the suppliers.

4. Our comments

Most of the substance of our conclusions is already presented in the paragraphs on which lessons we can draw from this experience. We find no reason to blame Norwegian and Bangladeshi authorities for having agreed to undertake specific deliveries of equipment which were included in a properly formulated project with technical assistance from UNDP and IMO. Nevertheless there was a serious lack of foresight **inter alia** illustrated by the rather uncontrolled and slow implementation of a major building project that was vital for the proper installation of the equipment. The serious transport and communication problems revealed under the installation of the equipment are by no means unique for this project. But they led to an inordinate administrative burden on NORAD; which normally should not have occurred in connection with commodity aid.

In the future requests of this kind should not be handled as ordinary commodity aid. Maybe a formal project would not always be needed, but preparations should be as comprehensive as for projects, and outside technical expertise should be brought in both in the planning process, and to supervise implementation.

Commodity Aid to Bangladesh Bureau of Statistics

As from 1976 Bangladesh Bureau of Statistics (BBS) is responsible for the collection, processing and dissemination of most statistics produced by the Government. It is attached to the Statistics Division of the Ministry of Finance, and its Director General has also the rank of Secretary and head of the Statistics Division, and he plans and executes matters relating to statistics. Until 1975 statistical activities were decentralised and the Bureau was a small cell under the Ministry of Planning primarily responsible for the Census of Manufacturing Industries, national accounting and collection of data from other sources.

It now employs 4,000 people of whom half are in the field offices. About half of the staff are professionals. Since 1980 it has carried out some major statistical exercises such as the Population Census of 1981 and the Agricultural Census in 1983 and 1984.

As a consequence of the expansion of its activities the BBS has become dependent on imported equipment and supplies. The main computer system is an IBM product, finally commissioned in 1983, which was financed by the UNDP and the United Nations Fund for Population Activities (UNFPA), which also financed an Optical Mark Reader (OMR) that reads questionnaires, and gets data entered on magnetic tape. A fire around the end of 1981 destroyed BBS's newly installed computer and valuable files, and lead to postponement of some major statistical work. Thus the Economic Census has been postponed to 1986.

UNDP has also in other respects supported BBS, including technical assistance (a Norwegian statistician has been senior adviser to BBS until recently; the former head of the Norwegian Central Bureau of Statistics has been short term adviser several times), but has not financed special expenditure caused by the various censuses. UNFPA has financed equipment beyond what was needed for the Population Census, and material needed for the Census as well as technical assistance. US AID provides material assistance and technical assistance for the planned census of non-agricultural enterprises.

Norwegian assistance to BBS started in 1982 when the Ministry of Finance proposed that one of the Nordic countries, as producers of paper and paper products, should be approached for delivery of forms and other supplies for the Agricultural Census. The forms were of a special type that could be read by the OMR. Norway accepted to provide these supplies as part of the commodity aid. In addition to forms Norway also delivered 60 tons of printing paper, worksheets for processing of the census, pencils, rubber, pencil sharpeners and chalk. In all 70,000 enumerators and 10,000 others worked on the census which covered 9 million agricultural units. The Norwegian UNDP expert states that there have been no complaints concerning these deliveries, and this was confirmed by senior officials of the BBS.

BBS also planned to request from Norway a relatively expensive machine for binding of publications but the Norwegian expert recommended a cheaper type which has proved to be very efficient and robust. It has recently been out of order due to a missing spare part which, however, is on its way to Bangladesh.

A crisis occurred when the expensive "Unbreakable Power Supply" (UPS) installation broke down. UNDP could not get hold of the necessary spare parts, but only obtained them after one year (parts, transistors, that are sold on the streets in New York). In the meantime NORAD provided BBS with spares for an automatic voltage regulator which had not been functioning for some years, an arrangement which solved the problem in the short run. NORAD has, however, also provided BBS with magnetic voltage regulators which are robust and will probably remain the main instrument for assuring constant voltage to the computer system.

A similar problem developed due to missing spare parts for the main frame computer. Import licences were not granted, and UNDP did not manage to get hold of the parts. After import licences finally were granted, it took almost one year to get parts imported due to problems with the L/Cs. In the meantime some spares were supplied by NORAD after the Norwegian expert had found out that they could be bought from Europe through IBM Norway.

The successful results of the earlier requests for assistance from Norway were probably a strong reason why BBS and the Ministry of Finance also made a request for personal computers from Norway. The Norwegian UNDP expert to BBS is aware of the doubts that have been raised about the wisdom of supplying such computers from a small, new Norwegian firm with no service facilities in Bangladesh, and he understands them perfectly well. However, there was no convincing alternative in Bangladesh. The only make which was sold to any significant extent in Bangladesh was distributed by a firm that provided poor service, had no spare parts in stock and no facility for repairing disks. On the other hand one of the most dynamic and competent Bangladeshi business conglomerates had entered into trade with and servicing of computers, and agreed to undertake servicing of Norwegian computers for BBS. It may be doubtful, unfortunately, if the firm can do it satisfactorily, as they lately have become main agent for IBM.

Norway has supplied BBS with 6 smaller and 1 larger PCs. The motivation for obtaining these in addition to their mainframe computer is amongst other reasons that the BBS has about a dozen offices in different places in Dhaka. It means that data processed in these places cannot be registered and controlled directly by the computer. Manually processed data have to be sent to computer stations, and printout sent back to the out stations. This does not only slow down operations, but also increases the sources of error. The director in charge of the data processing wing of the BBS personally likes these computers because the use of them has greatly enhanced the speed of work, and made preservation, comparison and modification of data much easier. They also significantly increase the number of people who will be trained in computer application. However, they have not yet been placed in the different offices outside the headquarter of the BBS.

The maintenance problem has already arisen. The computers were only commissioned one year ago, but already 2 printers and 2 videoscreens (out of 5 printers and 10 screens) are out of order. As no servicing arrangements have been made and it is too expensive to send items back to the supplier, they remain out of commission. According to the Norwegian expert the Norwegian manufacturer's technician will now come and examine the machines together with technicians from the firm that still may do the servicing, so that they can handle them in the future. One particular problem should be mentioned: there are complaints about the manuals which are not in English, nor are they detailed enough.

Our comments

Although the deliveries of goods to the Bangladesh Bureau of Statistics have included a large variety of items, some of which were not produced in Norway, most of the assistance to BBS can be considered as an appropriate part of commodity aid to serve the needs of one particular institution. Paper and other current supplies, and simple equipment such as book binding machines and voltage regulators represent deliveries which do not require the kind of scrutiny which would be undertaken in the context of a project. However, the delivery of computers raises the question of principle of deliveries of capital equipment under commodity aid. It could be defended as part of a long term programme to supply goods to an institution as personal computers after all are rather minor pieces of equipment. But if such purchases could be envisaged also in the future it would be preferable to have a project agreement with the Government which would assure a careful evaluation of more complicated purchases.

In the present case Norwegian assistance to the BBS has operated well in part because of the presence of a Norwegian technical expert who has been instrumental in advising on certain types of purchases. His assignment finished in 1985 which means that in the future NORAD will have to deal with officials of the BBS who do not have the same insight in what Norway could deliver.

Our recommendation is therefore that if BBS wants to receive goods and services from Norway under aid also in the future, this should take place under some kind of agreement which provided for Norwegian expert assistance in the case of more complex purchases. The Bangladesh Bureau of Statistics is an important instrument for development planning and economic policies in Bangladesh and needs assistance. But without entering into inflexible bureaucratic procedures it is nevertheless necessary to assure that assistance is offered under procedures that assure careful scrutinising of purchases.

Fertilizers

1. Growth of Consumption and importance of imports

The use of fertilizer in the 1950's was meagre amounting to about 5.4 thousand metric tons nutrient annually. Between 1961 and 1967, the volume of consumption had increased to 45.7 thousand metric tons on an average annual basis, and during 1967 to 1970, the average annual figure rose to 113 thousand metric tons. Thereafter, through periodic jumps, the average annual consumption stood at over 424 thousand metric tons between 1978 to 1984.

The importance of imported fertilizer to the above mentioned growth of consumption can hardly be overemphasized. Between 1972-73 to 1983-84, the average annual imports of fertilizer constituted about half of total procurement. Although marked fluctuations of the share of import in total procurement is noticeable over the years, a steady fall of import share is discernible, from 65 per cent in 1978-79 to 33 per cent in 1983-84. Besides urea and triple super phosphate (TSP) which remain the biggest items, other imports constitute muriate of potash (MP), DAP, HP and NPK. Between 1972-73 to 1981-82, the share of Urea, TSP and these fertilizers in total imports has been roughly 41, 37, 10, 8, 3.5 and 1 per cent respectively. Besides these, of late, sulphates of potash and zinc have also been imported in small quantities.

Imports of fertilizer have been under grant, credit, loan and cash foreign exchange. The leading donor countries supplying fertilizer under grant are Canada, Denmark, Norway, Saudi Arabia, UK and Holland. Although share of aid from the USA is small, it remains the principal supplier under credit contributing about 86 per cent of supplies funded through USAID and IDA.

Aided imports generally tend to be costly. For example, import of fertilizer under USAID tends to be effected at about 30 to 40 per cent higher prices than the world market price and a recent delivery of urea under Saudi Arabia tied aid was at a price of 20 to 25 per cent higher. However, fertilizer import under Norwegian (and Danish) aid can not be said to have been expensive. Recently MP was imported from Jordan at $ 110 per ton under Norwegian import support while the same had to be bought from Canada at $ 130 per ton under Canadian tied aid.

It is beyond doubt that increased use of fertilizer has made a positive contribution to the growth of agricultural output in recent years. From 1976 to 1984 foodgrain output increased by almost 5 per cent per year on average, while fertilizer consumption grew by nearly 10 per cent annually. This growth of output is achieved to a large measure due to the higher yield per acre of different crops. Between 1972-73 to 1982-83 the average annual growth rate was 11 per cent for wheat, 2.5 per cent for rice and tea, 1.4 per cent for jute and below one per cent for other crops.

2. Future Demand and Import of Fertilizers

Although Bangladesh has experienced a rapid growth of fertilizer use, the present level of consumption remains quite low in relation to that in other developing countries and also compared to its own potential use.

Bangladesh ranks 42nd among the 113 developing countries in respect of fertilizer consumption in 1981/82 per hectare of arable land and land under permanent crops. Among the 34 developing countries of Asia, Bangladesh ranks 15th. Regarding the potentiality of fertilizer use, a study conducted by IFDC (Internaional Fertilizer Development Centre) demonstrates that high consuming districts are operating between 41 and 54 per cent of their potential; intermediate districts are operating between 17 and 36 per cent while low consuming countries less than 14 per cent of their potentials. The percentages are all a little higher for urea than for TSP and MP. While there is room for doubts as to the accuracy of the figures, these are nonetheless indicative of the future requirements.

IFDC's forecast consumption and supplies of three major fertilizers, viz. urea, TSP and MP is presented below.

Table 10.
Expected Consumption, Domestic Production and Import of Fertilizer 1985-90,
(Thousand Metric Tons)

	UREA			TSP		MP		
	Expected consumpt.	Domestic product.	Import/ Export	Expected consumpt.	Domestic product.	Import	Import	Total import *
1985-86	800	735	145	430	120	315	75	530
1986-87	950	775	175	480	120	310	85	620
1987-88	1020	985	35	520	120	360	92	562
1988-89	1080	1195	- 115	560	120	400	98	423
1989-90	1145	1195	- 50	595	120	475	103	528

* Bufferstock not included.

In the past the quantity of import of urea had been erratic because of the fluctuations in local production. In addition to the present three urea factories, two other factories, one at Chittagong and the other at Polash, near Dhaka, are under construction with rated capacity of 562.0 and 95.0 thousand tons respectively. Domestic production of urea for 1985-90 appearing in table 10 is based on 80 per cent utilisation of local production capacity. The growth of urea consumption is likely to continue in the future. Imports of urea will therefore be needed for a few years. Local production will meet most of the demand and in the near future Bangladesh will be an exporter of this item, if local capacity does not remain underutilized.

In the past, imports of TSP also fluctuated considerably due to variation of production at the local TSP factory at Chittagong. Of late the TSP Complex has shown better performance. On the assumption that it will be producing 120 thousand metric tons of TSP per year by utilising 80 per cent of its capacity, there will still be a need of increasing imports in future.

Since MP is not locally produced, the entire increasing requirement will have to be imported.

Future requirements of fertilizer and the import thereof shown in Table l0 do not include bufferstocks. Ideally, the BADC opines, one month's stock is sufficient to meet any unforeseen shortfalls. But the BADC must maintain a stock of three months of urea and five months for TSP and MP. The reasons for maintaining larger stocks than are warranted in principle are that although urea is produced locally, its delivery is uncertain because domestic production is occasionally interupted and since the major portion of total available TSP and the entire MP in use are imported, even more uncertainity as to their deliveries is apprehended. It was learnt from BADC that a bank overdraft of 800 million taka permits maintaining reasonable bufferstocks.

BADC has sufficient store capacity for maintaining adequate bufferstocks. With US AID, BADC built 400 stores (Primary Distribution Points) at the thana level. Then the USAID changed its attitude and asked BADC to reduce the number of PDP's to 100 and now they insist on 75 PDP's. This seems to be in conformity with the World Bank's privatisation scheme of the distribution and marketing system of fertilizer in Bangladesh.

Urea, TSP and MP remain the biggest and traditional items of imports. Research and experiment on fertilizer requirements is gradually adding more items of fertilizer for more extended use, and recently smaller quantities of DAP, HP, NPK and sulphates of Potash and Zinc are being imported.

Norway's grant to Bangladesh consists of urea, TSP and NPK. According to NORAD/DANIDA Evaluation Mission on fertilizer grant from 1973 to 1983 NORAD delivered (own record) 35.300 mt of urea, 99.480 mt of TSP and 42.800 mt of NPK under its commodity assistance and import support programme. In addition, NORAD delivered 11.500 mt of NPK in October 1984.

3. Usefulness of NPK

Although NPK forms a very minor part of the total fertilizer import into Bangladesh, it forms an important component of Norway's supplies to Bangladesh, being about a quarter of its total delivery from 1973 to 1983. Therefore, it is of importance to look into the performance of this complex fertilizer in relation to the traditional ones.

The rationale behind the advocacy of complex fertilizer has been that it provides balanced fertilization. Traditionally, farmers are advised to mix different types of fertilizers in order to obtain a mixture of desired proportion of N, P and K fertilizers for application to different crops. The desired proportion is attempted by applying straight fertilizers in two or three stages. For example, first of all, P and K fertilizers are applied at the last stage of land preparation. At this stage i.e. before sowing the N fertilizer is also applied. Then as the plant grows the N fertilizer is applied once more or twice depending upon the requirement of soil and growth of the plant. The reason for such applications of N fertilizer is that the loss of nitrogen through escape is quite considerable.

