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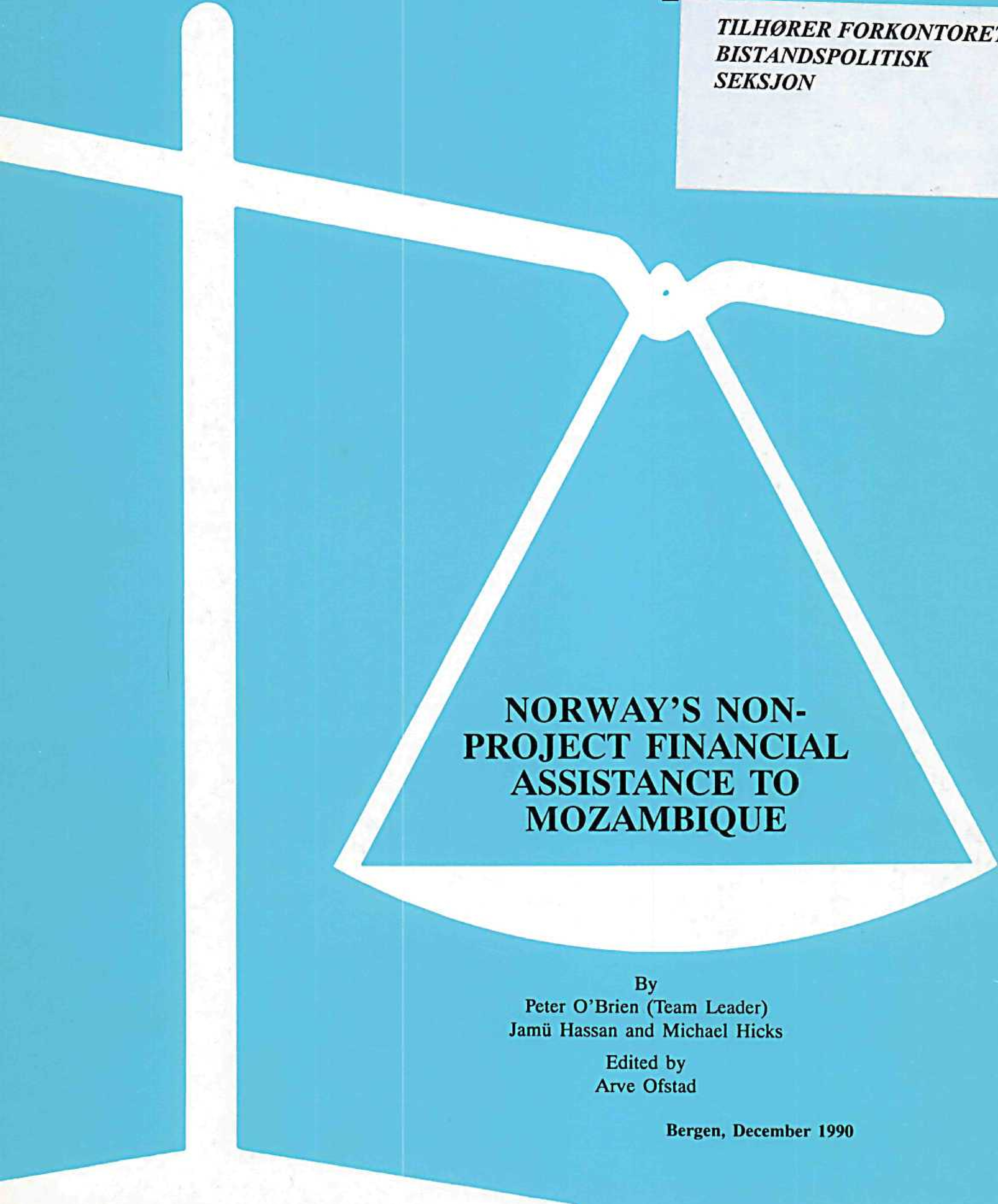

NORWAY'S NON-PROJECT FINANCIAL ASSISTANCE TO MOZAMBIQUE

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Edited by
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Bergen, December 1990

Evaluation of Norway's Non-Project Financial Assistance to Mozambique

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List of acronyms

BCP	Bilateral country aid programme
BOPAS	Balance of payments support
CA	Commodity assistance
cif	cost, insurance and freight included (in price of imports)
CREE	Comissão para as Relações Económicas Externas (Commission for external economic relations)
DC	Developing country/-ies
EA	Emergency aid
ICB	International competitive bidding
IDA	International Development Association of the World Bank
IS	Import support
MDC	Norwegian Ministry of Development Cooperation (1983-89)
mn	million
NGO	Non-governmental organisation
NOK	Norwegian kroner
NORAD	Norwegian Agency for Development Cooperation
NPFA	Non-project financial assistance
O&M	Organisation and management
PCA	Project-linked commodity assistance
PRE	Programa de reabilitação económica (Economic rehabilitation programme)
RG	Rehabilitation grant
SADCC	Southern African Development Coordination Conference
UCPI	Unidade de Controlo de Programas de Importação (Controlling unit for import programmes). Now renamed GCPI
UD	Unidade de Direcção (Management units for production sectors)
USD	United States dollars
WHO	World Health Organization

Foreword

This report presents the findings and recommendations of an evaluation of Norway's non-project financial support to Mozambique. The study had several objectives; to analyse the achievements, impacts, and procedures of this type of aid; to assess whether the assistance provided concurs with the policies of Norwegian development assistance and with the plans and priorities of Mozambique; to review the relative importance of financial assistance for an economic sustainable development in Mozambique; and to make recommendations for a possible restructuring of this assistance for the future.

The evaluation was undertaken as part of a major review of Norwegian assistance to Mozambique, undertaken by the Chr. Michelsen Institute. The main report has been published as *Mozambique. Norwegian assistance in a context of crisis*. (Also available in Portuguese and in a short version in Norwegian.)

It will be noticed that in some respects the conclusions and recommendations of this evaluation report do not fully coincide with those of the main report. This applies especially to the conclusions regarding the rehabilitation grants, but also to some extent regarding the form of continuation of emergency aid, and the deliveries of paper as commodity aid. There is full agreement, however, on the main recommendation to reorganise the mechanisms for allocating these forms of aid, and to make full use of the Mozambican coordination unit UCPI (now renamed GCPI).

Unfortunately it was not possible in this evaluation to conduct a more in-depth evaluation of the impact of the rehabilitation grants supplied by Norway to Mozambique. Also, the report does not discuss in any detail the experiences with supporting intra-SADCC trade through the mechanism of import support, or alternative mechanisms for this objective.

It is nevertheless hoped that this evaluation will contribute to a better understanding of the main issues confronting the role of commodity import programmes in Mozambique today, and that the assessments made of the impact and administration of the various commodities, will lead to the necessary reorientation.

The evaluation was commissioned by the Norwegian Ministry of Development Cooperation (now merged with the Ministry of Foreign Affairs). The Ministry is not responsible, however, for any of the conclusions drawn or recommendations made in the report.

The initial work for this study was undertaken by the team in September-November 1989, and included interviews and data collection in Maputo. The report submitted by the team has later been revised and edited by the project coordinator. The main conclusions and recommendations are those of the team, however.

Bergen, December 1990

Arve Ofstad
Project Coordinator
Chr. Michelsen Institute

The first edition of this report was published by the Chr. Michelsen Institute as their Report R 1990:9. In this edition the final summary chapter has been expanded, but no other changes have been made.

1. Scope and fundamental aspects of Norway's financial assistance

1.1 Coverage of the report

In recent years Norway has provided assistance to Mozambique through a multiplicity of mechanisms. They differ from each other in two distinct yet related ways — the degree of operational and decision making control exercised by Norway over the use of assistance, and the value to Mozambique of the support it receives. The specific mix of assistance in each year has varied according to Mozambique's requests, the perceptions held by Norwegian entities (especially but not solely the Norwegian bilateral aid agency NORAD) of how assistance should be given, and the influence exerted by broader policy changes.

This report deals with what has come to be known (not quite accurately) as non-project financial assistance (NPFA). Its primary focus is on the funds supplied by Norway for the purchase of commodities, including occasionally spare parts and sometimes professional services, to be utilised in activities separate from projects where Norway is the sole or a significant external agent. To fix the scope in practical terms, a glance at Norway's 1988 assistance to Mozambique will suffice: In that year the contributions under the regular bilateral country programme (BCP) were approximately NOK 170 mn, while additional special allocations amounted to approx. NOK 120 mn. The BCP contained substantial project components (particularly coastal transport and power development), a few smaller items, along with a little over one-quarter (NOK 45 mn.) allocated to commodity assistance (CA) and import support (IS). Some of the project assistance comprises commodity supply. In order to undertake a full assessment of commodity inputs paid for by Norway to Mozambique, it would be necessary to separate out from the bilateral assistance figure, the segments corresponding to CA, IS and project-linked commodity assistance (PCA). Given that the concern is *non-project* financial assistance, the text concentrates only on the CA/IS elements of BCP.