Experience of the last 14 years indicates that the farmers, who are mostly illiterate and inexperienced in this regard, have not been fully successful in the application of balanced nutrients in this way. In this situation, complex fertilizers which contain two or more plant nutrients in a certain ratio would seem attractive. Therefore complex fertilizer is used in a number of countries of the world. To mention a few, the share of complex fertilizer in total fertilizer consumption was 75, 69, 65 and 60 per cents respectively in Venezuela, Cameron, EEC and Nigeria in 1980-81. The corresponding figures for neighbouring countries like Thailand, Pakistan and India were 70, 38 and 25.

As for Bangladesh, this fertilizer is relatively new. For Bangladeshi soil and climatic condition, the tests and experiments for the standardization of the compound are far from being adequate. Experiments with this fertilizer are underway at different research stations of Bangladesh Agricultural Research Institute (BARI), but only results of one year's experiments in a few locations are available. A meaningful conclusion can only be drawn after another two or three years experimentation with a more comprehensive sample area and crops. However, the results of one year's experimentation may be illustrative.

During the Rabi 1984-85 season, two formulations viz. 16:16:16 and 23:23:0 of NPK were experimented in relation to traditional fertilizers (urea, TSP and MP) on major crops like rice, wheat, mustard and potato. For formulation 16:16:16, experiments were conducted on boro, transplanted aman and potato in three and wheat in four locations widely apart. For formulation 23:23:0 experiments were conducted on transplanted aus and mustard in three, one wheat in five and on boro in one similar locations. The results of these experimentations are shown in Table 11.

Table 11.
Performance of Complex and Straight Fertilizer

Crop	National Av. yield 1981-82 (t/ha)	Yield without fertilizer (t/ha)	Straight Fertilizer		NPK		NPK	
			yield with SF (t/ha)	increase over NA (%)	Yield with 23:23:23	increase over NA (%)	Yield with 16:16:16	increase over NA (%)
Potato	10.15	7.37	16.47	62	—	—	20.91	106
Mustard	0.61	0.54	1.08	77	1.43	134	—	—
Wheat	1.80	1.37	2.37	32	2.83	57	2.60	44
Boro	3.55	4.12	5.49	55	6.87	94	—	—

Source: BARI

Note: SF - straight fertilizer.

The above results show the yield potentiality of complex and straight fertilizer over the average national yield. It demonstrates higher yield potentiality of respectively potato, mustard, wheat and boro by 62, 77, 32, 55 per cent and 106, 134, 44-57, 94 percent over the national average through balanced fertilization from straight, and complex fertilizers respectively. Thus complex fertilizer is more beneficial than straight fertilizer by 44,57, 12-25 and 39 per cents for the above respective crops.

The head of the soil science department of BARI opined that since the results are tentative, application of NPK in a large scale cannot yet be prescribed. He pointed out that since NPK's is produced in fixed ratios, NPK will be required to be supplemented by the application of straight fertilizers, the type and quantity of which will depend on the soil condition and crop variety. This will still pose problem on the part of the farmers who are mostly illiterate. However, he was of the opinion that since tea, sugar-cane and tobacco are produced on commercial basis under better management, NPK may be recommended for the cultivation of these crops even under the present circumstances.

4. Changes in Government policies concerning fertilizer

Discussion on fertilizer should not be closed without any reference to the agricultural policy changes pursued in recent years because these policy changes are likely to have implications for fertilizer demand, growth of output and distribution of income.

In the early 60's some promotional activities were introduced by the government to popularise agricultural inputs, including provision of heavy subsidies on the inputs and control of the marketing system through distribution of inputs by the public sector agencies. In the late seventies the Government of Bangladesh, in order to relieve it of the budgetary cost on account of subsidy and the alleged economic costs of underutilisation and inefficiency due to the delivery system by the public sector agencies, decided that subsidies be withdrawn in phases and the private sector be assigned increasing responsbility in supplying, financing and managing of modern inputs and technology. In the case of fertilizer, the above policy changes would imply the reduction in fertilizer subsidies per unit and phasing out of BADC's monopoly in wholesaling and retailing. Furthermore, steps are also being considered to further increase the participation of private sector in the wholesale distribution of fertilizer by allowing them to lift fertilizer from ports and factories directly.

It may be mentioned that the above policy changes have been initiated and promoted by the World Bank/IDA and agencies like USAID and ADB. In order to ensure implementation of the changes, the IDA keeps an eye on the activities as regards the said policy changes.

Under the policy plans, complete elimination of the fertilizer subsidy is envisaged by 1986. Although a detailed evaluation of this change is desirable, we can only touch upon the point in the present context.

Empirical evidence suggests a high correlation between fertilizer consumption and its price and the price-sensitivity of fertilizer demand has been highly significant since 1976/77. A recent study by A. Rahman and S. Reza, has demonstrated that since 1978-79, escalation of fertilizer prices has been responsible for the decline of fertilizer consumption growth rate in Bangladesh. The study shows that in order to eliminate the fertilizer subsidy completely in 1986 a 30 per cent increase of fertilizer prices is required. This will reduce fertilizer consumption in relation to what it would have been by 24 per cent which will in turn reduce the potential foodgrain output by 2.16 per cent. Import of this quantity will entail a spending of 21 per cent more resources than will be saved by subsidy withdrawal. Since the price increase will mean a reduction in the use of fertilizer and correspondingly an increase in foodgrain import, they argue that the withdrawal of subsidy will perpetuate food aid dependency.

It is being argued that the impact of reduced fertilizer subsidies on the farmer will be offset by higher food prices that will assure unchanged economic conditions for the farmers. Against this it is pointed out that higher producer prices will only help the "surplus farmers" who have grain for sale and not the majority of the small farmers who only produce for own use. For them higher fertilizer prices may lead to an absolute reduction in the use of fertilizers. For our study these changes in the price policy are relevant as regards the forecasts of increased use of fertilizers, and the subsequent demand for imported fertilizers. Will the policy changes lead to a reduced need for commodity aid for import of fertilizers? The answers to this question is uncertain. Since 1962 the BADC has been distributing fertilizer from the Upazila (formerly Thana) Sale Centres (USCs) through appointed private dealers. Under the New Marketing System (NMS) introduced in 1979 much of the distribution and marketing function has been assigned to private dealers. In order to facilitate the privatisation scheme, the BADC has initiated closure of the USCs where the sale is not satisfactory. The BADC still functions as the distributor of fertilizer from the factories and ports to its wholesale outlets called the Primary Distribution Points (PDP). Under the old system the appointed dealers would lift fertilizer from the BADCs USCs with which they were registered and would sell fertilizers at the recommended price only within the specified union. The dealers were entitled to commission from BADC based on the distance of operation from the lifting points. Under the new system, any person, group or organisation is permitted to be registered as dealer who would be able to buy, sell or transport fertilizer anywhere in the country except the border area. It is envisaged that over time the entire procurement and distribution will be taken up by private dealers.

The introduction of the NMS was justified by the alleged inefficiency of the Old Marketing System (OMS). The inefficiency of the OMS was considered on three main counts. The first of these is that supply lagged behind demand in different locations. This led to the discrepancy between the official price and the farm-gate price which in turn gave rise to black-marketing and sometimes smuggling across the border. In the second place, the restrictive policies as regards appointment of dealers, selling areas and prices were responsible for the maintenance of less than desirable stocks. And finally, the administrative and financial burden was prohibitive.

Available data and studies do not indicate generalised excess demand under the OMS as well as NMS. However, occasional shortages of supply arose under both the systems. In respect of prices, available studies do not show significant divergence between official and farm-gate prices under OMS. To the contrary, some studies indicate that the price deregulation resulted in increased prices in the previously regulated zones. A notable point in this connection is that one study by Quasem in 1985 found that under NMS farmers in accessible areas tend to be relatively privileged with regard to supplies and prices in relation to those in less accessible areas. This dichotomy was not prevalent under the old system in the late 70's when prices were uniform throughout the country, it is maintained.

The NMS has encouraged concentration of dealership for mainly two reasons. A minimum of three tons requirement per lift has encouraged large wholesale dealers and discouraged petty ones. Again, although initial response to the liberalisation policy was impressive, later on many, particularly the smaller ones, abandoned the business because of their inability to compete with the larger ones who obtained higher rates of

commission. The findings of two studies by Engineering and Planning Consultants in 1983 and IFDC in 1980 indicated an increasing concentration of capital as well in the fertilizer trade under the NMS. The concentration of dealership and of capital seems to have created an artificial crisis in fertilizer availability in 1984 as a result of hoarding which shot up the prices.

Under the circumstances discussed above it is being apprehended that if privatisation of fertilizer procurement from domestic factories and ports is effected the market will become more oligopolistic. There is another reason against privatisation of procurement for at least a few years. This relates to the supply plan which is currently done by the BADC. The construction of a programming and monitoring of supply plan involves consideration of number of factors like changes in crop production strategy, input and output price policies etc. which is beyond the capacity of private dealers. As regards the marketing, the BADC recommends that the public appointed dealers be allowed to work particularly in remote inaccessible areas where private dealers are less enthusiastic to operate.

In conclusion we feel that there are reasons to ask whether the policy changes that are being pursued will imply that directly or indirectly a falling proportion of Norwegian fertilizer aid will benefit the poorer farmers, and farmers in less developed, underprivileged areas of the country.

Cement

Bangladesh has two cement factories. One is at Chhatak, Sylhet which draws limestone as raw-material from India, and the other is at Chittagong which also depends on imports, in this case of klinker. A little over one-third of the annual demand of cement of the country which is estimated to be of the order of one million tons, is met by these two factories. The rest is imported by the Trading Corporation of Bangladesh (TCB) and private importers. TCB's import target for the last 2-3 years has been 400,000 tons annually and the same amount is planned to be imported in 1985-86. In 1984-85, it imported 331,600 tons under aid and in addition a small amount of 20,000 tons under cash. According to the import policy, the share of TCB and private importers in total imports should be 75 and 25 per cent respectively. But as the private importers are also allowed to utilise the Wage Earners' Scheme, the share of private imports has been approximately as large as that of the TCB.

1. Imports, Quality and Prices of Imports

NORAD and SIDA grants along with IDA (World Bank) and Islamic Development Bank loans and other donors are the principal sources of imports through the TCB. Imports under NORAD/SIDA's grants have been very price competitive since South Korea, the Phillipines, Indonesia and Turkey which are the suppliers of cement under the scheme are the cheapest suppliers. The supply has been timely as well. Till 2-3 years ago, Bangladesh was also importing cement from Burma, but that country has no exportable surplus any longer. As regards India, it itself is an importer of this product from North Korea, among others. Sometimes Bangladesh also use this source of import but under barter deal.

Regarding the quality, consumers on the whole seem to prefer TCB's cement. This is, in part, due to consumer discrimination against the local product. The Sylhet cement, however, is of high quality because the factory uses limestone as raw-material, and it comes to the market more directly than imports and is therefore relatively fresher which is a quality in itself. However, the gunny bags which are used for packing of Sylhet cement are rather inferior because these bags are not good enough for the purpose of storage of cement and the bags are very vulnerable to rough handling.

From the point of view of relative cost, the Sylhet cement is quite favourable. However, this is not the case with Chittagong factory cement. The cost of imported klinker which is now $ 44,0 per ton is only about 8-9 dollars less than the imported cement, the imported cement being subjected to an import duty of 15 per cent plus sales tax of 20 per cent. After processing of klinkers the cement cost per ton comes to only one dollar less than imported cement.

Since, as indicated above, consumers tend to prefer imported cement, the TCB sets a price of 1-2 taka less per ton for the local cement than the imported one in order to encourage people to buy local product. TCB price per bag of cement is Tk. 98 to dealers whose sale price to consumers is Tk. 105 per bag. These prices relate to Dhaka. In Chittagong it is cheaper due to lower transport cost, and in North Bengal areas the price is 8-10 taka in higher than in Dhaka to cover additional transport cost. The idea of a "national price" is dropped on the ground that consumers nearer the port area objected to subsidize prices in the peripheral and remote areas. TCB's own commission in 5 per cent of the C & F value. This is to cover the service cost only. Private sellers charge an amount of 93 to 95 taka per bag. It was alleged that private sellers are able to offer those prices because they take resourse to various unfair means: their bags may weigh less than those of TCB and their cement may contain other mixes.

For these reasons and due to the assured quality of TCB's cement, consumers tend to prefer TCB's. Needless to say that the TCB dealers are not immune from these malpractices. Nor is it possible to guarantee that the dealers will take their share, which is 10 tons of cement every fortnight, to their specified zone for sale irrespective of the distance. However, the TCB has some regulating mechanism. In the case of abuses, the dealership can be cancelled, caution money of the dealer which is tk. 5,000 can be forfeited etc. Since, purchase of TCB cement involves some formalities, consumers prefer private marketing if the quantity to be purchased is small, say 3-4 bags.

In respect of the types of consumers, the government comes as a large buyer. Since government purchases are in large quantities, it is allocated cement directly from the port and at times the entire consignment is set aside for the purpose. However, this is not an exclusive privilege of the government. Private buyers, if large, are also entitled to such treatments. Relevant to this point is that import of cement has not been in bulk as humidity poses problem for local bagging.

Lastly, in view of private imports, the possibility of over supply and consequently smuggling across the border was investigated. The TCB is of the opinion that supply of cement is adequate in the market. TCB's own stock amounts to 30,000 tons and normally it tries to maintain a bufferstock of about 1-2 months' demand. As regards smuggling, TCB rules out the possibility of it being a problem because it is a bulky commodity and hence difficult to be smuggled out. However, some people at the Chittagong Port maintain that smuggling do take place.

Industrial raw materials - some examples of uses

1. Ferro Alloys

Ferro alloys are imported by Chittagong Steel Mills, a government owned unit under Bangladesh Steel and Engineering Corporation (BSEC), and which consists of five component units or mills. They are (a) Melting Shop, (b) Heavy Plate Mill, (c) Sheet Mill, (d) Blooming Mill and (e) Billet Mill, and they employ about 4,500 people. As natural gas now is available in Chittagong, all these mills are presently being converted for use of gas to the effect of lowering cost considerably.

The installed capacity of the Steel Mill is 250,000 tons. Subsequently, studies by UNDP and a British team separately inferred the attainable capacity as 200,000 tons and 160,000 tons respectively. In view of these constraints, the present level of output of 120,000-125,000 tons is not so far below full capacity utilisation as the figure for installed capacity may suggest.