Additional to the BCP, assistance from Norway covers a multitude of activities, some of a project nature, some undertaken with other bilateral donors. Still using 1988 as an example, the critical items for this report are emergency aid (EA) and the rehabilitation grant (RG) made to IDA/World Bank in the context of its rehabilitation credits. Both items involve commodity supply independent from projects. The RG outlays are significant, in 1988 equivalent exactly to two-thirds of the CA/IS aggregate, while EA is still more so, equivalent to nearly 90 per cent of CA/IS.

In brief, the following are the main characteristics of these four mechanisms:

Commodity aid (CA) means that the commodities are procured by Norway (NORAD) for delivery to Mozambique. The aid is not formally tied to purchases in Norway, but in practice this has been the pattern. The aid is intended for delivery of commodities primarily as inputs to production in agriculture or industry. Deliveries of paper (mostly for schoolbooks) has also taken place over several years. Commodities for direct consumption are normally not included. The procedures imply i.a. that the allocation of available funds for various commodities is agreed upon by the two partners. When the commodities are taken care of by the Mozambican recipient, there is in principle no further Norwegian involvement, but in several cases Norway has supplemented the deliveries of goods, with technical aid.

Import support (IS) is an arrangement which was originally meant for stimulating trade between developing countries. In Mozambique it was introduced in 1981, and intended for imports from *other SADCC countries only*. The allocation of funds for products and suppliers are agreed between the two partners, and the actual purchasing is handled by Mozambique. In Mozambique these conditions have become increasingly hard to meet, as the crisis developed and the products available in neighbouring SADCC countries did not have high enough priority. Mozambique has therefore been allowed to utilise these funds for importing from almost any country (except South Africa). Due to the growing emergency situation, Norway has also accepted purchases of certain commodities not being inputs to agriculture or industry. Thus fuel, sugar and medicines have been imported as import support in recent years.

Co-financing of World Bank rehabilitation credits (RG). Norway has co-financed all three World Bank (IDA) rehabilitation credits to Mozambique. Norway's contribution comes as an additional grant to Mozambique. But funding for this in Norway is taken from a special allocation for debt relief operations, and is tied to the World Bank's structural adjustment programmes. The Norwegian grants are administered by the World Bank, but are handled in Mozambique by a new special unit for import programmes, UCPI, which is further described below. The funds have been used for import of various commodities, primarily for the industrial, agriculture and transport sectors.

Emergency assistance (EA) is financed from a separate budget in Norway, in addition to the regular BCP. It functions partly as a commodity aid programme, when important foodstuff or other commodities are delivered and distributed. While Norwegian emergency aid is normally channelled through UN agencies or non-governmental organisations (NGOs), an exception has been made in Mozambique for channelling emergency assistance through the Mozambican emergency relief institutions. For certain commodities, regular import firms also become involved. After some internal Norwegian debate, sugar and medicines were sent to Mozambique in 1988 as emergency aid. These commodities were in other years financed as part of the import support.

Few further references are made to EA, however, so some clarification here is needed. EA comes as a result mainly of the war, and is a means of providing the people of Mozambique with some of their extraordinary and unforeseen demands.

Since EA provide funds for delivering commodities, this might seem very similar to other forms of NPFA. All the same, Norway (though perhaps not Mozambique) has looked at it in a different light from CA, IS and RG, as these latter items are directed at needs under "normal" conditions.

The reasoning behind a separate classification for EA seems to be as follows. First, the war does impose pressures on commodity availability for which funding should exist. Second, it is impossible to define in advance what the overall level of funding needs is likely to be and what products will be in short supply. Third, by keeping the money in a distinct administrative frame rather than as general balance of payments support (BOPAS), Norway avoids creating expectations that its assistance during war might be made available when the war is ended. Fourth, the grant of cash on an annual basis in this case makes sense — Norway is responding to immediate supply shortages and not trying to build activities inside Mozambique which require longer term planning and management. What matters to the Mozambican authorities is that a foreign exchange cushion is there to fall back on, and not that they be given guarantees for several years ahead (on the contrary, the hope is that future grants can be dedicated to *post* war rehabilitation). This report accepts this reasoning and advocates that EA be maintained as a separate budget heading until conclusion of the war allows it to be eliminated.

1.2 The axes of assistance: Norwegian control and Mozambican needs

The foregoing discussion has given enough details to allow elaboration of the points stated in the opening paragraph. Norway can exercise control over NPFA through combinations of rules, procedures and influence. Product definition can be set through positive or negative lists; sources of supply can be tied to a greater or lesser extent; purchasing operations can be wholly or partially carried out by Norwegian agencies and staff located in Oslo and/or Maputo; and collaboration with other donors, bilateral or multilateral, can range from provision of assistance for the same purpose yet through distinct mechanisms (as in paper production for education in Mozambique) through harmonisation of procedures (as would be the case if all donors agreed on common conditions for commodity purchase) to putting all cash into a single pool (which is what happens with RG). The very process of negotiating the development cooperation programme with Mozambican authorities molds the use they will make of the cash Norway puts at their disposal.

The value Mozambique derives from NPFA is in part a function of how Norway exercises control. Much analysis of aid systems over the years has treated the relation "control of the donor/value to the recipient" as an inverse one — the greater the former, the smaller the latter. This view stems from the tied aid debate and emphasises that the maximum economic value from assistance can be obtained if the donor simply hands over cash and leaves the recipient free to spend it wherever the best quantity/quality bundle is available. As far as it goes the argument is correct, and it underpins the line of thinking that Norway should turn all NPFA into a BOPAS kind. Since Mozambique itself could, in these circumstances, conduct much if not all of the planning and management of aid use, a switch to "BOPAS without strings" would help to encourage learning by doing in the field of foreign exchange management. Nevertheless, a full appreciation of NPFA value to Mozambique has to go further than the tied aid element, important though that is.

Norway is by no means the only donor to Mozambique nor is it quantitatively anywhere near the most important. The existence of other donors implies both that they can influence policy choices in Mozambique and that the country may have recourse to them, if it does not obtain what it wants from Norway. Concern over which foreign agents are encouraging what kinds of policies might be a reason why Norway should maintain an independent stance, through not only its project activities but also its NPFA. By so doing, Norway might ensure that Mozambique may find support for alternative perspectives on its development problems. Just as tying cash grants to expenditure in pre-ordained sources reduces their value to Mozambique, so the tying of policy advice to one source alone limits its value. Retaining diverse forms of control over how NPFA is used, will make sure that Norwegian views are not fully identified with those of other donors, thus leading to the idea that greater control from Norway can create more *policy* freedom for Mozambique. On this argument the relation between donor control and value to recipient might be a positive one. The assessment of the argument depends on two things, namely the individuality of the Norwegian views on Mozambique, and whether it could be delivered and heard without the encumbrance of restrictions which otherwise reduce the value of NPFA to Mozambique.

The mix of items included in NPFA in recent years suggests that Norway has tried to keep its feet in both camps. The three RG contributions paid to IDA in 1986, 1988 and 1989 mean that Norway's views might have a stronger hearing within the most powerful multilateral body, the World Bank group. On the other side the restrictions imposed on CA and the limited range of items it now includes, highlight the specificity of the Norwegian contribution. It may be debatable just how purposeful or carefully designed the aid package has been — but its structure allows Norway some influence on both the approaches of IDA/World Bank and in direct dialogue with the Mozambican government.

How individual is Norway's policy message? Three areas are vital for Mozambique's development, namely the PRE, the choice of sectors and activities for long term investment, and the nature of external economic linkages. There are certain misgivings in Norway regarding macro reorganisation à la World Bank. The stress placed on cutting the public sector deficit through reducing supply of essential services is held to create more problems than it solves, and increases reliance on foreign assistance. On longer term investments, Norway's evaluations would probably be similar to those of other donors regarding choice of sectors and projects though there could be variations when it comes to structure of ownership over production facilities and the relation of public to private sector endeavours. The external linkages cover points on which Norway has long held a firm position, particularly regarding regional cooperation through SADCC and the importance of developing those resources and markets as well as extra-African exports (the issue is of emphasis and not an either/or question). In sum, Norway has a perspective which is differentiated from the World Bank mainstream. The influence that perspective might have, is certainly more than in proportion to Norway's weight as a donor. In the view of this report the influence is helped by maintenance of RG, while amending some features of CA and IS.

The presence of several donors with varying sets of restrictions on use of assistance provides Mozambique with opportunities for switching from one supplier to another. For Norway, a small donor, this context sharply weakens the cutting edge of any limitations or conditions it decides to impose. Hence the control element in practice impinges more on activities of Norwegian firms and government officials than on Mozambicans. Aid tying, a feature of CA arrangements, guarantees that cash will flow to Norwegian based suppliers while somewhat raising costs for Mozambican beneficiaries (here the pinch is felt to the extent that user firms must deposit counterpart cash). Yet the shifting of funds away from activities Norway does not want to support, does not stop Mozambique receiving help from elsewhere. The real impact is therefore on interested Norwegian parties. Hence in this case the multiplicity of donors means that control by Norway has but a minimal effect on overall value of assistance to Mozambique. In the terminology employed earlier, the relation donor control/value to recipient may indeed be inverse, but is only a weak one.

The comments in this introduction have tried to go behind the surface picture of NPFA. They indicate that a fundamental consideration is Norway's control over the assistance it provides. Yet that control is probably desired more in connection with Norwegian perceptions of the present state and likely future contours of policy discussions in Mozambique, than because of any appreciable economic return which interest groups might obtain from restrictions over ways of purchasing commodities. That Norway has a policy perspective which is particular, is accepted by this report. But the specific conditions surrounding CA and IS do little to amplify the audience — the numerous other elements in the BCP and the equally important assistance outside of it, offer wide enough scope to propagate Norway's views. The value of NPFA to Mozambique is reduced a little through some of the control mechanisms. Most of the costs come via effects on management (of foreign exchange and specific industrial operations) than on the economics of particular production processes. Mozambique can usually have recourse to other sources of assistance if it cannot obtain what it seeks from Norway. Thus the genuine debate has more to do with how Norway perceives the utility of its own actions than with the direct impact of these actions on the recipient.

1.3 Problems of non-project financial aid

The broad yet fundamental issues described above, are rarely addressed directly. Norway's implicit response to them, a response which this report believes has much to commend it, given both the uncertainties of the situation in Mozambique and the need to retain flexibility in provision of assistance, has been to opt for a mix of NPFA and negotiate the figures on an annual basis. That response, like any other, is not free of problems. The main concerns of donor and recipient are:

* how large should NPFA figure in the total assistance package? In recent years CA/IS has generally been from one-quarter to one-third of the BCP, a share more or less equal to the average for major bilateral donors to Mozambique. Adding in RG and taking the three components as a proportion of all assistance (i.e. BCP and other) over the four years 1986-1989 yields a ratio just under 20%;

* the organisation and management (O & M) of NPFA. There are two aspects to O & M matters. The first is that Norway has a reluctance to make longer-term commitments under the NPFA heading, although the indicative planning exercise does give Mozambique some guide for about two years in advance. The absence of definite numbers (or at least guaranteed minimum flows) complicates the planning of foreign exchange allocation and distribution, and production programming for the organisations or firms likely to receive the money. The second is the division of responsibility for actual purchasing, distribution and monitoring of use. At the moment procedures are cumbersome. Briefly put, Mozambique decides on specified foreign exchange allocations, purchasing is mainly done by Norway, internal distribution is handled by Mozambican entities while such monitoring as does take place comes via a mixture of internal checks and periodic looks by Norway. Though administrative costs for these operations are not available on a unit times basis, the likelihood is that the ratio of administrative expenses to aid outlays is unnecessarily high. Furthermore, the restricted participation of Mozambican agencies in commodity buying limits the extent of local learning about this key activity. The creation of UCPI in 1987 should encourage Norway to hand over more responsibilities in this area;

* grants to a particular manufacturing activity tend to reinforce the existing production structure. When continued for any length of time and in ways essential to the operation of the activity, these outlays rapidly turn into something resembling a sectoral policy. Norway's involvement in plastics production is the crucial example. The question is whether it is appropriate for Norway to be so locked into such an operation (it is far from obvious that Norwegian technical help here represents a good use of assistance). More generally, is plastics a manufacturing field where Mozambique ought to specialise over the long run (i.e. when war is ended)? If it is not, then both donor and recipient would benefit from orienting current assistance more in a development direction;

* how should debate over size, forms, uses and management of aid relate to the policy process in Mozambique? This question reflects the point made earlier concerning who has a voice in that process, through what channels and to what effect.

For the most part the concerns just listed are not problems that lend themselves to once and for all solutions. This report suggests the directions of response to them but recognises that details will inevitably alter since conditions in Mozambique alter quickly.

2. Norway's assistance

2.1 Key components of assistance

The previous chapter identified the three components of NPFA of relevance to this report; commoditiy assistance (CA), import support (IS), and rehabilitation grants (RG). RG stands apart from the other two, however, in that it is transferred to an "intermediary" (IDA/World Bank) which then makes resources available to Mozambique. Although Norway's identification as a funder remains there for all to see, the institutional mechanism separates Norway from the way funds are used. Moreover, future demands for rehabilitation credits and the willingness to supply them by the multilateral procedure are not a matter for direct negotiation with Norway. No data are available which would provide a solid foundation for stating what (or even whether) rehabilitation financing will be provided in the 1990s by the World Bank, or how much Norway will be requested to contribute to such resources. Up until now, NOK 75 mn. have been given: NOK 20 mn. in 1986 for the first credit, NOK 30 mn. in 1988 for the second credit and NOK 25 mn. for the third programme in 1989. RG has thus been at the level of CA in 1988 and 1989, and considerable higher than IS.

In recent years CA/IS has generally been reduced from as much as 50 per cent of the regular BCP in 1983, to only 25 per cent estimated for 1989, as indicated in Table 1. NORAD has indicated that, in principle, CA/IS should not total more than 30-35 per cent of total assistance and the figures in Table 1 in fact project a share a few points below the target.

2.2 The composition of CA/IS

Table 2 (2a and 2b) describes the detailed composition of CA/IS from 1983 to 1989. Though the CA component began in 1977 and IS in 1981, the table starts from 1983 since that is the year in which the basic range of items currently supported was established (although assistance to plastic actually started in 1984). The following deductions can be drawn from table 2:

Table 1
Commodity aid, import support and rehabilitation grants in relation to total Norwegian aid 1983-89
(NOK mill.)

	1983	1984	1985	1986	1987	1988	1989
Commodity aid (CA)	17.6	18.4	21.1	26.4	26.4	33.7	(28)
Import support (IS)	30.6	15.3	24.5	28.2	19.9	11.2	(16)
Rehab. grant (RG)	-	-	-	20.0	-	30.0	(25)
Total aid	131.2	121.4	182.5	235.2	237.9	291.3	*
— of which BCP:	90.0	95.0	145.0	152.0	152.0	167.0	177.0
CA/IS as share of BCP (%)	54	35	31	36	30	27	25
CA/IS/RG as share of total aid (%)	37	28	25	32	19	26	*

Source: MDC/NORAD.
* Data not available.

* the total outlays have varied between NOK 45 and 55 mn. except for a low outlay in 1984. In real terms, there has been a reduced allocation to CA/IS, especially since 1986;

* initially IS accounted for more than 60 per cent of the total but that share has been falling in recent years to about 35 per cent;

* there is a pronounced tendency towards concentrating both CA and IS on a smaller number of products. In particular paper and plastics have, since 1987, alone accounted for more than one half of all support, and medicines have, since 1985, also been an appreciable part of the total;

* in recent years the allocation of support between different items has been stable, with CA concentrating on raw material inputs to three industrial branches and IS providing a key food supply, medicines and continuing with services for meteorology.

Table 2a
Commodity assistance and import support to Mozambique, 1983-1989
(NOK mn.)

	1983	1984	1985	1986	1987	1988	1989
(i) Commodity assistance (CA)							
Paper[a)]	7.38	11.60	10.60	12.64	13.57	12.95	13.0
Plastic[b)]		2.80	7.10	10.87	10.91	19.39	12.0
Calcium carbide	1.33	1.50	2.10	2.84	1.94	1.41	3.0
Equipment energy	3.91	1.30					
Apartment building	0.71	0.28					
Telecom.equipment	0.56	0.17					
Meteorology equipment[c)]	0.87	0.27	1.34				
Workshop equipment	0.69						
Injections for animals	2.12	0.19					
Medicines[d)]		0.32					
(ii) Import support (IS)							
Seeds	8.04	7.10					
Medicines[d)e)]	0.67		9.00	14.00	11.70		6.00
Chips for concrete prod.	0.96						
Diesel	20.90						
Soyameat,maize,fish,flour		7.90					
Calcium phosphate		0.30					
Animal feed			10.50				
Raw material,margarine			4.90				
Computer			0.05				
Sugar[f)]				12.00	5.20		6.5
Meteorology services[c)]				2.25	2.99	3.10	3.5
Petroleum						8.10	
Total	*48.14*	*33.73*	*45.59*	*54.50*	*46.31*	*44.95*	*44.0*

Source: MDC/NORAD data.

Notes: a) As from 1985, explicitly for education uses. b) As from 1985, raw materials. In 1987 and 1988 equipment was included and in 1986 spare parts. c) Equipment for meteorology was supplied as CA 1983-85, and since 1986 as IS. d) Medicines were supplied as commodity assistance in 1984, and as emergency aid in 1988, but as import support in other years. e) Equipment was included in 1985. f) Sugar was supplied as emergency aid in 1988.

Table 2b
Commodity assistance and import support to Mozambique, 1983-1989
(per cent)

	1983	1984	1985	1986	1987	1988	1989
(i) Commodity assistance (CA)							
Paper	15.3	34.4	23.2	23.2	29.3	28.8	29.5
Plastic		8.3	15.6	20.0	23.6	43.1	27.3
Calcium carbide	2.8	4.4	4.6	5.4	4.0	3.2	6.8
Equipment energy	8.2	3.9					
Apartment building	1.6	0.9					
Telecom.equipment	1.2	0.5					
Meteorology equipment	2.0	0.8	2.6				
Workshop equipment	1.4						
Injections for animals	4.4	0.5					
Medicines		0.9					
(ii) Import support (IS)							
Seeds	16.7	21.5					
Medicines	1.4		19.7	25.7	25.3		13.7
Chips for concrete prod.	2.1						
Diesel	41.1						
Soyameat,maize,fish,flour		23.7					
Calcium phosphate		0.9					
Animal feed			23.2				
Raw material,margarine			11.0				
Computer			0.1				
Sugar				22.0	11.3		14.8
Meteorology services				3.7	6.5	6.9	7.9
Petroleum						18.0	
Total	*100*	*100*	*100*	*100*	*100*	*100*	*100*

Source: See Table 2a.