The Steel Mill is dependent on a number of imported raw-materials e.g. pig iron, ferro alloys, silicon and ferro manganese, zinc and aluminium ingot etc. While pig iron is procured under barter trade against jute, hide etc. from Egypt, USSR, Bulgaria etc., the other items are being obtained under commodity aid **inter alia** from IDA, Canada, Sweden and Norway.

The Steel Mill is reported to have found ferro alloys received under NORAD's grant as most suitable in terms of quality and price competitiveness. Although occasionally the production process was interrupted due to

delay in supply on account of other suppliers, this complaint can not be lodged against NORAD's grant because its supply has been timely. The zinc requirements of the Mill is 4500 tons per year and an amount of 900 tons has been requested from Norway, and the mill management would like to have more, and in addition, 100 tons of aluminium ingot. Although NORAD's grant has not been untimely, the management would prefer longer term contracts.

Uses of imports under Norwegian commodity aid

Ferro alloys are utilized for the improvement of the quality of some of the steel which is normally produced in the form of billets in two dimensions: 110 x 110 mm and 50 x 50 mm. Zinc is used in the galvanizing shop for galvanization of steel sheets, plain as well as corrugated sheets, while aluminium ingot is used in steel melting shop for some operational improvement in the process of casting of steel.

The main purchasers of special steel billets remain the Bengal Steel and the National Iron & Steel Industries both located in Chittagong. Between 15 to 20 thousands and 5 to 6 thousands tons are delivered respectively to those industries per year. The Bengal Steel uses the billet for the purpose of manufacturing GI wire, binding wire, nails, screws and electrodes while the National Iron and Steel Industries use it for producing bailing hoops. Most of the output of the mill is plain quality steel that is rerolled into construction steel.

For production of galvanized steel sheets, the Chittagong Steel Mills uses both heavier types (above 6 mm. thickness) that it produces itself, and imported sheets (0.42 mm.) that are used for corrugated sheets. The plain galvanized sheets are used in construction of rickshaws, for roofing etc., as well as for production of water tanks, buckets, bodies of buses and so on. The corrugated variety is extensively used for roofing of houses, and the construction of small shops and other business premises.

Although the Mill is reported to have made a profit of 5 crores of taka in 1984-85 and have no problem of over production, we observed during the visit to the different component mills, that inventories of several products appeared quite substantial. There may be two reasons for this: low demand in general due to the alleged stagnation of the economy, or competition from private suppliers. Especially for construction steel, billets produced by the steel mill face competition from steel scrap from ship breaking which also is used in steel rerolling for production of common qualities of construction steel. As regards special steel, for which ferro alloys are used, the mill has a protected market. However, also as regards galvanized sheets the mill faces competition from imports and domestic production of corrugated sheets on the basis of imported plain sheets.

2. Aluminium and copper rods

The Eastern Cables in Chittagong is a very sophisticated factory which, for example, has well equipped laboratories being able to test 11 KV cables with 17 KV's to generate tension of up to 50 KV. It employes 465 people, and is a government owned unit under Bangladesh Steel and Engineering Corporation.

The factory is totally dependent on imported raw-materials which **inter alia** include aluminium rods and copper rods. The factory has been utilising NORAD grants to procure those raw-materials, as well as aid from other donors. At times, it takes recourse to cash and WES imports. The annual consumption of aluminium rod by the factory is about 1,500 tons and the consumption of copper rod is also of similar order. In the year 1985-86, the consumption of aluminium rod has been planned to be increased to 2,000 tons. Because of slow import procedures, it imports 6 months requirements at a time.

As regards the quality, the NORAD's supply generally has been satisfactory. Only on one occasion in 1984-85, one consignment of supply was found to be in damaged form due to oxidization caused probably by its exposure to sun and rain. The use of that shipment entailed some problems in the manufacturing process. To avoid the corrosion the next consignment was sent in a container.

As for the costs of imports, Norwegian prices are reported to have been 15-20 per cent higher than international prices. In a recent tender of 16th October 1985 of aluminium rod South Korea offered the

cheapest price of $ 1185.00 per ton. In the bid, the Canadian prices came higher and the Norwegian prices higher still.

Uses of Aluminium and Copper Rods

Aluminium rods are used for manufacturing mainly two types of conductors: (a) AAC meaning all aluminium conductor and (b) ACSR meaning aluminium conductor with steel reinforcement. These conductors are meant for high as well as low voltage. The use of the copper rods consists in the manufacture of cables and domestic wires. Eastern Cables supplies the Power and Development Board (PDB) and Rural Electrification Board (REB) with conductors and cables. This supply is reported to have been effected through international tender, i.e. against payment in foreign currency. The production of domestic wires amounts to about 900 tons annually. In terms of taka the value of this amount comes to about taka 80-90 million. Total sale of the Eastern cables in 1984-85 was taka 350 million.

Ultimately, but indirectly, the final users of the products manufactured on the basis of goods provided under commodity aid are in this case the electricity consumers. These are both industrial and commercial users who in turn contribute to the economic development of the country; and households. The household consumption is clearly concentrated on well to do households in urban areas. A vigorous rural electrification programme is going on, but only a minority of the rural households can afford to install electricity for use as lighting. It does, however, also favour installation of electric motors for irrigation pumps, and some rural industries, some of which, notably rice and oil mills, severely reduce the demand for labour, in particular poor women, that formerly undertook such processes by traditional methods.

3. Aluminium ingots

Bangladesh is totally dependent on imported aluminium. Both the manufacturers and commercial importers import aluminium, the latter's share in total imports varies between 40 to 50 per cent. The sources of imports are Bahrain, Abu Dhabi, Egypt, Dubai, Spain, Canada, Australia, USA, France, Brazil etc. More than one source of finance e.g. cash, grant & loan, Wage Earners Scheme, is being used for the purpose.

Aluminium ingots are imported in a wide variety of sizes. The two manufactures interviewed mentioned imports of ingot sizes of 16 kg., 23 kg., and 25 kg. As regards quality, ingots are required to have a minimum of 99.5 per cent pure aluminium. The two manufacturers did not have any problem in this respect as their imported ingots had aluminium contents of 99.529 and 99.7 per cents respectively.

Aluminium ingots are mostly used to manufacture a wide variety of household utensils. To some extent, it is also used by the producers of electrical fans and engineering workshops. In the fan industries, aluminium is required to prepare some parts like the blade, thin rods of the fan etc. In the steel mill, it is used for some operational improvement in the steel melting shop, and engineering workshops utilise it for making machinery spares.

Coming to the manufactures of household utensils, which are of particular importance from the point of view of the poverty orientation of the Norwegian aid, more than 100 items of every day use are produced by each of the two industries. The items include saucers of different size, plates, pans, serving trays, bowls, jugs, mugs etc. The middle and lower middle class people are the users of these products. These two groups consume about 70 per cent of the total aluminium products. Aluminium products, when annodized i.e. washed by chemicals like nitric acid, phosphoric acid and mixed colour chemicals, are of an improved quality. In particular, trays, decoration pieces are annodized for consumption of upper middle and upper class people. The very poor people do not usually use metal utensils; they mostly make do with earthen utensils.

The ordinary aluminium utensils are low priced items. The utensils are valued by the seers (1 seer is almost equal to 1 kilogram). For this purpose, utensils are grouped into five categories according to their sizes and the factory prices to dealers/wholesalers are 54, 58, 61, 68 and 69 taka per seer respectively as one moves for

items from smallest sized group to the highest one. Dealers disposes these goods to retailers at a profit margin of 4 to 5 per cent. Used and old aluminium wares can be resold at about 50 to 60 per cent of the original prices.

Most of the aluminium utensils manufactured on the basis of ingots imported under commodity aid, represent undoubtedly mass consumption goods, but as observed above, they are not in general used by the poorest people. Electric fans are relatively widely used, and improve working conditions in many offices and shops and in some few factories, but are evidently not installed in poorer homes, even when these use electricity for lighting. An important issue is whether the use of cheap aluminium utensils is making gradual inroads into the market for traditional pottery which is manufactured by a large number of units employing tens of thousand people.

Pulp for manufacturing of paper and rayon

Paper is mainly manufactured in three factories, all government owned, under the Bangladesh Chemical Industries Corporation (BCIC): Khulna Newsprint, North Bengal Paper Mill, and Karnaphuli Paper Mill (KPM). The Karnaphuli Paper Mill at Chandraghana, about 50 km from Chittagong, is situated on the Karnaphuli river in the foothills of Chittagong Hill Tracts and is the oldest of the three.. The Karnaphuli Rayon and Chemicals (KRC), another factory, is also situated in the same location. The Karnaphuli Paper Mill was established in 1953 by the then Pakistan Industrial Development Corporation (PIDC) and was later sold to Dawood, a large business conglomerate from West Pakistan who built the rayon mill in 1967. After liberation, the factories were nationalised. The KPM and KRC along with three other components form part of a larger complex which is headed by an Executive Director. The other components are Karnaphuli Shipping Limited (KSL), Road Development and Bamboo Extraction (RDB) established with SIDA assistance and General Marketing Management located in Chittagong. These components are headed by General managers who are responsible to the Executive Director.

The KPM has a capacity og 30,000 tons of paper and 45,000 tons of pulp. As regards employment, 3,500 persons are working on regular basis. In addition, between 400 to 500 casual workers are employed every day. About 80 per cent of the permanent workers and 90 per cent of the officers have been provided accommodation within the factory area which is about 4 sq. km.

The installed pulp manufacturing capacity of the Karnaphuli Paper Mill is adequate enough to meet its own pulp requirements as well as the rayon mill's. It was planned originally to procure the necessary bamboo from the adjacent and deep forest area for producing pulp. But subsequently the Kaptai Hydraulic Project was undertaken which necessitated construction of a huge dam and a vast water reservoir system at Karnaphuli river at an upstream point from the paper mill. As a result, transport of bamboo from forest to paper mill by the river was halted and collection of deep forest bamboo became prohibitive from the point of view of cost. With assistance from Sweden, considerable efforts has been made to facilitate increased supplies of bamboo. KPM is also using wood, and increased forest plantations can add substantially to the future supply of raw materials for pulp making. The Sylhet Pulp Mill was envisaged as a second source of pulp for the mill. However, this source of pulp later became ineffective with the contraction of the haor area which produce reed, the main raw material planned for the Sylhet Pulp Mill. For these reasons, the Karnaphuli Paper Mill is now importing pulp, the quantity of which varies from year to year depending upon local availability. Imported pulp is not only needed to supplement inadequate local supplies, but also for blending purposes.

In 1984-85, the Mill imported 12,000 tons of pulp. Import sources were Norway, Sweden and Canada. The pulp was of three types – bleached kraft pulp, semibleached kraft pulp and bleached sulphite. Recent import prices of these were roughly 425, 379 and 400 US dollars per ton respectively. Import prices were fairly competitive. However, generally Canadian price was cheaper than those of Norway and Sweden. Again, it is to be noted that although the freight cost is more or less the same with respect to the three suppliers, it is a little higher from Canada. Another notable point in this regard is that Bangladesh ship is used in the case of Norwegian and Swedish supply.

Pulp Products and their Uses

The main product of the Mill consists of writing and printing papers, In terms of tonnage, the share of these two products is 60 per cent. The remaining products are wrapping paper, file cover, paper board, corrugated liner, corrugated board and boxes.

The writing paper is either being used directly, or used by many small firms which are engaged in secondary activities like making of exercise khata (white paper and lined paper bound for convenient use), writing pads etc. Some medium sized firms like the Bangladesh Paper Product in Chittagong, the Eagle Box in Dhaka etc. are also using the paper for these purposes. While printing papers are mostly consumed by the printing industry, the wrapping papers are used by a wide variety of consumers including printing industry and the Bangladesh Government. Another variety of thick paper produced by the Paper Mill is used by the Bangladesh Tobacco as a slide of the inside of the locally produced cigarette packet. Formerly, aluminium foil had been in use for the above purpose. Of late, the Paper Mill is also producing boxes made of plain paper liner as well as corrogated liner. The boxes are used by local industries for transportation of different products mostly in the local market, and some for exporting of goods like garments etc.

The uses of the various products of the paper Mill discussed above shows that the Paper Mill is producing what is called 'basic papers'. It was gratifying to note that the imported pulp is not being used for producing non-basic items like art paper, glossy paper etc.

Of the two other paper mills in the country, one is the Khulna Newsprint, based upon local "geva" wood from the Sundarbans forrest as raw-material, producing newsprint and kraft paper. The other is the North Bengal Paper Mill which manufactures a few variety of paper excluding newaprint. This mill uses "bagasse", a waste product of local sugar mills, as raw-material. Also these two factories do not get enough raw materials locally and must import pulp. There is also a pulp mill in Sylhet (under BCIC as well), which uses jute cuttings, bamboo an wood in addition to reeds that were planned to be its main source of raw material, but which is in very short supply. The Sylhet Pulp Mill can therefor far from supply the paper mills with the pulp that they need. In view of increasing demand of paper in the country and as imports of most types of paper is banned, the KPM has a plan to install one more paper machine so as to double its capacity from the present level of 30.000 tons to 60.000 tons.

Karnaphuli Rayon and Chemicals (KRC)

Originally the factory was built to produce rayon yarn of 7 different qualities for the entire Pakistan market and hence after liberation the capacity became far too large for the Bangladesh market alone. Recently in 1983-84, as a result of installation of equipments to produce rayon staple fibre (RFS) for blending with cotton, the rayon yarn capacity was reduced correspondingly.

KRC was planned to produce rayon (viscose) from bamboo based pulp manufactured by KPM. But due to the failure of the KPM to supply the same owing to the shortage of bamboo, KRC now bases its production exclusively on imported pulp, the annual requirement of which is 7,000 tons. It is of importance to note that the KPM needs one specific type of bamboo to produce rayon grade pulp. The factory has been interested in importing rayon grade pulp from Norway but so far it has not imported any amount under Norwegian grant.

Fairly short time ago viscose fibre was cheaper than cotton and thus blending decreased the cost of the yarn. But now opposite is the case so that the fibre is not sold. Both the Bangladesh Textile Mill Corporation and the private mills have stocks of imported viscose fibre. In 1984-85, 700 tons of RSF was produced and sold (capacity is 3,500 tons). But this year only 500 tons are produced and has not found any market. The factory was not operating when we visited it.

Cellophane is another product of KRC. Although the installed capacity is 1500 tons per year, the plant is old so that major repairs were undertaken in order to reach a production target of 1,000 tons this year compared to last year's production level of 700 tons. Cellophane is produced from the same intermediate product viscose as rayon yarn and staple fibre. In the one case the substance is rolled into sheets and in the other it is drawn into thread or yarn.

Uses of KRC Products

The products of KRC are a mixture of luxury types of goods consumed by a minority and goods that are used by poorer people as well.