2.3 Norway's participation in the total aid framework

From Mozambique's perspective, the support provided by Norway is relatively small, but important in the areas to which it is allocated. Table 3 spells out the size and nature of commodity support programmes from a number of bilateral and multilateral donors. The Norwegian share of 2-2.5 per cent places it well below most other donors and although the assistance is given in grant form and covers all kinds of inputs, a quantitative comparison would obviously indicate that other donors carry greater weight. Even when allowance is made for the financial loan character of some large suppliers and when comparisons are restricted to bilateral donors alone, the share of Norway still does not rise much above 3 per cent.

Table 3
Relative size and nature of commodity support programmes in Mozambique 1987

Country or group	% of total[a)]	Grant/Loan	Items[b)]
Multilateral:			
World Bank	22.4	L	All
EEC	13.8	G	All
Bilateral:			
Sweden	16.0	G	All
UK	9.4	G	All
Italy	7.8	G	All
Switzerland	6.9	G	Negative list
France	6.4	L	No spares
Netherlands	5.3	G	All
FRG	4.3	L	All
USA	3.8	G	All
Norway[c)]	2.0	G	All
Denmark	1.9	G	All

Source: Netherlands Economic Institute (1988), vol. 1.
Notes: a) Amounting to approximately USD258 mn. b) "All" means that, in principle, purchase of raw materials, spares and equipment can be financed. c) Norway is slightly under-reported, and the actual figure should be closer to 2.5 per cent.

It could be argued that the small quantity of assistance means that Norway's support could be replaced if significant changes were made to the current CA/IS programme. This is certainly a possibility, but there are other indications to suggest that the overall pattern of donor assistance is now quite well in place. Tables 4, 5 and 6 indicate key characteristics of the commodity support programmes as of 1987. The conclusions to be drawn from these tables are as follows:

* With the exception of World Bank loans, all donors tie their aid in one form or another. This is due to a determination that each country maintain firm control over the resources it is supplying. Apart from the possible impacts in reducing the real value of assistance, the variety of procurement procedures and

rules set down by the donors complicates management for Mozambican authorities;

* In a few instances there is some preference given to purchases from other developing countries though in practice the amount of supplies obtained from such sources appears to be very small;

* The handling of procurement is primarily done by staff of the donor country, in most cases based in Maputo. But direct use of UCPI is increasing and there are pressures from some quarters to extend its application and ensure the use of a unified system.

Norway is therefore a small donor using a mix of support in which the tied aid element is still visible. In those respects some other donors are fairly similar. But the crucial issue for the immediate future, now that UCPI exists and is improving its management capability (and receiving assistance to do so), is whether Norway and other donors will turn over the monitoring of purchases to UCPI. For Mozambique the best situation would be the establishment of a single set of rules to be employed by all purchasing groups. UCPI could then exercise its monitoring function more efficiently. The speed of learning by that organisation is in any case quite rapid, since it handles all the CA which comes under the rehabilitation credits. Hence while Norway's current procedures bear similarities to those of several other countries, the situation is certainly moving towards greater harmonisation of purchasing under rules which emphasize competitive international bidding. Responsibility for monitoring is more and more the domain of UCPI. If Norway believes in "learning by doing" of Mozambican institutions, then it should follow the trend. To avoid doing so can only be justified by arguments emphasising either Norway's conviction that its specific links to the decision-making process in Mozambique must be preserved, and that this can be done only by steering clear of harmonisation.

Table 4
Characteristics of commodity support programmes in Mozambique 1987
I: Type of support[a]

Donor[b]	CA	IS	BP	CF	PA	ERL	SIP	Credit
Norway	x	x						
Denmark[c]	x							
Sweden		x	x					
FRG	x							
Switzerland				x				
Italy	x							
UK					x			
France						x		
Netherlands		x	x					
USA	x							
EEC							x	
World Bank								x

Legend: CA=Commodity assistance, IS=Import support, BP=Balance of payments support, CF=Cofinancing, PA=Programme aid, ERL=Economic Recovery Loan, Credit=IDA loans, SIP=Sector import support.

Source: Netherlands Economic Institute (1988), vol. 1.

Notes: a) The data given in this table may not be complete. Also, in some cases the practical differences between the categories are not great. Where a country uses more than one form of assistance, commodity composition can switch between categories (as it has done for Norway). b) Assistance from USSR and GDR is omitted. c)Denmark also provides some non-project commodity aid (about USD 2 mn.) for agriculture and coastal transport.

Table 5
Characteristics of commodity support programme in Mozambique 1987
II: Sourcing conditions[a)]

	Donor tied or preferred	Developing countries	South Africa excluded	Unrestricted
Norway	x	x	x[f)]	
Denmark	x	x		
Sweden	x[b)]		x	
FRG	x			
Switzerland				x
Italy	x			
UK	x[c)]			
France	x			
Netherlands	x	x		
USA	x[d)]			
EEC	x	x[e)]		
World Bank				x

Source: Netherlands Economic Institute (1988), vol. 1.

Notes: a) More than one condition may apply, particularly where the donor uses more than one form of support (c/f preceding table). b) Preference margin up to 8 per cent for purchase within Sweden. c) 90 per cent tied, remaining 10 per cent may be purchased from any source. d) Purchase should be made in US wherever possible. e) ACP countries only. f) This condition was not mentioned in the source table.

Table 6
Characteristics of commodity support programmes in Mozambique 1987
III: Procurement systems

	Donor staff in Maputo[a)]	Donor staff at home	UCPI	Other
Norway	x	x		
Denmark	x			
Sweden	x			x[b)]
FRG				x[c)]
Switzerland			x	
Italy	x			
UK	x			
France	x			
Netherlands	x			
USA	x			
EEC			x	
World Bank			x	

Source: Netherlands Economic Institute (1988), vol. 1.

Notes: a) Various arrangements exist. NORAD, DANIDA and SIDA all use their own officers, part-time or full-time. Italy and UK employ a consultant separate from the embassy and donor agency, while USAID has a procurement unit. b) Mozambican government. c) Kredietanstalt für Wiederaufbau in cooperation with Bank of Mozambique.

3. Administration of foreign exchange in Mozambique

External finance is crucial to economic development of Mozambique. War conditions, adverse movements in international prices for major export commodities, along with deficiencies in domestic economic management, have combined to reduce the share of total foreign exchange receipts actually earned from export of commodities to no more than 10 per cent. The country relies almost entirely on foreign assistance and the projections made by the government of Mozambique as summarised in Table 7, indicate that this situation will persist in the next few years.

Under these circumstances there is a high premium on the best possible management of the foreign exchange which is received. One of the consequences of introducing the economic rehabilitation programme PRE was to highlight the need for a strong monitoring organisation which would fit in with an efficient decision making process for foreign exchange. Table 8 spells out the current administrative mechanism intended for the World Bank rehabilitation credits, and all commodity import programmes. It shows that UCPI has a focal position in the whole structure. In effect it has a powerful influence on the proposals which finally reach the CREE (the sole decision making authority) and has the linkages with the companies and the management units (*Unidades de Direcção — UD*) for the productive sectors. But UCPI does not deal with the allocation of all foreign exchange, however. Many donors still prefer direct agreements with Mozambique (such as Norway), or make only pre-decided commodities available. Foreign exchange earned by Mozambique's own exports, are handled by the Ministry of Trade outside of UCPI. Proposals are submitted to the same Technical Committee, however, and finally decided by CREE. It is thus CREE and its Technical Committee which are the real coordinating mechanism for all foreign exchange, including payments of interest and principal on loans, or negotiations on rescheduling.

The role of UCPI is to prepare proposals for the allocation of the commodity import funds at its disposal, based on applications from all sub-sectors. When decisions are made by CREE, UCPI monitors the procurement process and application of the funds, and ensures that the countervalue (*contravalor*) is paid where applicable.

Table 7
Balance of payments and external finance requirements, 1988 (actual) and 1989-93 (projected)
USD million

	1988	1989	1990	1991	1992	1993
Exports	103.0	121.1	139.6	157.4	177.9	190.2
Imports	706.0	850.0	940.0	1012.0	1070.0	1144.8
Transport receipts	41.5	44.0	50.6	58.2	66.9	73.6
Transport payments	41.3	47.0	48.9	50.8	52.9	55.0
Remittances received	71.6	73.5	67.6	70.3	73.1	76.0
Remittances paid	25.3	29.6	30.8	32.0	33.3	34.6
Investment services	25.5	39.1	35.5	35.5	33.4	33.4
Other services, net	12.5	8.6	9.0	9.3	9.7	10.6
Interest due	163.8	238.6	221.2	228.7	226.2	228.9
Loan repayments due	376.3	276.7	312.8	275.4	268.9	284.2
SUM current account and amortization	1109.6	1233.8	1322.4	1339.2	1357.1	1430.5
Financing:						
Grants (needed)	374.2	436.3	468.4	514.3	561.3	584.4
Loans (needed)	205.5	378.5	397.4	417.3	438.2	460.1
Debt relief (needed)	419.9	372.6	374.3	323.3	274.1	264.6
Change in reserves	9.4	-5.0	-15.0	-20.0	-20.0	-10.0
Add.finance required	0.0	51.4	97.3	104.3	103.5	131.5

Source: Government of Mozambique: Report for Meeting of the Consultative Group. Paris, November 1989.

There are two major limitations on the efficiency of UCPI's operations. First, it is still significantly understaffed and, although learning appears to be quick, it still cannot obtain all the information needed for adequate monitoring activities. Second, so far only a few donors follow the UCPI route for the bulk of their transactions. This means that the organisation has to deal with a multiplicity of administrative systems which, in sum, complicate its day to day business without providing any compensating advantages.

Table 8
Administrative system for allocation and management of commodity import programmes

Entity	Composition	Functions	Organisational linkages and control area
CREE	Prime Minister; other leading Ministers; Governor of Bank of Mozambique	Final decision making body	Receives proposals from TC, transmits decisions to UCPI
TC	Vice Minister of Finance; representatives of other leading ministries and Bank of Mozambique	Analyse material from other agencies; prepare proposals for CREE	Send proposals to CREE; receive basic inputs from UPCI and discuss with sectors
UCPI	Technical staff	Prepare proposals for allocation of CIP funds, based on subsector information	Executive Secretary of TC
Ministry of Commerce	Policy making and technical staff	Record foreign currency operations	Ministry controlling UCPI; membership CREE and TC
Bank of Mozambique	Technical staff	Make banking process operational	Membership CREE and TC
Companies and ministries	Staff	Initial applications for usage of foreign currency	

Legend: CREE=Commission for external economic relations. TC=Technical committee. UCPI=Controlling unit for import programmes (later renamed GCPI).

Table 9
UCPI managed funds: Allocation and use as of end June 1989

Sector	% Allocation	% Realised
Food/light industry	27.1	30.1
Industry/energy	25.7	28.0
Agriculture	15.1	11.9
Commerce	13.6	13.5
Transport	10.1	7.7
Health	3.4	4.1
Other	5.0	4.6
Total (USD mn)	*270.5*	*180.9*

Source: UCPI.
Note: Data cover 9 donors. Total number of entities benefitting from the programmes is 122, but since these include UDs and trading companies, the number of final beneficiaries is greater. 15 enterprises account for just over one-half of total.

Table 9 indicates the size of transactions being handled by UCPI as of 1989. The figures in the table cover nine donor countries and show that about two thirds of the activities focus on industry, energy and agriculture. As an approximation, UCPI is now the monitoring agency for about 20 per cent of the foreign exchange coming to Mozambique. The clear intention of the Mozambican authorities is that this role should increase rapidly and substantially even if in the future there is slightly less emphasis on administrative mechanisms as compared with market oriented procedures.

In September 1989 an evaluation team seeking to find ways of harmonising procurement methods, put forward a set of proposals, as summarised in Table 10. The essence of these proposals, as the table clearly demonstrates, is to bring in international competitive bidding (ICB) for as many transactions as possible, to emphasise non-tied purchases to the maximum extent and to eliminate the possibility of direct purchasing. Such proposals go in a different direction from the way that Norway currently handles its assistance to Mozambique.

The position of UCPI at the moment is one of the agency which has been earmarked for a key role in a new foreign exchange allocation system, yet is actually part of a setting where several different methods are operating. In the future it seems that foreign exchange could be distributed through two routes: One would be the administered mechanism in which planning priorities would govern the sectors receiving funds; the firms obtaining foreign currency within each of those sectors would be determined according to their specific requirements and production possibilities with the sectoral control unit playing a key part in that determination, and with UCPI acting as the monitoring agency for the whole administration procedures. The administered structure could ensure that vital commodities not produced in Mozambique, such as medicines and most surgical equipment, obtained access to foreign currency and that industries which are net earners of external cash yet need to import some items for their production were given appropriate priority. The second dimension would be a free market allocation, perhaps handled through auctions, in which those who were not obtaining the foreign exchange they wanted through the administered procedure could compete to buy it.

Table 10
Procurement methods and thresholds (in USD thousand) as practised by UCPI and proposed by donor agency/World Bank evaluation team

	UCPI	Evaluation team
International competitive bidding	2,000	500
Limited international bidding	500-2,000	100-500
Shopping with telex invitation and sealed enveloped reply	<500	20-100
Direct purchasing	Special cases No cash range	-
Shopping with telex invitation and reply	-	<20

Sources: UCPI, *Basic instructions on imports functioning*, October 1988; and Donor Agency/World Bank, *Joint evaluation with UCPI of procurement and disbursement procedures for adjustment operations in Mozambiqie*, September 1989.

This possible future system is the direction in which the World Bank and others have tried, with varying success, to persuade other developing countries (primarily but not solely in sub-Saharan Africa) to follow. It represents a mix of an administered and a market system: the relative weight of the two would vary over time with the administered part being much more significant at first but probably declining later on. The underlying logic of the approach is to let competitive bidding have maximum vein. This may be shown in two ways: One is the free market component of the approach, while the other is the insistence on international competitive bidding (ICB) also for goods and services obtained through the administered mechanism. The latter requirement eliminates the imposition of tying clauses by foreign exchange donors for all NPFA. Even under this "future system" there will no doubt remain acquisitions from abroad that are closely locked in with projects, and thus escape the ICB process.

Conditions today are still some distance away from the framework just described. The prime reason is the widespread existence and persistence of bilateral arrangements, such as those practised by Norway, where the donor uses procedures which keep foreign exchange allocation away from a single, Mozambican managed, administrative system. Though it is difficult to provide a precise estimate, it seems probable that much more than half of the foreign exchange used in acquiring items for Mozambique escapes any real internal control. Project assistance accounts for a substantial share of this; but the reluctance of several bilateral donors to let NPFA be dealt with by a single system is also a major factor.

The preceding comments have shown that, even with a much more defined system than pertains at present, UCPI would still be covering a good deal less than 100 per cent of all foreign exchange inflows. The point is, nevertheless, to inverse the realm of UCPI operation and thereby maximise the real value of assistance to Mozambique at the same time as strengthening its domestic management capabilities. Norway is one of the donors whose decisions would contribute to amplifying UCPI's area of action.

4. Trends and uncertainties

4.1 The effects of war on aid

In a number of developing countries (DC) the provision of aid is subject to conditions which render assessment of its impacts a hazardous business. Internal political turmoil, major difficulties in the management of macroeconomic policy, and the occurrence of natural disasters (short or long in duration) all contribute to an allocation of aid resources which does not match the long term needs of a country. Does a state of war impose conditions still more arduous for aid policy than any of the above? The answer seems to be in principle "no", but with the reservation that the time dimension of difficulties created by man is not controlled by the DC concerned. Where, as in Mozambique, the zones of strife cover part of the country only, the government in practice follows a hybrid policy. It pursues development oriented activities in regions which are relatively safe while engaging in relief and emergency operations elsewhere. But that scheme is inevitably vulnerable to the continuous risk that things will deteriorate or that sudden large needs will occur.

Within the whole aid bundle, NPFA tends to be the part which is at once the product of and most sensitive to the war conditions. Project activities can be isolated from the conflict regions, while training programmes and the like are also fairly secure. Financial support, however, offers the prospect of quick and flexible access to resources and is therefore well suited to war conditions. Mozambique has thus sought as much NPFA as possible. From the Norwegian side it is the war which has led to much of NPFA, though not all. The basic economic situation in Mozambique, in common with several other countries of Southern Africa, would almost certainly have dictated some BOPAS and probably RG as well. The actual mix of CA/IS and the items accepted for inclusion in them, is meant to reflect support for production and consumption requirements seen as important while war lasts and possibly for some time thereafter. Notionally at least, this is considered to be distinct form both EA, which meets the immediate needs due to specific actions in the war, and development assistance in general which is of project and other kinds.

The problem is whether these differences between emergency aid, support for recurrent production and consumption needs, and development investments, which are clear on paper can be translated into practice. To do so requires formulating usable criteria that allow activities to be separated into the categories of emergency, "temporary support operations" and development aid.

Table 11
Distortionary effects of temporary support operations and war

War
* Prevents development of new projects
* Prevents adequate geographical location of production and distribution facilities
* Restricts foreign direct investment
* Specific effects on products where manufacture does continue through raising distribution costs and restricting demand

Temporary support operations
* Perpetuation of colonial industrial structure with emphasis on import intensive industry and urban based industry
* Creation of vested interests detrimental to post war development

The issues outlined in the preceding paragraphs can be summarised in tabular form. Table 11 lists the distortionary effects of the "temporary support operations" actually conducted and of the war itself. Distortion means a departure (in principle, costly) from what would have been done if there were no war and consequently no need for holding operations. Thus the aid which is strictly of a development kind is not distortionary since it would have been allocated had there been no war. But the war affects what projects can safely be undertaken, where production can be located, the access to local inputs to support production, availability of investment (domestic and foreign) to launch production, and the costs of production and distribution for those items actually manufactured.