Rayon yarn is used in the handloom industry for weaving of saris and lungis while coarser yarn is used for manufacturing curtains and bed covers. Therefore, to the extent rayon yarn is used by the handloom industry, it has the secondary effect of creating employment. But it is doubtful whether rayon yarn products are used by poor consumers. Rayon staple fibre, however, was used as blending material for spinning of yarn which is used in the handloom industry for weaving cloth of current use. As it now is more expensive than raw cotton, it is not at present contributing to lower the prices for the poor consumers.

Rayon yarn is also sold to twisting factories for use by the power loom units to produce mixed saris (mixed cotton/yarn). The quality of the sari is not as good as in India. There exists some buyers' resistance against local products so that manufacturers sometime label their product as "Made in India".

Moisture proof cellophane is used for packing tobacco products, biscuits, medicines, tea and some confectioneries while plain transparent cellophane is used for packing of textiles, some confectionaries and handrolled traditional "biris" (a cheap type of cigarette).

At the end it is worthwhile to mention a personal observation of the leader of this evaluation team who during another assignment in Bangladesh happened to study, among other, manufacturing of rayon yarn. From the national economic point of view production of rayon yarn is a foreign exchange loosing operation. The cost of fuel, electricity and water per ton of rayon yarn produced exceeds the cost imported rayon yarn. Even when the plant and equipment (which has cost a lot of foreign exchange, not at least the installation of rayon staple fibre manufacturing equipment) is regarded as "sunk cost", viz. considered as lost foreign exchange, it is likely that it costs at least as much foreign exchange to produce a pound of rayon yarn or staple fibre as to import it. There is, therefore, no economic argument in favour of supplying rayon grade pulp to keep the factory going. Besides, only some of the output can be said to be of current use for poor consumers.

It is clear from the information obtained in the Karnaphuli factories that pulp imported for use in paper production ultimately mostly serves essential purposes. Final products like text books, excercise books, wrapping paper, printed forms, newspaper and goods packed in boxes are bought or used by a large number of people, including poor ones. Very little of the output of the paper mills is used for luxury purposes. We have also included some information on the rayon mill, because BCIC might eventually request rayon grade pulp for that mill under Norwegian commodity aid. For several reasons Norway ought to limit pulp deliveries to such qualities that are used for paper making only. The rayon factory mainly produces rayon yarn used by somewhat better off consumers, cellophane for packaging of many non-essential products, and staple rayon fibre for which the market is very restricted under present conditions. As the factory is operating at so high costs, including foreign exchange costs, that it is doubtful whether it saves any foreign exchange, the only reason to keep the factory going is that it creates employment for about 1,500 people, and gives Bangladesh additional experience in operating complex chemical factories.

5. Coconut Oil

The Kohinoor Chemical Co. Ltd.(KCC), user of coconut oil imported under Norwegian import support, is located in Tejgaon Industrial Area, Dhaka. This factory together with Kohinoor Battery Manufacturers in Tongi, Dhaka form the Kohinoor Group of Industries. The main product of the KCC is soap with installed capacity of 21,000 tons on a three shift basis. It is a government owned unit under Bangladesh Chemical Industries Corporation.

The basic raw-materials of the KCC consist of tallow and R.B.D. (refined, bleached and deoderized) palm stering. Tallow is imported from Australia and New Zealand while the palm stering which is extracted from palm oil is imported mainly from Malaysia.

The oil requirement of the factory is largely met from coconut oil. Coconut oil is used in the manufacture of washing soap (5 to 8 per cent content) as well as toilet soap (10-15 per cent content). In addition to coconut oil, small quantities of rice bran and palm kernel oil are also used in the process. But coconut oil is best suited for making washing and toilet soaps because it possesses the highest foaming quality. It is also best suited for making transparent glycerine soap because the oil contains 13 per cent of glycerine. Since local coconut oil is not available in large quantities and is very expensive, the factory has taken recourse to imports which is in part being obtained under NORAD's import support programme. The use of coconut oil by the factory has been to the tune of about 1200 tons annually. The main source of supply has been Sri Lanka, Singapore and Malaysia and the factory is directly engaged in the purchase. There are no complaints about the quality of the oil. The Sri Lanka oil is a little expensive but is found competitive because of its good quality and 5 per cent duty discount.

Almost all coconut oil requirement has been met from NORAD's grant. This year's planned import of coconut oil amounts to 1500 tons. The factory is reported to have placed an order for 400 tons of NORAD's grant under a previous allocation. An allocation of NORAD's grant for 1985 was awaited.

A complaint relates to the L/C opening process. Sometimes it takes about a month, but usually 15 to 30 days, from the date of opening of L/C by the designated bank in Dhaka to the date of confirmation of L/C by the bank in Oslo.

Quantity and Variety of Produce and their Uses

As is mentioned, the main products of the factory remain washing and toilet soaps. Other products consists of cosmetics e.g. snow, powder, hair oil, toothpaste etc. Glycerine which is obtained as a by-product can also be added to the list. In all, 56 different products are coming out of the factory. Another 10 items are expected to be added as from the beginning of 1986.

During the last three years the annual average output has been estimated at 13,000 tons approximately. As a producer of washing soap the KCC ranks 2nd in the country, the 1st being the Lever Brothers. In 1984-85, these two factories produced 15000 and 18000 tons of washing soap respectively. Together, they cover 70 per cent of the market demand. The rest is supplied by other sources, mostly handmade soap makers in the countryside whose raw-material consists of local beef tallow with little or no coconut oil at all.

The main product of KCC, the washing soap which is used both for washing and toilet purposes by the ordinary people, costs tk. 5.50 per 156 grams cake to the consumers while the toilet soaps cost tk. 6.00 and tk. 7.00 per 93 grams and 100 grams cakes respectively. Soap is distributed from 14 depots through 250 distributors drawn from all over the country. The distributors' and retailers' discount rates are 2.5 and 5.0 per cents respectively. Regarding employment creation, KCC employs about 1250 workers and staff.

Factory produced washing soap is widely used also by poorer people. Coconut oil as an ingredient in such soap is therefore a raw material which to some considerable extent is used to manufacture an essential product for mass consumption. From the point of view of the ultimate use of the raw material, imports of coconut oil under Norwegian commodity aid appears to be fully justified.

VI. Administrative Procedures

Administrative Practices and Options

It is generally assumed that commodity aid is more easy to implement than project aid, and that it implies less administrative problems for both recipient and donor countries than projects. On balance this assumption is probably correct, but it does not mean that administration of commodity aid is all that simple. The programme cycle for commodity aid is also long: determination of the amount of commodity aid for a single year (and possibly for a longer period); allocation of commodity aid to specific types of goods (if relevant); tying of purchases to specific sources (if relevant); purchase procedures; payments procedures; other conditions attached to commodity aid (if relevant); control of deliveries; control of final use (if relevant); and use of counterpart funds generated by the recipient country (if relevant). All these arrangements will in fact be subject to negotiations between the recipient country and the donor organisation. Finally, the cycle will often be completed by an evaluation of the impact of commodity aid. As suggested by the words "if relevant" in brackets, the procedures can be simplified considerably if the donor limits the conditions attached to commodity aid. In reality, different donors follow different principles, with emphasis on very different conditions. For example, IDA commodity credit administered by the World Bank is basically subject to three major conditions: not more than 25 per cent of the total amount during a year should be used for goods under one single SITC heading; purchases have to be subject to international competitive bidding; and the commodity aid is made conditional on the introduction and implementation of policy changes recommended by the World Bank. The British aid is tied to purchases in Great Britain and the purchases are handled by the Crown Agent, but the use of the aid is otherwise considered to be flexible.

The system operated by Norway is fairly complex. Total commodity aid is broken down into commodity assistance, and import support tied to purchases in developing countries, and the budget allocation between these two types of commodity aid is determined at an early stage. Moreover, at least indicative figures for the allocation of the two types of commodity aid to specific goods and/or buyers are also agreed upon at the outset. Commodities under commodity assistance are bought and paid by NORAD, while purchases under import support are handled by the various firms or organisations that have been granted permission to draw on Norwegian aid by the Bangladesh authorities, but again the payments are made by a Norwegian bank. Deliveries under commodity assistance **de facto** concern the Norwegian authorities until they have been received and accepted by the buyer. Similarly any problems arising with payments of commodities bought under import support will be raised by the importer with NORAD. On the other hand, Norway has neither specified the use of the counterpart funds, nor the final uses of the goods that are delivered, and has not attached any policy conditions to the aid either. Still, the existing conditions and the procedures that follow from them are time consuming, and not easy to keep under effective supervision.

The definition of needs and allocation between commodities

We have not reviewed the basis on which the initial allocation of Norwegian aid between commodity aid and other forms for aid is made, but we have noted that in principle Norway wants to reduce the relative weight of commodity aid to 25 per cent of the total Norwegian bilateral aid to Bangladesh. This target presumably applies to the actual flow of resources, i.e. to disbursements. If so, it may be necessary for quite a few years to allow an even higher percentage for commitments of project aid since the flow of disbursements from project

aid is so much more protracted than from commodity aid. It should also be noted that one reason why actual deliveries of commodity aid have reached far higher percentage figures in the past is that some unspent project funds in the annual budget have been transferred to commodity aid in the course of the budget year.

The next step, viz. the allocation of both commodity assistance, and import support on different types of goods is of considerable practical interest. Experience shows that allocations initially agreed upon are changed many times in the course of the budget year, and the reallocations also involve shifts from commodity aid to import support and **vice versa**. We have not been able to examine in detail how the External Resources Division of the Ministry of Finance establishes its initial allocation on different commodities. But we know that ERD receives requests from various organisations, notably those who have experience with Norwegian commodity aid, for allocations for the forthcomming year. In several cases these include requests that could not be accomodated during the current year. Moreover, actual requests for commodity aid are in part an outcome of the annual **Import Policy** which is prepared during the first half of a calendar year, and announced at the same time as the budget, viz. shortly before lst July. The Import Policy is determined on the basis of assumed availability of foreign exchange, and (according to information that we received in the office of the Chief Controller of Imports and Exports (CCIE)) the import entitlements for the different types of goods are accompanied by decisions about how they shall be financed, by commodity aid from specified sources, through barter etc. (Thus, for example, imports of pharmaceutical products are supposed to be financed from five different sources, and we got the impression that each buyer had to spread his purchases amongst all these sources.) Therefore in theory new allocations of commodity aid for 1985 may have reflected the 1984-85 Import Policy, but it is at least equally likely that they will not be part of the official Import Policy until the second half of 1985. Nevertheless, the system does not appear to be all that inflexible as regards purchases by public sector organisations. But as regards some imports it does in part explain the rush to spend commodity aid towards the end of a calendar year which is the beginning of a new Import Policy year.

The reasons for the many changes in allocations in the course of a calendar year are many. One is that some organisations may have asked for one specific type of goods at the beginning of the year, and then find that they need something else more urgently in the course of the year (e.g. Bangladesh Agricultural Development Corporation (BADC) asking orginally for some equipment, and wanting to use the money for fertilizers later in the year). High level interventions also occur: in August 1984 an allocaton of NOK 31 mill. was shiffted from urea to rape seed and aluminium ingots; 2 weeks later the President's office intervened and asked that urea should be kept on the list. But one major reason is linked to the purchasing procedure: in the case of commodity assistance prospective buyers are sometimes unhappy about the price the commodity is offered for, and the deal is not made in time. In other cases the commodity in question is difficult to procure. Another example again from 1984 was rape seed under import support, which the buyers did not find in any developing country – in the end the Norwegain authorities agreed to purchases in Poland and eventually Canada, but no deal was made all the same. (In this connection it has been suggested as an explanation for non-utilisation that rape seed was needed by many small importers, who were unable to organise the purchases.) In any case the occurance of so many changes in the composition of the commodity purchases under the two programmes raises the question whether there is any purpose at all in the time and effort expended on reaching agreement on a list of allocations prior to and during the country programme discussions in the autumn.

For administrative reasons, however, the ERD must probably make its announcement of allocations at the beginning of the calendar year. This announcement is of practical importance: it informs the various organisations of the amounts that are at their disposal for purchases of specific goods under Norwegian commodity aid. But is it necessary that the announcement should be as specific as it is? One example: the Bangladesh Steel and Engineering Corporation was as late as in 1984 offered the opportunity to buy different metals for given amounts of money specified for each product. In 1985 this procedure has been simplified – a lump sum is now allocated for aluminium rods, zinc ingot, ferromanganese and ferro-silicon. This is definitely a step in a right direction as changes in the more rigid allocation between related commodities in the past had to be proposed by ERD and then approved by NORAD, Dhaka after initial approval by NORAD, Oslo. Even if such approvals appear to have been granted fairly promptly, they did entail telexes and letters and took time. One special case concerns the CCIE who in the main deals with private importers. They have to

utilise specific allocations ranging from aluminium ingots to rape seed and coconut oil, and it is rather difficult to arrive at purchases which correspond to the allocations. CCIE would prefer an allocation for "industrial raw materials", and in our opinion it should be possible to do so, provided that a "negative list" was established which specified which types of commodities would not be eligible for this purpose as industrial raw materials. It would take some effort and consultation to prepare such a list, but it would simplify administration in the future. Also it would make it easier for CCIE to utilise its allocation in full. One problem would remain both for commodity assistance and import support, and that is the non-utilisation of allocations by some importing organisations. This compels the ERD to undertake reallocations, including reallocations between commodity assistance and import support. Is it necessary that NORAD should approve such reallocations? We would argue that if commodities are not added to the list, there should not be any reason for approval by NORAD, an approval that appears to be given more or less automatically in any case.

A more controversial issue might arise if the reallocation implied a significant and repeated shift from commodity assistance to import support or vice versa. This is basically a political issue and concerns Norwegian export interests, but if Norwegian firms cannot deliver goods in actual demand in Bangladesh, should we therefore let some of our assistance to Bangladesh remain unspent? In practice, the Norwegian authorities have not been inflexible in reallocating funds from commmodity assistance to import support, and reallocations have also been made in the opposite direction. In short, there does not appear to us to be any serious reason not to introduce more flexible allocation procedures. There would, of course, be every reason to insist on prompt reporting of any and all changes in allocations made by the ERD.

Purchases and payments

Commodity assistance.

When an institution that has been allocated funds under commodity assistance to buy a specific product from Norway has specified its order, it is transmitted in the form of a "Plan of Operation" to Norway, and if it is agreed by the Norwegian authorities, it constitutes the formal agreement for this portion of the Commodity Assistance. Thereupon NORAD asks for competitive bidding if possible. We have heard complaints from buyers in Bangladesh that they sometimes only receive offers from one supplier. We have no reason to assume that this is due to inadequate efforts on the part of NORAD, Oslo, but take it as a reflection of a lack of interest amongst Norwegian exporters. If and when the potential buyer accepts the offer, NORAD orders the goods and pays for them and the freight to Bangladesh. This is a straight forward operation, and involves few additonal problems (except in cases referred to already, such as insect sprayers and medicines the imports of which were banned in Bangladesh). Reportedly, however, there have been some unfortunate slips; in some cases the name of the consignee has been inexact, or shipping domucments have been delayed.

Import support.

In this case the Bangladesh buyer is responsible for the purchase, and the Norwegian involvement is limited to the payment. The letter of credit established by a bank in Bangladesh has to be endorsed by the Norwegian bank in charge of payments for imports under import support to Bangladesh. There have been some complaints about inaccurate or delayed endorsements by the Norwegian bank, but the system seems to work smoothly on the whole. However, one problem concerns the L/Cs which arrive in Oslo - these have sometimes exceeded the allocation for a specific commodity, occasionally because the process of reallocation had not been completed. The responsibility for issuing L/Cs inside the given limits must be born by the CCIE who grant import permissions and the commercial bank in Dhaka who controls the creation of L/Cs, but if the limit is overstepped, the Norwegian bank in consultation with NORAD may have to refuse to endorse L/Cs. Ultimately this is a problem of communicating information, that has to be kept in mind constantly.

Utilisation of aid.

At the end of this chapter on Administrative Procedures we have included a short study of the **import procedures in Bangladesh** that helps to explain several of the problems related to the utilisation of aid. It is

important to keep in mind that aid disbursements do not merely depend on procedures laid down by the donors, but also on how these fit into Bangladesh's own system.

Miscellaneous problems.

There are often short delivery periods for goods ordered in Norway under commodity assistance. We have not examined the background for this problem, but all indications suggest that the buyers – for lack of finance or import opportunities – often have small inventories of essential raw materials and therefore need additional supplies quickly. Goods are also required to be inspected before shipment, and it has happened that due to inadequate communication this has not taken place, but apparently without creating any serious disputes. But there have been some complaints about quality deterioration before the goods reached their destination, and about missing items. We dare not express any opinion about whether these are events that normally do occur in international trade, or whether particular neglect on the part of the Norwegian suppliers of aided shipments has been the reason.

Communication problems

The sum available for commodity aid are adjusted from time to time, and for a variety of reasons. As discussed previously, one major reason is the reallocations which ERD is compelled to ask for in the course of the year. Another reason is the transfer of unused financial resources from one Norwegian budget year to another and, finally, transfers are also undertaken from project aid to commodity aid. In studying the files in NORAD, Dhaka, we got the impression that it happens that the relevant offices in Bangladesh and/or Norway have lost sight of how much commodity aid, of either type, is available for what. The problem is complicated by the fact that it is difficult to know at all times how much of the import support allocation has been used because Oslo does not know how many L/Cs Dhaka has issued, and although Oslo knows how many L/Cs have been transmitted to the Norwegian bank for endorsement, nobody knows how many L/Cs actually will be utilised or when. To some extent these difficulties are unavoidable, but either NORAD, Oslo or NORAD, Dhaka - probably Oslo - should have a continously updated accounting system which showed the most recent allocations, disbursements and likely disbursements. The various balances should be communicated to NORAD, Dhaka at least as often as once a month so that NORAD and ERD in Dhaka could "compare notes" frequently, and not be uncertain about which funds are available.

Outsiders' influence on the allocation of Norwegian commodity aid

We have dealt briefly (pp 61-63) with the process leading up to the allocation of Norwegian commodity aid between different types of goods. As regards bulk commodities like fertilizers, cement, metals and other industrial raw materials we have reasons to believe that allocations reflect the demand for such goods as inputs in agriculture, manufacturing and construction, and that in general no special interests influence the overall allocation. It is, of course, likely that import agents for Norwegian produced goods use their influence to have as much as possible of a given commodity included under Norwegian commodity assistance, but this does hardly lead to any misallocation of resources as regards these bulk commodities. An exception may be NPK fertilizers which are being promoted, and in that case it might be of importance to find out whether some specific Bangladeshi importers could have vested interests in such imports.

However, as regards more specific items, often imported for an individual organisation, it is of greatest importance to try to verify whether aggresive Norwegian suppliers in close cooperation with powerful Bangladeshi trading houses will try to **create needs** for goods that presently must be regarded as low priority items in Bangladesh, or can be supplied cheaper from other sources, including domestic ones, or which ultimately are of no use at all. The case studies of insect sprayers and medicines illustrates these problems most clearly, but there are reasons to look into deliveries of capital equipment also. It is a well known fact that large trading houses with ample financial resources easily may convince some key officials that a given commodity is required to accomplish useful tasks. An example is one of the most dynamic groups of enterprises in Bangladesh, and from the point of view of the development of more efficient private industries

in Bangladesh, it has a definite role to play. But import trade is more than the bread and butter for most of the business conglomerates in Bangladesh, and their influence is tremendous. This conglomerate was promoting the imports of insect sprayers, and will most certainly also be servicing the Norwegian produced microcomputers bought by the Bangladesh Bureau of Statistics. We do not want to expose this particular firm more than any other influential indentor group, but their role in the use of all Norwegian aid must be recognised, and requests for imports of goods of a more unusual character have to be examined most carefully. Our firm suggestion is that any import of capital goods, and of goods used for major modernisation and rehabilitation works should be omitted from commodity aid, and treated as projects and be subject to careful impartial project appraisal.

The administrative burden of NORAD

We have not considered it as useful to undertake a detailed examination of the administrative burden on ERD and on NORAD, Dhaka and NORAD, Oslo. But in the course of reviewing different parts of the Norwegian commodity aid, we have gained some insight into the administrative work in NORAD, Oslo as well as Dhaka. We have noted that NORAD, Dhaka successfully has obtained that all offical contacts with buyers in Bangladesh should go through ERD. This is **per se** logical as ERD is the only organisation which can grant permission to buyers to utilise Norwegian commodity aid. However, it is neither desirable nor possible for NORAD to avoid any contact with potential or present beneficiaries of Norwegian commodity aid. NORAD's understanding of what goes on in Bangladesh is increased through contacts with a wider circle of Bangladeshi officials and private persons, and many Bangladeshis may need information about Norwegian conditions that cannot possibly be provided by the ERD.

We did try to get an overview of what kinds of problems that NORAD, Dhaka has to deal with in one single subject area, viz. import support from the beginning of 1983 to June 1985, merely on the basis of the file on the subject. The file, we presume, should give a fairly complete picture of events which have been recorded in writing, but we realize, of course, that it would not record all meetings and certaintly not most of the numereous telephone conversations. The file was satisfactory although a few letters etc. referred for in papers in the file, were missing.

On the basis of the file it is not possible to argue that import support represents an excessive work burden. It covered a period of about 125 weeks in which 175 letters, internal notes and telexes were received or sent. As each case normally leads to at least 2-3 letters etc., there does not seem to be, on average, more than, perhaps, two new cases to deal with every month. The distribution of the documents on different subjects is revealing: half the papers (87) dealt with allocations between commodities, transfer of allocations and utilisation of them; 61 papers dealt with more specific questions, such as possible objections to import, payments problems, problems in relation to deliveries, questions from private buyers and from public sector organisations. One very simple problem occured from June 1983 to May 1985 and led to 14 letters and telexes: which are the countries that are eligible as suppliers under import support. (It is a bit surprising that NORAD, Oslo only could supply a 2-3 year old list from OEEC-DAC – an up to date list must be available in the Ministry of Foreign Affairs, or the Ministry of Development Cooperation.) The remaining papers included some on procedures, mostly on information, and a few dealt with the present evaluation. The overall impression is that the main worry has been the frequent reallocations between commodities, and the utilisation of the allocated amounts. Many of the specific cases were also directly linked to allocations. Thus a simplification of the allocation procedure would significant reduce the paper work for NORAD, Dhaka, and most probably also for NORAD, Oslo, and Bangladesh' own ERD.

As noted in the case study of Norwegian deliveries to the Marine Academy, we also observed that one single item of the commodity assistance required almost as many communications, between Dhaka and Oslo and other places in Norway, and between NORAD, Dhaka and the ERD and particularly the Marine Academy in Chittagong, as the entire import support programme. Moreover, many of the communications reveal problems which compelled NORAD; Oslo or Dhaka, to undertake time consuming actions or enquires, the extent of which rarely are reflected in the volume of documents on the relevant files. In recent years assistance to the Marine Academy appears to have been particularly time consuming compared to other aspects of the commodity assistance. Merely from the point of view of the administrative burden that it creates, it seems to us to be obvious that supplies of more complex capital equipment does not belong to commodity aid.

Import procedures in Bangladesh

Imports and payments procedures - general rules

Importation of goods from abroad involves procedures and formalities at a number of stages. To mention the critical steps, it begins with the making of allocation of fund for imports by the Planning Commission. In the case of aid imports, the ERD is the allocating authority and this allocation is preceded by aid negotiation and the commitment thereof. The allocation of fund for imports is followed by the Chief Controller of Import & Export's (CCIE) announcement called Public Notice for the intending importers. The Public Notice indicates sources of finance, share or basis of licensing, time allowed for opening of Letters of Credit (L/C) and completion of shipment of goods etc. At this stage, activities of intending importers come into picture and the activities involve completion of a series of procedures and formalities. Finally, importation involve custom duty and clearance procedures at the port of entry. The scope of the present discussion of import procedures is, however, limited. It discusses, in the main, the procedures involved on the part of importers in the CCIE's office – the Licencing authority, and the banks where follow-up procedures are carried out. And the paper does not at all touch upon the clearance procedures involved at the port of entry.

An individual/company intending to be an importer has to obtain, first of all an Import Registration Certificate (IRC) and a Pass Book from the concerned regional Licencing officer of CCIE. The IRC gives legality to its holder as an importer while the Pass Book contains the names of importable items and the value of entitlement thereof. For the above purpose the following documents are required to be submitted to the said office.

i) Import questionnaire form duly filled in.
ii) Bank certificate indicating that the intending importer is operating a bank account satisfactorily and that he is financially solvent.
iii) Nationality certificate from any Magistrate of the lst class or class l Govt. officer.
iv) Trade licence from the municipal corporation on municipality or chairman of the Union Parishad as applicable.
v) Income tax T.R/GIR certificate.
vi) A certificate about the approximate movable and immovable property from a class l Gazetted officer.
vii) Rent receipt of business premises.
viii) If the importer is a company, memorandum and articles of Association and incorporation of certificate.
xi) In the case of partnership, registered deed of partnership.
x) Valid membership certificate from the concerned Chamber of Commerce and Industry or from the concerned registered Trade Association.
xi) Original copies of two separate treasury papers showing payment of taka 1400.00 and taka 6.00 as fee for Import Registration Certificate and for Pass Book respectively.

The Regional Licencing Officer of the CCIE, after examining the above certificates and documents and after being satisfied, will issue Import Registration Certificate and Pass Book. Although issued by the regional office, the entitlement of the Pass Book is sanctioned by the Director General, Industry. On receipt of the IRC and Pass Book, the importer will choose his items of import and process the importation as per import policy and Public Notice issued by the CCIE. From the date of Public Notice usually L/C opening is required to be completed within 90 days. The shipment of machinery and spares is to be effected within 17 months whereas shipment of other goods is to be effected within 11 months.

As for the next step, the importer will go to his bank hereafter called the nominated bank and submit the following documents for import against L/C Authorisation Form.

i) L/C Authorisation Form duly filled in.
ii) Indents for goods issued by an indentor or a proforma invoice as the case may be.
iii) Insurance Cover Note.

Having these documents, the concerned bank will process letter of credit against an indent/proforma invoice and forward the L/C Authorisation Form in quintuplicate to the concerned Registration Unit of Bangladesh Bank for registration of the L/C Authorisation Form. After registration, the Bangladesh Bank returns the first and second copy of the L/C Authorisation Form to the nominated bank and the third and fourth copy to the Licencing authority for record. If the nominated bank is an authorised dealer of foreign exchange, the bank on receipt of the documents from the Bangladesh Bank will open L/C in the case of cash imports. As regards imports under WES, the registration is not necessary and like cash import its L/C can be opened by the nominated bank, if it is an authorised dealer of foreign exchange. Registration of the L/C Authorisation Form with the Bangladesh Bank is also not necessary for imports under loan/credit/grant and barter. For imports under these heads the Bangladesh Bank authorises a commercial bank, hereafter called designated bank, to handle banking transactions and open L/C. For imports under these sources of finance, the nominated bank, after endorsing the particulars mentioned in the L/C Authorisation Form and importers Pass Book, will forward the documents to the designated bank with the request to open letter of credit. At present the Sonali Bank is authorised to act as designated bank for imports under Norwegian import support. In the case of cash imports, if the nominated bank is not an authorised dealer of foreign exchange, it will forward the documents to the designated bank for the purpose of opening L/C. The designated bank, after being satisfied with documents, will open L/C and transmit the original and another copy to the beneficiary. In the case of NORAD's grant, the L/C documents are required to be sent to NORAD's nominated bank in Oslo. This bank after okaying the documents send the same to the beneficiary. The beneficiary (the supplier) after effecting shipment sumbits the shipping documents as per L/C terms to the negotiating bank (the supplier's bank) who in turn claims reimbursement from the reimbursing bank (the L/C opening bank's authorised dealer).

Import Procedures and Speedy Utilisation of Aid

Importation and the rules thereof are framed to comply with the Import Policy which is linked up with the Annual budget of the Government in respect of time and substance. So in conformity with the Annual budget, Import procedure and Import Policy are declared for a financial year (July-June) whereas Norwegain aid commitment and the resources thereupon are accounted on the basis of calendar-year (Jan.-Dec.). This sometimes poses confusion and problems because utilisation of a calendar year's Norwegian resources is required to be effected under two Import Policy regimes. There does not seem to be an easy way out of this problem. However, some people, including a few importers, are of the opinion that since the processing of imports (opening of L/C etc.) after the CCIE's Public Notice takes away a few months, the Public Notice may be served around July and the operative date of imports may be made effective from the start of the calendar year. This, however, requires that aid commitment is made well in advance of the calendar year.

Related to the above point is the off-mentioned issue of aid negotiations and finally making aid resources available for utilisation. Since these involves lengthy procedures when done on yearly basis, the CCIE get allocation for serving Public Notice rather late and the importers are sometimes not left with sufficient time period under the concerned annual Import Policy period to complete import formalities. As a result, when some imports cannot be effected within the period for which commitment has been made, discrepancy between commitment and disbursement of aid occurs and in the process the gap cumulatively widens. This, in part, raises the question of the absorptive capacity of the recipient and thwart future flow of the desired aid resources. Because of the uncertainty of aid environment, the CCIE gives sanction for aid imports on half-yearly basis. An easy and speedy utilisation of aid will entail sanction of imports on a yearly basis.