The "temporary support operations" inevitably employ many assets already in existence. From a production standpoint, the further commitment of resources to these operations thus perpetuates structures and ways of doing things the alteration of which, in principle, is a goal of the development effort. In that sense measures for short-term survival increase the obstacles to longer term progress.

Faced with this dilemma, Norway and other aid agencies can adopt different stances according to the degree of "identification with" or "responsibility for" allocation decisions they are ready to accept. The pure BOPAS approach puts all decision work and even all operational activities in the hands of the Mozambican authorities or those working closely with them. BOPAS plus strong efforts at persuading the authorities to follow up policies the donor believes suitable, puts actual choices in Mozambican hands, leaves them free to find the best uses of the money, yet keeps the donor in the discussion. Division of bilateral aid into different categories, each of them ostensibly linked to particular problems posed by war, identifies the donor much more closely with allocation decisions. In practice the donor becomes a partner in the choices actually made. This is the position in which Norway now finds itself.

From Mozambique's standpoint the fixing of sectoral priorities obviously bears some relation to what donors in general can offer but not necessarily to the possibilities of Norway in particular. Putting the point another way: whatever the country might fail to obtain from Norway (due for example to a change of NORAD policy) it could try to receive from another source. There is reason to think that, for example, World Bank support has frequently been of this "backup" nature, filling gaps which bilateral donors have been unwilling or unable to meet.

In effect, Norway seems to be attempting a "fine tuning" of NPFA. Some assistance derives its rationale from the immediate pressures of the war, some from the need to keep activities going while the war continues, and some is indeed related to long-term development objectives. But sectoral allocation, the strains on Mozambican management resources, and the actual productive effects of the help, become more questionable for CA/IS than for other sorts of assistance.

4.2 Regional change and possible consequences for Mozambique

Within the past two years there have been several important indications of a change in the geo-politics of the Southern African region, a change which could affect the economic development of Mozambique in a substantial way. First, the independence of Namibia became a reality in 1990. That did not only bring a new developing country into the aid system, but also a new member for SADCC. Although this may not have much direct influence on Mozambique, there is always a slight risk of some diversion of aid. Second, the process of ending armed conflict in Angola and of focusing efforts on the economic development of that country now appears to be a real possibility. Given the relative resource wealth of Angola, this could mean some concentration of potential outside investments on Angola rather than on Mozambique. In this sense, the Mozambican authorities will have to adopt very active policies if they are to build on any internal improvements i.e., an eventual ending of the war.

Third, the major and crucial uncertainty in the region is the future pattern of change in South Africa. At the moment, the government there is making some steps towards a relaxation of apartheid. It is extremely difficult to say how long and how far this will proceed.

For Mozambique the potential economic effects of positive changes in South Africa are several. Most important would be the effects of ending the war inside Mozambique, and the potential of restabilishing and developing the economy as well as normal trade and transport relations with all neighbouring countries. But one should also be aware of the impact if South Africa were quickly to reach a situation in which it was internationally recognised as a developing country and even became a member of SADCC. If that happened, then the probability of diversion of aid from other countries in the region including Mozambique might be higher than it is with respect to Namibian independence. Another impact, and of critical significance to production structures in Mozambique, is whether a more acceptable political organisation in South Africa would affect the competitive position of Mozambique in the region. Mozambique, for all its domestic resources, is relatively less well off than South Africa. In the industrial sphere there are very few branches where even a completely rejuvenated set of production plants could compete with South Africa. Consequently, there is a definite risk that industrial output might suffer adversely.

4.3 Time horizons

The position adopted for the remainder of this report is that the politics of change in South Africa will not signify such drastic implications within the next two or three years. Further, though the events increase the pressure for a peaceful settlement within Mozambique itself, this report considers that at least another two to three years will be required before the effects of such a settlement will be fully felt. Even after a peace accord, there is still a strong likelihood that a number of armed groups would continue to impede effective development of the countryside. Both arguments therefore point to a continuation, for say the next three years, of roughly the same degree of disruption in internal conditions and limitations on external contacts as exists now.

This conclusion, though briefly stated, is central to the whole report. It means that, whatever the longer term considerations of NORAD and other donors may be with regard to support for Mozambique, the long term is unlikely to arrive before three or four years have passed. Thus, the solution of present problems is indeed worthwhile, since neither EA, nor CA/IS, nor indeed the character of overall support for economic rehabilitation, are likely to have disappeared in response to outside forces. Such a solution of a short to medium term character, should not, however, impede the future patterns of economic and industrial development in Mozambique.

5. Norwegian assistance for individual products

5.1 Plastics

The information presented earlier in Table 2, showed that the supply of raw materials to the plastics industry in Mozambique has now become a key part of the CA/IS programme, with a percentage allocation ranging from 23 to 43 in the last three years. The significance of the support to the industry can only be understood with some reference to the structure of the industry itself.

Table 12
Foreign currency outlays of plastics industry in Mozambique, 1984-1988
(USDmn and %)

	1984	1985	1986	1987	1988
Total (USDmn)	0.25	1.68	1.40	1.96	5.34
— of which (%):					
Raw materials	98.8	75.6	64.1	85.8	54.4
Machinery			28.8	6.5	41.7
Spare parts	1.2	24.4	7.1	7.7	2.4
Other					1.5

Source: Derived from Development Consulting Partner (1989).

Table 12 shows the breakdown by item of foreign currency outlays of plastics industry in Mozambique during the five year period 1984-88. In that time, the figure has increased dramatically — by a factor of 20 if 1988 is compared with 1984 and by more than 3 times if the comparison is with 1985. In that time, the raw material share of these outlays has fallen sharply, from close to the totality in 1984 to rather more than half in 1988. Nevertheless, the 1988 proportion was strongly affected by the heavy expenditures on machinery and indeed the table shows that whenever machinery purchases are limited, then the raw materials contribution is very high. Table 13 goes on to demonstrate that, using 1988 figures, NORAD supplies 90 per cent of the raw materials and thus close to two-thirds of all donor assistance to the industry.

Table 13
1988 donor assistance to plastics industry, by donor and item
(USDmn and %)

Donor agency	Raw material	Machinery	Spare parts	Other	Total
France		6.6			2.7
Italy		12.6			5.3
SIDA[a)]	1.1	4.5	14.9	10.7	3.0
FRG		38.0			15.8
World Bank	8.4	8.1		90.3	9.4
NORAD	90.5	30.2	85.1		63.8
Total (USDmn)	*2.90*	*2.23*	*0.13*	*0.08*	*5.34*

Source: Derived from Development Consulting Partners (1989).
Note: a) Some education sector support used to fund plastics industry production is excluded: addition of this sum would make a marginal difference only to the calculations shown in the table.

What this means to the companies is easy to demonstrate. Table 14 looks at the cost structure of *Emplama* and *Plastimoc*, far and away the two largest plastic producing enterprises in Mozambique (in 1988 these two firms absorbed 88 per cent of NORAD's assistance to the sector). The tabulation, based on the most recent three year period, underlines the pivotal position of raw material inputs to plastics. Roughly speaking, raw materials account for 70 per cent of costs and without them, production would simply come to a halt. Thus, foreign exchange is critical to the industry. The companies would be unable to function without Norwegian support unless they could obtain similar materials from other donors (there is no prospect of obtaining alternative raw materials from Mozambique itself).