The above discussison will point to the need of advance aid negotiations and of making aid commitments for a longer period (a few years).

Utilisation of aid resources in general becomes a slow process when importers are entitled to use multiple sources of finance. Since barter is the least preferred sources and its importation involves maximum time, the causes of which have been discussed elsewhere, the restriction imposed upon the importers is that they must first of all exhaust their quota of imports under barter before they start processing for imports under other sources. However, the restriction does not apply in the case of tied aid and the utilisation of Norwegian aid is not affected thereby, as it is considered as tied (to developing countries as regards import support).

As for the import of a desired quantity it can be pointed out that the Pass Book which remains valid for a few years, contains name of items, and the corresponding imports in value term. Since international market prices are subject to yearly fluctuations (normally an upward movement, to be precise), real imports may be less than what was intended. To ensure the intended volume of imports, corresponding to the items in the Pass Book, imports should be specified in terms of quantity rather than value.

In order to facilitate smooth and speedy processing of imports the New Import Policy & Import Procedures have been simplied, the CCIE claims. The simplication, among others, consists in

1) Inclusion of a Negative List of items in the Import Policy Order, 1985-86 in place of Positive List of items in the previous orders. The negative list includes items which are not permissible for imports. The CCIE claims that this list is less ambiguous and easy for the importers to understand.

2) As an instance of the speedy utilisation of aid resources as a result of the simplified procedure, the CCIE mentions that not only is the entire amount of NORAD's aid of 1984 spent; there was over-spending on this account. In order to utilise the 1984 fund, the CCIE adopted a flexible attitude and did not insist on the import of the specified amount of different items in the Pass Book. Rather importers were invited to consider the total imports in value term sanctioned in the Pass Book. This prompted importers to concentrate on the imports of aluminium ingots which is a) easily importable from a wide variety of sources and b) which has been being imported under different sources of finance e.g. aid, cash, wage earners sheme etc., by the c) industrial as well as commerical importers.
Firstly, on the basis of the past experience of partial utilisation of entitlements due to various reasons discussed above, the CCIE overprogrammed the entitlements to ensure a fuller utilisation of allocated resources. Secondly, an amount of NOK 10 million, which had been originally meant for the imports of industrial raw-materials, was subsequently reallocated for imports of cement by the TCB, a public sector corporation, and therefore the amount available for imports of different raw materials by private importers was reduced.

3) The CCIE maintains that currently there is no procedural difficulty on account of the CCIE's office in the utilisation of NORAD's grant. He rather complained that till the time he was interviewed he had not received allocation of NORAD's grant for the year 1985 and was anxiously awaiting for the same.

4) An easier and speedier processing of imports has been accomplished on account of the flexibility permitted by the Norwegian authorities as well as between the Commodity assistance and importt support. At times, Commodity assistance has been transferred to Import Support Programme when the former was difficult to obtain. The flexibility sometimes rendered as between the countries eligible under Import Support had further eased up the process.

Sources of Import Finance: Conditions, Importers' Preferences and The Relative Speed of Aid Utilisation

Imports into Bangladesh are financed from the following main sources:

i) Cash – obtained from export earnings.
ii) External aid – loan, credit & grant.
iii) Wage Earners' scheme (WES) – based on the foreign exchange earnings of Bangladesh nationals working abroad.

An idea of the relative importance of the sources can be obtained from the fact that during 1982-83 the above sources financed about 30, 50, and 20 per cent respectively of the total import bill.

Principle of allocation

Exchange rate:

Importers are permitted to buy foreign exchange at the official exchange rate for imports of goods under cash, aid and barter. Under the WES, importers are allowed to purchase foreign exchange in the open market at the wage earners' rate commonly referred to as the IP rate. During the period 1977/78 to 1980/81, the IP rate remained 31 to 52 per cent higher than the official rate. Later, the gap narrowed down, and currently it is about 10 per cent higher than the official rate, and has been so for the last 3 years.

Since foreign exchange resources are very scarce, allocation of them under the official exchange rate is done on priority basis. In the 1985-86 Import Policy, a fuller utilisation of industrial capacity has been emphasized and for that purpose importers of raw-materials and spares have been accorded the highest priority – stipulated to claim about 70 per cent of total importers. Again, as regards the pattern of emphasis of commodity imports, priorities has been spelled out in the following order: export oriented industry, import substitution and basic needs.

It is generally maintained that cash import is allowed for export-oriented industry and aid import for import substitution. However, in reality, actual allocation to a large measure depends on the availavility of fund under the different sources. Thus many items like fertiliser, petroleum products, cement, pulp, rawcotton, aluminium ingots, chemicals, spares etc, are imported against payment from both sources. For the case of barter deal, Bangladeshi jute and jute goods, leather etc. are exchanged for consumer goods and also intermediate goods for import substituting and export oriented industries. Foreign exchange obtained in the WES market can be used for a broader range of goods than other sources. There is an exclusive list for imports only under WES, but in addition almost any item permissible by the Import Policy Order (excepting a few ones) can be imported under this scheme.

Importers' Preferences for Sources of Fund

Since imports under cash, grant/credit, and barter are done with foreign exchange obtainable at the official exchange rate which is cheaper for to the importers, these sources of payment appear to be preferable to imports under WES from the point of view of profitability. However, since barter deals are done more on the basis of friendship, goodwill etc. rather than the principle of comparative cost, importers on the whole do not seem to prefer barter imports to WES's. Excepting the Chinese barter imports, which are popular and obtained at a competitive price, other barter imports e.g. from Poland, USSR etc. are considered unattractive in respect of price and not satisfactory in terms of quality. So on the whole, importers appear to prefer imports under WES to that under barter. Between cash and grant/credit, cash imports appear more attractive since the importers enjoy the greatest freedom in respect of selecting their suppliers aroung the world. The preference of importers can be summed up in the decending order as follows:

cash / grant/credit / WES / barter

Relative Speed of Imports of Different Sources of Finance

In respect of formalities and procedures which an importer has to undergo, the WES is the least troublesome. This is because the importer can buy the required foreign exchange in the open market with ease and quickly. Also the procedures involved in the opening of L/C and its transmission to the beneficiary are minimal. For these reasons, imports under WES is the most speedy. Cash imports are in the second place, for which an importer has to undergo little more formalities than in the case of WES. Unlike WES, a cash importer needs sanction of foreign exchange at the official rate and he also has to get the L/C Authorisation Form registered with the Bangladesh Bank. Formalities involved in the case of aid imports are a little more stringent and hence time consuming. Although the condition of registration of the L/C Authorisation Form with the Bangladesh Bank is waived, the number of mediator banks involved is larger for this source of finance. For example, the L/C opening bank has to be a particular bank designated by Bangladesh Bank for utilisation of aid. In some cases like NORAD's grant the beneficiary receives L/C not directly from the designated bank

but via another bank nominated by the donor to process beneficiary. As for import under barter, it is conducted under what is called "Bilateral Trade and Payment Agreements". The protocol involved is by and large not consistent with usual trading principles, and time consuming. We can write down the sources of finance in the descending order of the speed of importation as follows:

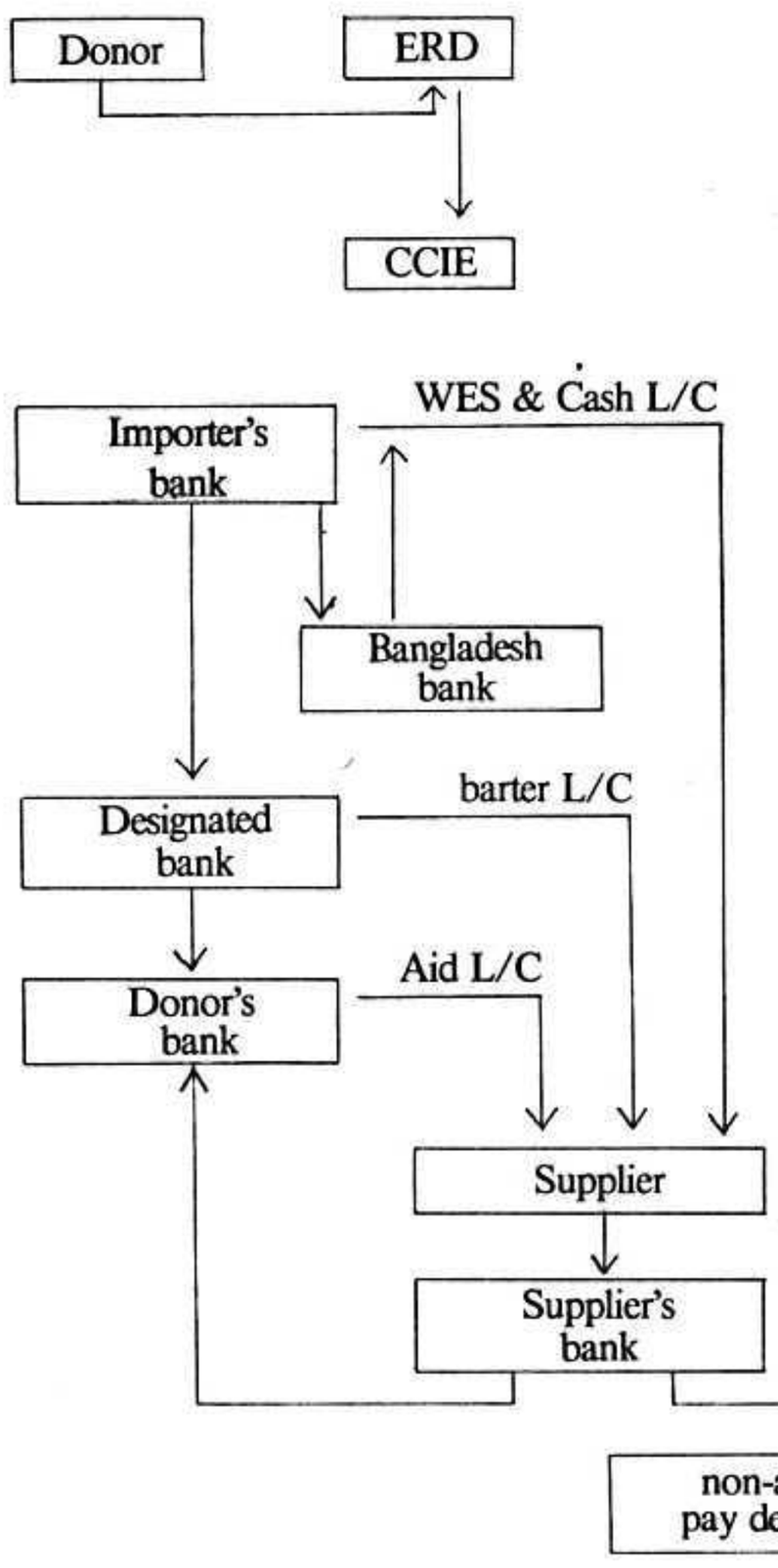
WES / cash / grant/credit / barter

which is identical to the ranking of sources of finance according to importers' preference.

Our comments

This survey of import and payments procedures indicates clearly that for the individual importer, utilisation of aid as a means for payment of imports can be cumbersome and slow. When procedures are time consuming, it creates difficulties in utilising aid resources in time. But these difficulties also discourage the use of commodity aid by the importers, and are clearly a part of the explanation of the difficulties many donors face in the disbursement of commodity aid. It should be added, though, that bureaucratic procedures in Bangladesh are not the only reason for slow disbursement. Price, quality and other weaknesses in the donor countries' commodity aid can be equally or more important.

A Schematic Presentation of Import and Payments Procedures under Different Sources of Foreign Exchange



- Aid negotiation
- Commitment to ERD
- ERD sends allocation to CCIE

- CCIE gives Public Notice to importers
- Importer applies for issue/renewal of IRC/Passbook
- CCIE sanctions entitlement to importer

- Importer applications of L/C
- Bank process applications – sends to **BB if cash**
- Sends to govt. designated bank if **aid/barter**
- Opens L/C **if WES**

- BB registers L/C Authorisation form & sends back to Importer bank

- Opens L/C for Aid/barter
- Sends **Aid /L/C** to donor's bank
- Sends barter L/C to supplier

- Bank approves L/C & sends back to supplier

- Effects shipment & sends document to its bank

- Bank ask payment from donor's bank **if Aid**
- Bank ask payment from L/C opening bank's authorized dealer bank **if non-aid**

- Bank reimburses payment

VII. Commodity Aid and other forms of Assistance.

In the terms of reference for this evaluation we have been asked to "discuss the appropriateless of project versus nonproject assistance in the country's present situation as well as the desirability of combining these types of Norwegian assistance". We have not aimed at a thorough evaluation of the issues involved because this will be one of the main problems to be analysed in the forthcoming country study of Bangladesh which will be ready less than half a year after this evaluation report. But some relevant observations can be made at the present stage.

Evidence from Bangladesh, presented in the beginning of this report, shows clearly that commodity aid is disbursed must faster than project aid. Forecasts of the balance of payments situation in Bangladesh in 1986 and in following years point to the uncertain prospects for several important sources of foreign exchange earnings: export income from raw jute and jute manufactures, due to the recent fall in prices; export income from sales of readymade garments, due to import restrictions in many of the principal markets, notably the USA; and the fall in remittances from Bangladeshis working abroad that has been observed since the peak year 1983. It is therefore possible that Bangladesh' own foreign exchange earnings may remain at their present level, or even fall, and if they should develop more favourably than expected, the rise would in any case be modest. At the same time increased economic activities in Bangladesh would require increased imports, an increase which easily may exceed the exceptional imports of food which took place in 1985 due to unfavourable weather conditions and their impact on the output of crops. Thus Bangladesh' need for foreign aid is likely to increase in the near future. On the other hand it is fairly evident that multinational and bilateral donors will not increase their annual aid commitments to Bangladesh, and a fall in commitments cannot be excluded. This is the background for the World Bank's strong appeal to donors for quick disbursing aid, which in reality means commodity aid. As we have indicated in our review of the policies of some of the most important bilateral donors, several of them want to reduce the proportion of their aid to Bangladesh that is provided as commodity aid. This is also the declared policy of the Norwegian aid authorities.

The reason for these attempts to reduce the relative importance of commodity aid is partly that commodity aid cannot easily be channelled to target population groups in Bangladesh, nor to high priority activities. These donors also fear that some of the commodity aid does not have the desired effect of assisting in the utilization and maintenance of existing productive capacity and infrastructure, but functions as aid in disguise to installation of new capacity. This objection does not in general apply to Norwegian commodity aid.