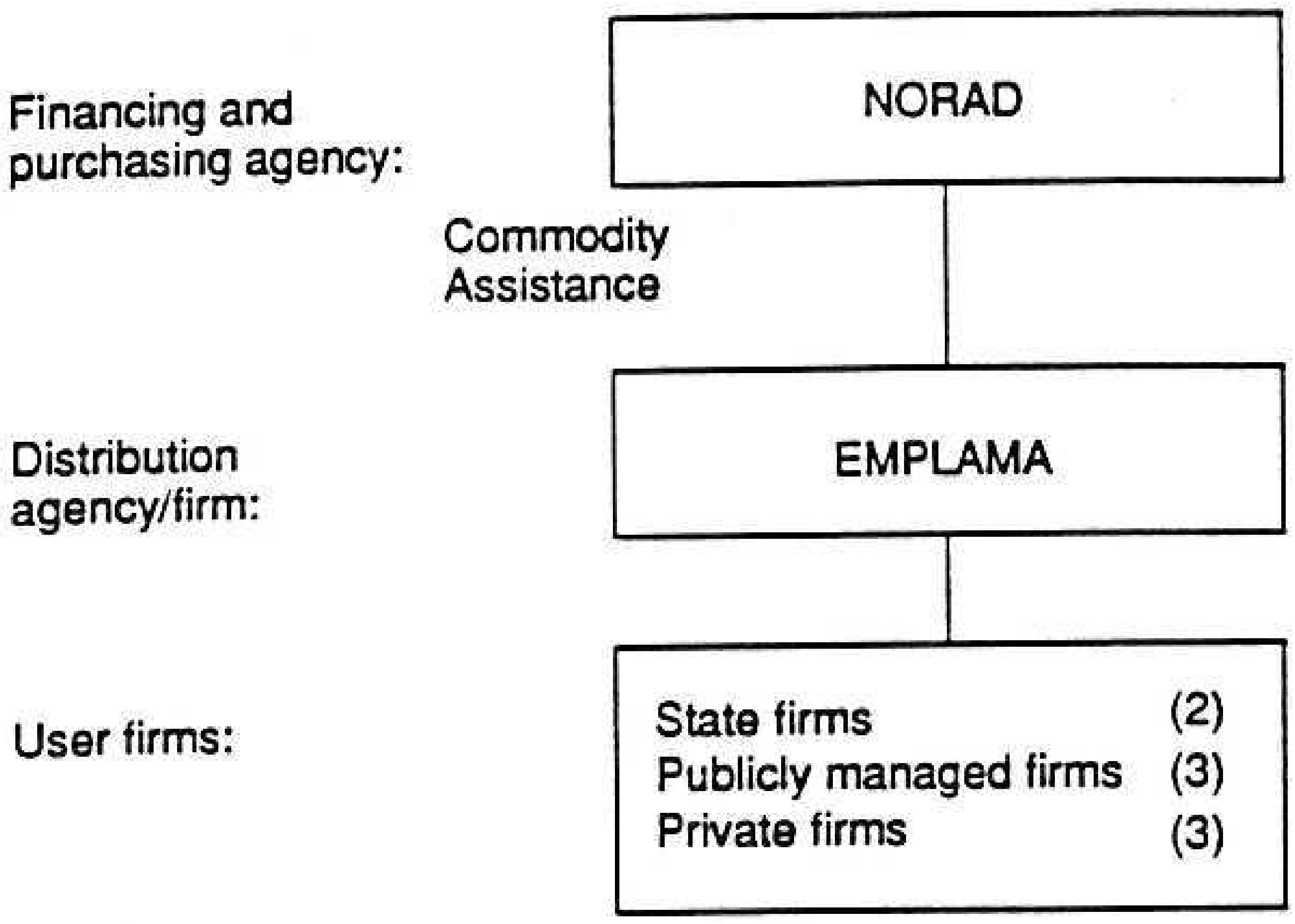
The cost of the Norwegian supplies as compared to best price, similar quality items, internationally is hard to determine with accuracy. In preparing this report, an attempt was made to find some comparisons and the results suggested that Norwegian prices do not exceed international charges by more than some 10 per cent. The relevance of the cost factor to the companies is that they are required to deposit counterpart funds *contravalor* with the Bank of Mozambique in return for using this foreign exchange. Consequently, a higher cost supply of raw materials augments the counterpart fund amount, and makes it more difficult for these companies to obtain the foreign exchange. In practice, the companies in the plastics sector do not have major difficulties in generating the local currency equivalent of the foreign exchange, and a switch from tied to untied funds would not make a huge difference to their situation.

Table 14
Cost structure of Emplama/Plastimoc, 1987-1989 (%)

	1987	1988	1989
Direct costs	82	92	92
— of which:			
Raw materials	63	73	71
Production labour	5	4	3
Utilities	4	3	5
Depreciation	1	9	10
Repairs	5	3	2
Factory rent	2	-	-
Indirect costs	*18*	*8*	*8*
— of which:			
Administration	7	2	2

Source: Derived from Development Consulting Partners (1989).

Table 15
Procurement procedure for plastics raw materials



Note: In 1988 actual recipients of NORAD commodity assistance were Emplama (65% of total), Plastimoc (23%) and private firms (12%).

The procurement procedure is sketched in Table 15. Emplama is not only the largest company but also the management unit (UD) for plastics, and is therefore responsible for determining, with the other companies, the allocation of funds. The actual operation of the system gives the two public sector firms the bulk of the currency, but this does appear to match the production realities. The private firms are small and show few signs of growing. Since market demand is strong, and it seems likely that any firm could sell additional output at a profitable price, the smaller size of the private companies is probably due more to their uncertainty whether plastics will be a favoured industry once the emergency situation is passed. As opposed to the other CA/IS products examined in the following sub-sections, this is the only area where there is more than one recipient. In other words, it is the only area where some allocation decisions between enterprises have to be made. In this sense, it is also the branch where questions of company efficiency are posed most strongly.

Table 16 describes the product mix and rates of change of production during the last four years for the two leading firms. Emplama is a much larger producer than Plastimoc but the movements in the indices suggest that Plastimoc is rapidly increasing its output, particularly of bags and pipes. The former product, nevertheless, is not part of the plastics industry as such and is manufactured more because of historical accident of factory location than for any other reason. For each and every one of the products, there appears to be no difficulty in sales. Output fluctuations are due more to changes in the distribution possibilities of the firms, and in this respect dependent on what is happening in war zones. The figures of Table 16 suggest that pipe production is, on the whole, the fastest growing item and this is important for other branches of industry as well as for construction projects.

There are two quite distinct questions which arise in relation to plastic supply: The first concerns Norway's own commitment to this sector i.e., whether this is a useful or suitable area for Norway to support in view of its own skills and, if so, whether the needs of Mozambican firms stretch beyond raw material supplies. Posed in this way, the issue for NORAD is whether a fully fledged sectoral support policy should be established. That would imply a firm commitment over at least the next three years along with an extension of supplies to cover some new equipment and probably managerial support in addition to raw materials. The second question concerns the efficiency of management within Mozambican enterprises. On that efficiency depends the use of CA, and indeed the profitability of the companies themselves.

Table 16
Indices of production volume by main item, Emplama and Plastimoc, 1986-1989
(1986=100)

Item[a]	1986	1987	1988	1989[b]
Consumer goods[c]				
Emplama (E)	100	151	135	132
Plastimoc (P)	100	127	106	125
Bags and intermediate products[c]				
E	100	103	71	96
P	100	431	476	472
Pipes[c]				
E	100	195	131	173
P	-	100	559	2381
Packaging (Bottles etc.)				
E	100	132	172	153
Shoes				
E	-	100	54	67
Paper bags				
P	100	6	46	41
Plastic curtains				
P	-	-	-	(3000 pieces)[d]

Source: Derived from company data.
Notes: a) Units according to product e.g. pieces, kilogrammes, metres. b) Emplama estimates, Plastimoc broad forecasts. Both sets of figures are therefore tentative but Emplama is probably more reliable. c) For all products manufactured in both firms the Emplama output is considerably greater. d) Production began in 1989.

A mixture of impressionistic evidence and some quantitative information regarding company performance was obtained in the survey of the plastics industry commissioned by NORAD and completed mid-1989. That survey indicated the following key areas:

* Although materials management should be the key area, it appears that actual performance is not too good. Measures of the average inventory to sales ratio based on the last four years, showed a figure of about 3.3 which is certainly not acceptable even considering uncertainties and disruptions due to the war;

* Financial management is also weak, partly due to a failure of firms to follow adequate cost accounting procedures;

* Overmanning of the companies is pronounced though in cost terms (as Table 14 showed), this is not very expensive and may in any case be partly dictated by political considerations;

* Equipment presents a number of problems, many of which are due to poor maintenance and some of which can be traced to inappropriateness of machinery.

This short list of performance problems shows that Norway could help the sector in various ways additional to raw material supply. The question is whether or not that would be sensible, given both Norway's own resource situation and the problematic matter of development of the plastic industry in a post-war situation.

The preceding evidence gives a "close-up" view of CA to plastics and of the operation of the sector. Yet an appreciation of whether Norway should go on providing support and, if so, how this should be done, require a longer perspective besides the close-up.

The first of the broader issues is this — how crucial is the existing mix of plastics products to the Mozambican economy in a state of war? According to official pronouncements, any manufacturing in current circumstances is supposed to fulfil one or more of three conditions; namely the provision of incentive goods to the population, the supply of input to other activities, or the generation of net foreign exchange earnings (or the net saving of foreign currency through obviating the need to purchase already made-up goods).

The data in Table 16 show that three kinds of articles; namely consumer goods, shoes and plastic curtains, could be put in the category of incentive items. Of these curtain output only started in 1989, and then on a tiny scale while shoe production last year was reckoned at levels well below those of 1987. Consumer goods, of which items for family use such as plates and cups constitute a significant part, are well up on 1986 levels in both Emplana and Plastimoc. Is the availability of such objects a stimulus to greater productive effort and/or a useful way of holding out a promise that things will be better after the war? Two factors condition the reply; namely whether the products reach a wide range of families rather than just a few, and whether the resources (especially foreign exchange) would yield more useful incentive goods if they were employed elsewhere. The first factor, in turn, has two aspects — product prices related to average incomes, and the geographical spread of distribution points for the commodities. A rough and ready comment (there is not enough information to go further) is that both prices and geographical availability put consumer plastics within reach of a fairly large number of families — whether actual sales are to a broad or narrow band, however, is simply not known. The second factor is more problematic. There are widespread shortages in the Mozambican economy including many items of a vital character. It is certainly arguable that scarce foreign exchange should go to alleviating those more vital scarcities and that this would have a more powerful incentive effect.