While there is no doubt that commodity aid is being disbursed much faster than project aid and that it therefore in any case is a desirable form for aid to a country in balance of payments difficulties, it is very difficult to assess which form of aid has the most favourable longer term benefits. In the short run commodity aid assists in keeping a country's economy moving and in many cases increasing its output, employment and national income. Per se this has also a long term impact in that it helps to make a further increase in investment, output, employment and income possible. The impact of project aid depends on the success of the individual projects. Some projects undoubtedly contribute very substantially to the future increase of output and income, and in some instances also of employment. Other projects may not lead to any tangible results at all, and others may be complete failures. A meaningful comparison between commodity aid and project aid should ideally be made between commodity aid and projects which are postponed or abandoned due to the claim on resources for commodity aid. Here again these may be both "good" and "bad" projects.

In the case of Norwegian aid we have observed that the implementation of projects has been slow in most cases, that in one area the planned projects are not even included in the Third Five Year Plan, that in another area a recent evaluation is very severe, and that even the project that has progressed according to schedule has not yet had any significant tangible effects. Against this background it is hard to argue that in the short run there is a need to cut back on commodity aid in order to accelerate the implementation of projects.

On the other hand it seems to us to be obvious that it is not possible to any significant extent to try to organize commodity aid in such a manner that it primarily helps to improve the position of the principal target groups for Norwegian development assistance: poor and preferably the poorest people in general, and women in particular. We therefore fully agree that the Norwegian aid authorities should take steps to plan and implement projects and programmes which more directly reach these target groups. In the meantime it has to be recognized that planning and implementation of projects and programmes, at least in most cases, must take time, and it is unlikely that disbursements to such projects and programmes can be increased very considerably in the next two-three years. In these circumstances it would seem reasonable to maintain commodity assistance and import support more or less at their present level at least during 1986 and 1987. In practical terms it implies that under the midterm review in 1986 a reallocation of money from unused project aid to commodity aid should not be excluded. However, we also realize that this recommendation could encourage the Bangladeshi authorities to go slow on implementation of project aid in order to, in this manner, assure more funds for the form of aid which these clearly prefer, viz. commodity aid.

To avoid this likely effect, we believe that the whole question of aid tying should be reconsidered. In this report we have argued strongly in favour of abolishing the distinction between commodity assistance tied to purchases by NORAD, and import support tied to purchases in developing countries, and consolidate both into commodity aid tied either to purchases by NORAD or in developing countries. We have also argued in favour of a more flexible procedure as regards the commodities which could be bought with such aid, either by establishing a "positive list" of categories of goods for which the aid could be used, or a "negative list" of categories of goods for which such aid cannot be used. Some bilateral donors, in fact, apply such rules. For planning purposes it would remain useful if the Bangladeshi authorities each year indicated which categories of goods they would plan to use Norwegian commodity aid for.

If this reform was carried through, Norwegian commodity aid would become so flexible that it for practical purposes hardly could be characterized as tied at all. This allows us to raise an issue which has been practically taboo in the discussion of Norwegian development aid in recent years, that is an eventual tying of the counterpart funds generated by governments in the aid receiving countries from commodity aid. We will suggest that in order to reach the target groups, the counterpart funds generated by the Government of Bangladesh should be tied to some specific applications. We will propose one major and one minor area; The **major** area is primary school education. The growth of enrolment in primary schools has been pitifully slow in spite of the fact that universal primary education has been a major objective in Bangladesh's and before that Pakistan's development plans during the last three decades. All or most of the counterpart funds generated to the Government could be allocated to an increase in the primary school budget over and above what otherwise would have been included under this vote. The **minor** area follows directly from the review of that part of Norwegian commodity assistance that consists of medicines. Norway could ask Government to increase the medicine budget of the Ministry of Health by an agreed amount which then would be recorded as use of counterpart funds from commodity aid.

The arguments against even discussing the tying of counterpart funds from commodity aid are firstly that aid should not be tied twice, and secondly that such tying would involve an intolerable administrative burden on the Norwegian aid authorities. If Norwegian commodity aid for all practical purposes will be untied in the case of Bangladesh, the first argument disappears. The second argument is probably based on certain assumptions about the way in which the funds should be channeled, and the procedures and controls involved. Clearly, if aid is going to be channeled to specific uses in connection with certain projects, the administrative burden would be very substantial. Moreover, if the donor authorities in addition insisted on specific counterparts funds being paid into special accounts, and from there into project accounts for which the money only could be used for certain agreed purposes, the control procedures would be extremely cumbersome. Furthermore, it would take years before any meaningful control could be exercised.

We don't suggest that the counterpart funds should be used in this manner. The only condition that Norway would set is that some budget items should be increased above what they otherwise would have been, and that government accounts should show that the additional money actually had been used. Some monitoring would be needed, not of the money flow, but in the form of reviews of what happened in the areas supported by Norway. Are there more schools, teachers, pupils, school books or whatever purposes for which the additional money is said to have gone? Are the supplies of medicines in rural health centres etc. adequate? What happens to the taka which Government collects by selling Norwegian kroner to importers of goods is completely uninteresting. Our task would be to assess that expenditures which correspond to these additional funds, on purposes Norway wants to pay for, actually have been incurred and used for these purposes.

One problem cannot be avoided, but this is a problem which is common for any form in which aid is being offered and paid: will the money spent for agreed purposes be higher than it otherwise would have been? But the same question can be posed in connection with at least any project to which the Government attaches high priority.

We permit ourselves at this stage to float this idea of using counterpart funds of commodity aid to support programmes which should benefit the target groups for Norwegian aid, without any deep analysis of the problems involved. This will be done in the forthcoming country study. But as we have been asked to consider the relative benefits of commodity aid and project aid, we find it useful to point out that there are possibilities to combine the quick disbursing quality of commodity aid with the target group orientation of project aid.

VIII. Summary and recommendations

Summary

Commodity aid is generally disbursed much more quickly than project aid. While the total of project aid commitments to Bangladesh corresponds to 6 years disbursement at the present rate of utilization, the corresponding figure for commodity aid is one year. Even this, however, is more than desirable, suggesting that utilization procedures are not as efficient as they ought to be.

There are many arguments in favour of commodity aid compared to project aid apart from the rate of disbursement. Bangladesh like many other developing countries has much underutilised capacity, and maintenance of existing installations is inadequate. Commodity aid is supposed to be particularly suitable for imports that would enable fuller utilisation of capacity and better maintenance. In addition, commodity aid in fact generates counterpart funds in the hands of government which could be used as domestic resources not only for maintenance, but also for speedier implementation of project aid, and indeed for any kind of public expenditure. However, in fact, some commodity aid is used as project aid in disguise and does neither generate domestic resources nor assist utilisation and maintenance of existing capacity. On the contrary, it creates additional capacity to utilise and maintain.

Total commodity aid to Bangladesh finances less than a third of total imports of all goods, except food grain and capital goods – the latter are financed mainly from other aid resources. Given this low proportion, conditions attached to commodity aid as regards the particular items for which it may be used has scarcely any effect on what Bangladesh actually will import. In recent years Norwegian commodity aid has accounted for about 4 per cent of total commodity aid (much less in 1984), i.e. only about one per cent of total imports of the relevant commodities.

Norwegian commodity aid (commodity assistance and import support) has been concentrated on some few groups of commodities: fertilizers, industrial raw materials, construction materials and petroleum. In most cases Norwegian aid has paid for a small part of total imports (4 per cent only in case of fertilizers, roughly 10 per cent of the cement import and of the imports of medicines). Only in the case of metals have purchases financed by Norway in some years accounted for a more substantial part of total imports.

As for the **usefulness**, **suitability** and **actual use** of commodities imported under Norwegian commodity aid, the bulk commodities undoubtedly meet the above criteria. Doubts can be expressed about whether some of the more specialised goods satisfy the test of usefulness and suitability, and the insect sprayers have proved to be neither useful nor suitable; in fact, they have not yet been put to use at all.

With regard to **quality** and **price**, we have not found any case in which quality and/or price have been clearly unsatisfactory, except once more the insect sprayers which fail on both counts. There is conflicting evidence on the price of medicines, and in some particular cases there have been problems with prices charged for traditional Norwegian export products. There have been a few complaints about the quality or quantity of deliveries both under commodity assistance and import support, but we believe that those cases probably are trivial.

Deliveries under Norwegian commodity aid are supposed **not to restrain the market for goods manufactured in Bangladesh**. Most of the goods financed by Norwegian aid are either not produced in Bangladesh or are produced in insufficient quantities. Amongst the bulk commodities in question, urea is the only product in which Bangladesh is almost self-sufficient. Most of the special commodities imported under Norwegian commodity aid are not produced in Bangladesh at all, with two important exceptions: medicines and insect sprayers. In these two cases Norway has paid for goods the import of which is banned to protect domestic manufacturing; in the case of medicines with clearly detrimental effects on domestic industry in Bangladesh. As the bulk of the insect sprayers have not been sold, they have not in fact pre-emptied the market, but their import has represented a threat to domestic manufacturers.

As regards the **benefits** to Bangladesh in general or with respect to the **distributional impact**, not much can be said. For those bulk commodities the imports of which have partly been paid by Norway, it is quite likely that the volume of imports has been determined independently of Norwegian aid which has merely served as one of many sources of foreign exchange. Nevertheless, Norwegian aid has enhanced Bangladesh's total foreign exchange availabilities and has therefore permitted higher levels of economic activity. If Norwegian aid has raised the volume of supply of the particular bulk commodities, the general effect has also been beneficial taking into account the importance of those commodities as inputs in agriculture, manufacturing and construction. The impact on income distribution is more indeterminate. If Norwegian aid has led to higher consumption of fertilizers and hence larger output of crops, this may have led to higher income for some poorer farmers and more employment of landless people as agricultural labour. Supplies of medicines financed by Norwegian aid may have permitted provision of more drugs for poor people. On the other hand, the impact on spatial income distribution has probably been negligible.

In general, we conclude that attempts to direct the composition and flow of goods supplied to the benefits of particular target groups, are bound to be inefficient or outrightly futile. Other measures would have to be taken to insure that the benefits of commodity aid shall accrue to poor people in general, or to specific groups, including women. The only measure which in our opinion could have such an impact, is tying of the counterpart funds generated by commodity aid to specific programmes with direct impact on living conditions and future prospects of the majority of the people.

In all respects, we find, the use of the funds for imports of what we refer to as bulk commodities has been justsified and to the benefit of the country. This observation applies specifically also to those goods which have been supplied under commodity assistance tied to purchases by NORAD. The goods in question clearly rank high on Bangladesh's own list of priority imports, and Norwegian financed imports have not distorted the import pattern. As a donor Norway has no reason to raise doubts about the justification of these imports, even though some parts of these supplies undoubtedly have been used and will be used for what we would consider to be low priority purposes (such as asphalting of "VIP roads" in Dhaka or building of luxury housing).

Imports of minor items, often very specific types of goods, financed by Norwegian commodity aid raise many questions. In several cases where such imports can be shown to have facilitated the use of existing installations, Norwegian aid has been useful and beneficial. But it is doubtful whether the equipment imported under Norwegian aid will prove to be suitable and useful; and in the case of the insect sprayers it is evident that this has been an outright waste of foreign exchange that could have been used much better. Medicines is a special case, because the Norwegian financed imports may have enhanced supplies to poor people. But imports have been undertaken in violation of Bangladesh's drug policy drawn up on the basis of WHO's recommendations; drugs have been imported that are being produced locally, and this has shown to be detrimental to domestic industrialisation; and we are not convinced that Norwegian suppliers have been competitive internationally.

It must be recognised that neither Norway as a relatively minor supplier of commodity aid to Bangladesh nor the donor community as a whole effectively can influence Bangladesh's import policy. But the responsibility of the donors must be to assure that their commodity aid is not used to import commodities of low priority or which can be obtained locally, or which are unsuitable and will not be used, or which create new capacity which exceeds Bangladesh's ability to operate and maintain it. Some of the Norwegian financed imports do not meet these minimum conditions.

Commodity aid is assumed to be much easier to administer, both by recipients and by donors, than is project aid. However, experience shows that **administration of commodity aid** nevertheless is rather complex and time consuming, which in the case of Bangladesh is reflected **inter alia** in the emergence of a pipeline of undisbursed commodity aid from all sources that is about as large as the annual flow. Administrative complexities multiply with conditions attached to the aid: tying to purchase from specified sources; stipulation of a specific allocation of funds between groups of commodities; procedures for purchases and payments; and eventual control of utilisation of the goods imported or of the counterpart funds. Norwegian commodity aid leads to fairly complex procedures, partly because it is tied either to purchases by NORAD (commodity assistance) or to purchases in developing countries (import support), and partly because of the purchase and payment procedures that accompany these conditions.

Administrative allocation plays a central role in the procedures: allocation of a share of total Norwegian assistance to commodity aid; allocation between commodity assistance and import support; and allocation between different commodities within these two aid categories. These allocations are determined in the annual country programme, but subsequently they are changed time and again in the course of the budget year to which they apply. Such changes are subject to approval from NORAD, Dhaka after consultation with NORAD, Oslo, if they are initiated by the External Resources Division (ERD) of the Ministry of Finance in Bangladesh, but the initiative may also come from Oslo, in which case it will become a subject of negotiation with ERD in the resident mission in Dhaka or under the Mid-term Review. We have found that reallocations are being handled in practice in a flexible manner, and we question the need for approval by NORAD for such reallocation between commodity categories which ERD find necessary, provided the conditions which are suggested in the body of this report, including prompt reporting by ERD, are fulfilled.

We have only reviewed the **purchase procedure** to the extent that it concerns Norwegian authorities, viz. purchases under commodity assistance which are undertaken by NORAD on behalf of buyers in Bangladesh. The procedure appears to be straight forward. As regards bulk commodities the main problem is related to prices and some minor incidents have occurred as regards deliveries. But as regards more special products operations have proved to become complicated and time consuming. We believe that this has been due to inadequate initial appraisal of the requests for purchase in the first place.

This leads us to another issue which has to be taken more seriously in the future: the influence of Bangladeshi local agents of potential Norwegian suppliers in influencing the choice of goods included in the requests for Norwegian commodity aid. The ability of powerful traders to induce the relevant authorities to allocate aid resources to specific goods and sources of goods is well known, and is amply illustrated by the purchases of insect sprayers and medicines under Norwegian commodity assistance. Norwegian exporters have also managed to get high level contacts in the Bangladesh administration. In the long run it does not serve Norwegian export interests to promote sales of goods which are unsuitable for Bangladesh or of low priority; and clearly it does not serve the common development interests of the two countries.

Under the import support programme purchases are undertaken by the Bangladeshi firms or organisations which have obtained import permission. The **payments** are made by NORAD, and this system seems to function well, although there have been a few hitches from time to time.

We have observed that there are certain problems of **communication** between NORAD, Oslo, NORAD, Dhaka and ERD. Due to frequent changes in allocations, and also because of the time lag between the creation of L/Cs for purchases under import support and the actual use of these L/Cs, uncertainties arise about how the aid is to be allocated and how much of it has been used and will be used. Changes in exchange rates add to this problem, as the utilisation of aid in terms of NOK cannot be exactly defined at any given moment.

According to the present procedure all requests and enquiries about utilization of Norwegian commodity aid shall go through the ERD which has to approve all requests ultimately. But if ERD is becoming an effective screen between those officials and business people who have special interests in trade with Norway and in the use of Norwegian commodity aid, and NORAD, Dhaka, then NORAD will become even more unable to assess forthcoming requests independently.

We have found no evidence that commodity assistance and import support in general create an intolerable or particularly heavy administrative burden on NORAD. As referred to already, there are some special cases that lead to a lot of correspondance and communications and use of time. The difficulties arose in particular when commodity aid was used to finance imports of capital goods, which led to complications which the Norwegian authorities handling commodity aid are not equipped to handle. In addition we have noted that at least in the case of import support, allocations and reallocations of goods to be imported appear to take up an inordinate part of the required office work.

In **conclusion** we judge that Norwegian commodity aid to Bangladesh – in spite of problems and mistakes – is useful and confer benefit on the recipient country. It is handled by NORAD in a flexible manner – in some cases too flexibly, with subsequent problems as results. Still, some procedures could be further simplified without, in fact, reducing the necessary control of the use of the funds.

Recommendations

The allocation procedure should be simplified:

a) The Norwegian commodity aid system could be made more flexible by having one budget item for all commodity aid combined, whether it is to be used for purchases in Norway or in eligible developing countries for which a list which will be brought up to date at the beginning of each year, should be available.

b) During the annual country programme exercise Bangladesh should continue to present a list of commodities which it at that time considers to represent the likely pattern of utilisation of Norwegian commodity aid. But this list should be considered as tentative, and ERD should be allowed to change the list in the course of the year, as long as no new items are included. Introduction of new items would have to be negotiated with NORAD. Changes in the allocations should be reported promptly by ERD to NORAD.

c) In the case of industrial raw materials, the import of which is approved by the Chief Controller of Imports and Exports, who mainly deals with private importers, no detailed allocation should be made. But it would be necessary either to agree on a "positive list" of categories of goods which could be imported under that heading, or a "negative list" of goods which cannot be financed under Norwegian import support. A negative list might be preferable, as it allows more flexibility.

d) Whereever feasible, allocations to any one single organisation should be made as flexible as possible. Some of this is already done, viz. a bulk allocation to BSEC to buy aluminium, zinc and ferro alloys for a stipulated amount, without specification as to how much should be used for each item. Similarily BADC could be given an allocation for fertilizers without specifying how much for each type.

Norwegian commodity aid should not be used for other than standardised "bulk" commodities such as fertilizers, cement, metals and other industrial raw materials or petroleum. The principal reason for this is that this would simplify both negotiation procedures and control; these are also all commodities which can help keep existing capacity in operation; and, finally, they generate counterpart funds in the hands of government.

In addition, Bangladesh should have the opportunity to request imports of any specific good that is critical for the maintenance and effective operation of existing capacity, such as spare parts. However, requests for such imports would have to be appraised more carefully by NORAD.

Imports of capital equipment should under no circumstances be financed under commodity aid. Requests for such goods should be accepted only under project aid for projects that are included in the Annual Development Programme after serious project appraisal by the Planning Commission and other relevant authorities. In addition, NORAD should undertake an independent project appraisal.

We consider that also imports of medicines should be limited to project aid, and that eventual deliveries of pharmaceutical products from Norway should be in the form of inputs of raw materials into the local pharmaceutical industry wherever possible, i.e. provided that Norwegian manufacturers can supply them at competitive terms.

In the case of requests for purchases under commodity assistance, NORAD should appraise carefully requests for new variants even of bulk commodities, to ensure that export and import agents for Norwegian products have not managed to "create a need" for particular brands or qualities which may not be in real demand in Bangladesh. The principle of "recipient oriented aid" should not lead to passive acceptance of official requests for specific types of commodities before the background of such requests have been examined properly.

Regardless of whether the procedures are simplified or not, NORAD, Oslo should continue to review and improve its accounting system so that it would be possible at any moment to show budgetted use of commodity aid, the authorised use of allocations, and the actual disbursements. This survey should be communicated to Dhaka at least once a month.

It follows from the conclusions of this evaluation that the evaluation team favours extending the commodity assistance and import support programmes not only through 1986, but also during the following three years. We recommend that some types of comodities that have been imported in the past under these programmes, should be excluded, and that the aid be devoted to what we have referred to as bulk commodities. Since we have not had the possibility to review other proposed parts of the Norwegian aid programme for the next four years, we have no considered view about the appropriate size of the commodity aid programme for 1986 and beyond. But, if one objective of the Ministry of Development Cooperation is to achieve a high level of disbursements of aid to Bangladesh, it may prove necessary to be ready for an eventual transfer of unspent funds for projects to commodity aid; as a result total commodity aid also in coming years may well turn out to far exceed 25 per cent of total Norwegian aid disbursements to Bangladesh.

As regards the composition of the commodity aid programme to Bangladesh in 1986 and beyond, we can only refer to our first recommendation (that the allocation procedure should become more flexible) and the second recommendation (that commodity aid should be used for standardised bulk commodities). In short, Norwegian commodity aid should be available for imports of fertilizers, cement, metals and other industrial raw materials, and petroleum, and the allocations between these commodities should be flexible and be determined gradually in the course of the budget year.

Finally, we recommend strongly that after having made the use of commodity aid so flexible that it hardly any longer can be looked upon as tied aid, negotiations with Bangladesh should be started in order to arrive at an agreed tying of the use of the counterpart funds generated by commodity aid. This tying should be directed to ongoing high priority activities which are parts of the normal government structure, and mainly cover recurrent local costs. Control measures should be pragmatic and simple, and administrative implications should consequently be minimal, but appropriate monitoring and evaluation procedures should be introduced.

APPENDIX 1

List of persons interviewed

Organisations	Persons
A. Government ministries and institutions	
External Resource Division	Dr. A. Syed Samad, Joint Chief, Dr. Salahuddin Ahmed, Economist, Planning Commission, Khandker Abel Hossain, Deputy Secretary
Ministry of Health and Population Control	Dr. H.K.M.A. Hye, Director Drug Administration, Dr. Rashid, Deputy Secretary Health Wing, Azizul Karim, Deputy Chief, Population Control Wing
Ministry of Agriculture	Abdur Rashid Khan, Director, S.U. Kkan, FAO-consultant, former Director Plant Protection Division, Igbal Ali, Engineer
Chief Controller Import and Export	A.B. Chowdhury, Chief Controller Md. Shahidullah, Controller Shahjahan, Assistant Controller (Imports) CCIE
Tariff Commission	Dr. Huq, economist, TIP Reform Programme Mr. Shah, economist, TIP Reform Programme
Bangladesh Bureau of Statistics	Delwar Hossain, Director Abdul Baten, Director, Data Processing Wing Bjørnulf Bendiksen, UNDP, senior advisor
Bangladesh Roads & Highways	Sheikh Fazlur Rahman, Additional Chief Engineer of Planning
B. Other Institutions	
Bangladesh Institute of Development Studies	A.A. Abdullah, Research Director Dr. M.A. Quasem, Senior Research Fellow Dr. Atiur Rahman, Research Fellow
Marine Academy, Chittagong	Captain Rahman, Commandant Captain Azizul Haque, Head of Nautical Section

	Md. A.M. Ziauddin, Chief Engineer Nurul Alam, Chief Education Officer A.Q. Azad, Development Officer Shoriful Islam, electronics instructor M.L. Williams, senior nautical inspector (IMO/UNDP project coordinator) Rabb-Emaer, senior engineering instructor Rog Neal, nautical instructor

C. Enterprises - governmental owned

Bangladesh Steel and Engineering Corporation	Netour Rahman, Chairman S. Hyder, General Manager (Purchases)
Bangladesh Chemical Industries Corporation	Morad Waiz, Director, (Commercial) K.M. Hussain, General Manager, (Purchases)
Chittagong Steel Mills	Nurul Alam, Chief Commercial Manager Ghulam Quadar, Chief Account Services Noor Mohammed, Additional Chief Commercial Manager
Eastern Cable, Chittagong	M. Jainul Abedin, General Manager Mustahel Haque, Manager (Planning)
Karnaphuli Paper Mill, Chandraghona	A.E.M. Ishaque, General Manager Aluddin Ahmed, Manager (Administration) Sherarul Islam, Public Relation Officer
Karnaphuli Rayon & Chemicals, Chandraghona	A.K.M. Khalilur Rahman, General Manager Yusuff Chowdhury, Chief Operation Manager
Kohinoor Chemical Company, Tejgaon Industrial Area, Dhaka	Md. Masudur Rahman, Executive Director
Essential Drug Company Limited, Dhaka	Anisul Islam, Director
Bangladesh Agricultural Development Corporation	A.K.M. Shahjahan, General Manager - (Purchases)
Trading Corporation of Bangladesh	Solaiman Mia, Senior Executive (Import)
Sonali Bank Headquarter, Dhaka	C. Ahmed, General Manager Md. Saiful Islam, Manager, International Division H.K. Nag, Officer Foreign Exchange Department

D. Private manufacturer organisations, and firms

Bangladesh Association of Pharmaceutical Industries	H. Ahmad, General Secretary, Marketing Director, ICI
Bangladesh Aluminium Manufacturers Association	Mohid Ullah Mollah, Joint Secretary (Proprietor, Mollah Aluminium Works)

BEXIMCO, Dhaka	Salman F. Rahman, Director
ICI - Bangladesh	Y. Ashrafi, Manager Pharmaceutical sales
Global Enterprises	Monzizur Rahman, Managing Director, agent for Norwegian manufacturers Van der Meer, NORMED, Oslo
Delhi Aluminium Factory, Chittagong	Mohammed Salam, Director
	Mr. Mujib, agent for many Norwegian firms, (Nera, Hydro, Interconsult)

E. Foreign institutions, embassies

World Bank, Resident Mission	David Hughart, economist in charge of commodity aid
British High Commission	Mick Foster, first secretary, economics John D. Patel, first secretary, economics
Canadian High Commission	Peter Thomson, Resident Representative CIDA Mrs. Helen A. Janssen, First Secretary
Embassy of Denmark	Poul H. Nyborg, Resident Representative DANIDA Torben Bellers, attaché, Development Corporation
Embassy of Federal Republic of Germany	Thomas Kesseler, Counsellor, Economic Affairs
Embassy of Japan	Mr. Morita, First Secretary
Embassy of Netherlands	Armand Brunings, Counsellor in charge of development cooperation
Embassy of Sweden	Jörgen Persson, Resident Representative, SIDA

F. Ministry of Development Cooperation, Norway

Resident Representation in Bangladesh	O.A. Lunder Resident Representative Oskar Oskarsson, Assistant Resident Representative Dr. Kirsti Oskarsson, Consultant
Ministry of Development Cooperation, Oslo	J. Hårstad, Planning Division
Directorate for Development Assistance (NORAD)	R. Hultin Deputy Director General T. Selvig, Purchase Department F. Bendiksby, Purchase Department

APPENDIX 2

Terms of Reference
for
An Evaluation of Norwegian Commodity Assistance and Import Support to Bangladesh

I BACKGROUND

During recent years commodity assistance and import support constitutes about 70 per cent of Norwegian development assistance to Bangladesh. At the country programme negotiations in 1984 it was decided that this proportion would be reduced during the coming years to approximately 25 per cent of the total programmes.

In order to make a thorough review of the experiences with non-project aid and in order to obtain recommendations on how the two parties might improve the future cooperation, Norway, in agreement with Bangladesh, is to carry out an evaluation in the period of September 1985 to January 1986.

A preliminary study on the use and effect of Norwegian commodity assistance and import support was carried out by Chr. Michelsen Institute, Bergen, Norway per 15th August 1985. The present evaluation will have a broader scope and may use the preliminary study as background information.

II PARTICIPANTS - MODE OF WORK

For the evaluation task the following persons have been appointed:

Ole David Koht Norbye (team leader)
Ashraf Chowdhury
Eirik G. Jansen

The work will include talks and interviews with official staff and persons concerned with commodity aid and import support activities at ministry and local levels. The field itinerary shall be decided by the team after consultations with the relevant Bangladeshi authorities, and NORAD's Resident Representative.

III TASKS OF THE EVALUATION TEAM

1. Use and effect of commodities

The team shall study particular types of goods supplied to Bangladesh under the Norwegian commodity assistance and import support programmes during 1980-85. (The team may base its findings on the preliminary study mentioned under I or enlarge its conclusions.)

1.1. Examine the extent of use of the commodities as well as their suitability and utility.

1.2 Investigate whether the commodities are of a satisfactory quality and have been supplied at competitive prices (Norwegian guidelines rule that prices ought not to exceed world market prices, and at most, not more than by 10 per cent).

1.3 Examine whether the importation of the commodities into Bangladesh has influenced local production within the same sectors.

1.4 Assess whether the commodities imported under the programmes have benefited the country generally or have had certain distributional effects, e.g. between regions and social groups.

2. The appropriateness of Norwegian commodity assistance and import support

The team shall describe and assess present and future assistance, hereunder;

2.1 Describe Bangladesh's criteria for allocation of commodities imported under the programmes.

2.2 Discuss its effects on the recipients country's macro economic situation, primarily the foreign exchange situation as well as capacity utilization in the sectors receiving the goods.

2.3 Discuss whether there are differences as to which economic sectors and social groups are the main beneficiaries of various types of commodities.

2.4 Discuss the appropriateness of project versus non-project assistance in the country's present situation as well as the desirability of combining these types of Norwegian assistance.

3. Administrative procedures

The team shall assess the efficiency of procedures and routines for commodity assistance and import support, hereunder:

3.1 Assess the adequacy of Norwegian and Bangladeshi procedures and routines for the planning of the programmes, purchases, payments, handling as well as distribution in Bangladesh.

3.2 Assess the desirability of concentration or increasing the number of items as well as the number of consignees.

4. Recommendations

The team shall submit recommendations on the size and composition of Norwegian commodity assistance and import support for the coming years. The recommendations are to be drafted within the frame of the bilateral agreements between the two countries, Bangladeshi national plans and Norwegian guidelines, with emphasis both on economic growth and efforts for poverty alleviation for disadvantaged groups.

The report will be submitted to the Ministry of Development Cooperation, Norway before January 31, 1986.

Oslo, 03.10.85
Helge Kjekshus
Head of Division
Ministry of Development Cooperation,
Norway

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