What of inputs for other industries in the plastics production bundle? Referring again to Table 16, the pertinent items are pipes, packaging and bags. Of these, pipe manufacture is probably the most important. In the absence of these items, what would happen to production in other branches? Wherever piping is crucial, the main substitute commodities to a plastics based item are those made from metals or wood (substitutability is nowhere near perfect, of course, since many uses dictate the material required). At the moment in Mozambique the former option (metals) offers few prospects while wood is probably more available but less effective as substitute. So plastic piping is, all round, the best option. Its importance in production operations elsewhere in the economy, however, seems unlikely to be substantial. The role of plastics manufacture as supplier to other production operations is therefore not too convincing.

None of the plastics items could profitably be exported now and indeed it is very improbable that costs and prices in future years could so alter as to make exports a viable option (labour costs are the only edge Mozambique might have but they are, as Table 15 demonstrated, of only minimal weight in aggregate costs). The foreign exchange issue thus comes down to a saving on import costs. For most items currently made, the c.i.f. landed price would in fact be higher than local prices (though that relationship would probably switch in the other direction if prices were allowed to reflect opportunity costs). The reason is the transport charge component. If maritime expenses could be reduced through a better utilisation of freight capacity on both outward and inward runs, then the foreign exchange saving might disappear.

The overall assessment must be that the case for using scarce foreign exchange on plastics production is not at all convincing. Moreover, the case is not likely to improve in a post-war economy when Mozambique should be able to make better allocation decisions. The strong presumption must be that Norway's funding would be better employed elsewhere. To state this, immediately raises the second "long distance" point, namely would a withdrawal now by Norway create unmanageable disruptive effects, especially given that the country's assistance plays such a big part in financing raw material supply to Mozambique. Our answer to this is "no". Other bilateral and multilateral sources could, in all probability, be used to plug gaps very quickly. In other words, a switch of assistance to other activities by Norway could be matched by a switch to other sources of assistance by Mozambique. A Norwegian decision might not, therefore, necessarily bring about a production fall (especially not if some advance warning was given) since Mozambique is free to exercise its own priorities. But the decision would dissociate Norway from participation in an activity which it does not believe to represent a good use of foreign exchange.

5.2 Paper

Norwegian supply of paper for purposes of producing school books has continued to be a key component of CA/IS and in most years has been the main item. The commodity goes straight to the state monopoly producer and distributor, *Diname*, as shown in Table 17. The quantities supplied have been falling in recent years, due to reduced demand within the country and the direct provision by Finnida (Finland) of school books. The relevant figures are summarised in Table 18, which shows production, distribution and stock changes for a selection of books in the years 1986, 1987 and 1988, and Table 19, which indicates NORAD funded imports of paper.

The figures of Table 18 are unequivocal. Stocks have been building up at an alarming rate, particularly during 1987 and 1988. There is little genuine prospect of clearing the stocks in the near future for a variety of reasons: First, the books are not distributed for free, but have to be purchased by the student or their family. And though the price to the consumer has been kept at the same level for the past three years, it is still too high for a large proportion of families with several children to send to school. Unless these families could obtain the books at even more subsidised rates, or through some variant of a library scheme, there is little chance they will purchase them. Second, the economic conditions are themselves hindering attendance at school and therefore contributing to demand reduction. Third, the quality of the books deteriorates quickly in Mozambique's conditions of storage (problems of flooding, pest control and the sheer difficulty of keeping books in adequate shelter).

Table 17
Procurement procedure for paper

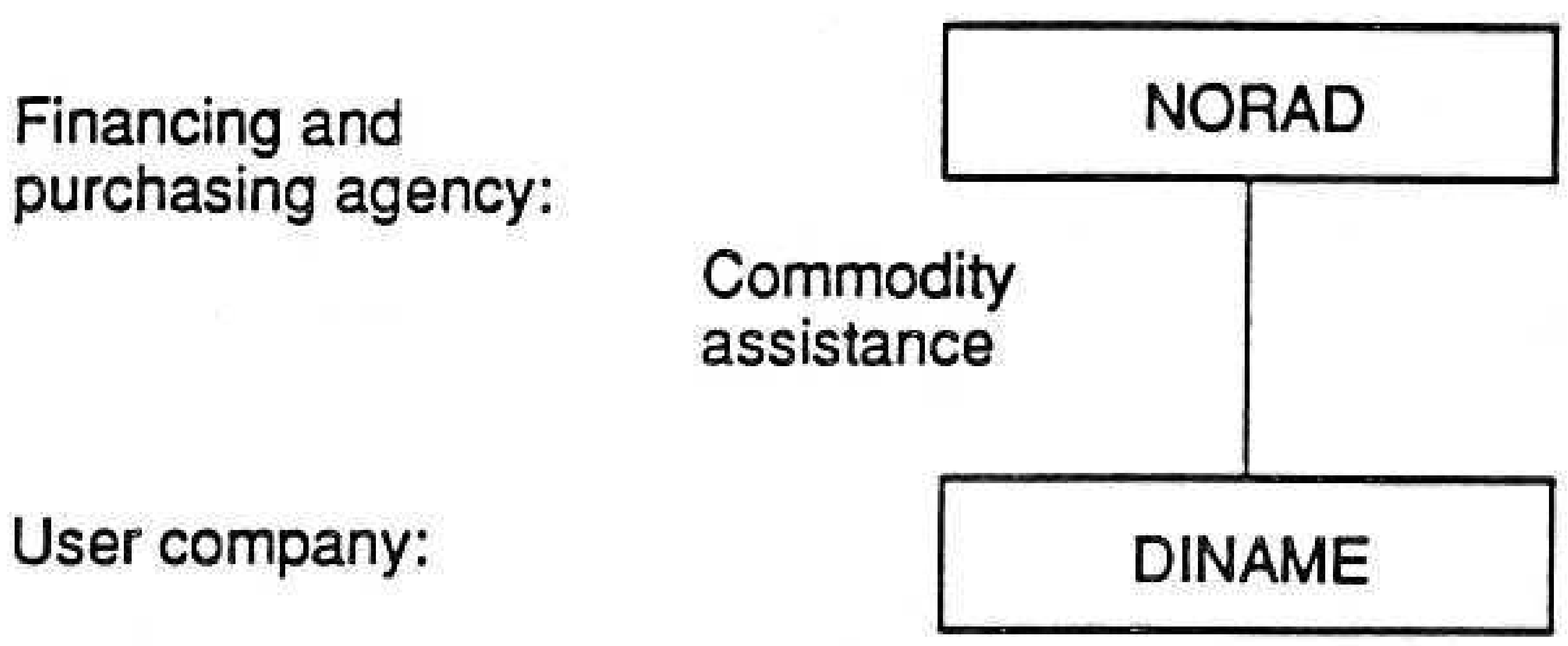


Table 18

Production and distribution of school books in Mozambique, principal items by volume, 1986-1988

Item[b)]	1986 Production[a)]	1986 Ratio of production to distribution	1986 Stock[a)] change	1987 Production	1987 Ratio of production to distribution	1987 Stock change	1988 Production	1988 Ratio of production to distribution	1988 Stock change
1st Grade									
Portuguese, vol.2	177	1.03	+6	303	1.67	+122	437	1.84	+200
Mathematics, vol.2	176	1.00	-	310	1.51	+105	261	1.14	+23
2nd Grade									
Portuguese, vol.2	169	1.06	+9	225	1.69	+92	205	2.18	+111
Mathematics, vol.2	167	1.05	+8	167	1.21	+29	218	2.06	+112
3rd Grade									
Mathematics	138	1.03	+4	149	1.18	+23	F[c)]	-	-
Natural sciences	123	0.95	-7	148	1.18	+23	F	-	-
4th Grade									
Natural sciences	203	0.98	-3	102	1.34	+26	F	-	-
History	212	1.03	+6	102	1.16	+14	F	-	-

Source: Data supplied by Diname.

Notes: a) In thousand of units. b) Products for which complete data are available. c) Produced in Finland.

Yet the growth of stocks itself indicates the chronic inadequacy of management within Diname. Although the company has been relieved of the obligation to provide counterpart funds, there is still no sign of any adjustment to new conditions. Current production levels are widely optimistic considering the market conditions and the availability of supplies from Finnida. A detailed investigation of distribution within Diname carried out in 1988 showed that everything in the company was adversely affected by the inability to keep control over accounts whether financial or non-financial.

Support for school book production, as for plastics, has to be looked at from a broad planning perspective as well as through a close-up on the sector. Unlike the plastics case, however, there is no doubt that adequate primary education is essential to the longer-run development of the economy and that school books are a necessary element in the education system. The question is whether production of the books in Mozambique itself through reliance on imported paper supplies makes good sense.

Table 19

Quantities of paper imported under NORAD funding, 1986-1988 (tonnes)

Item[a)]	1986	1987	1988
Schoolbooks	1775	1240	1310
Exercise books	1625	500	800
Cartons for schoolbooks	265	210	110
Cartons for exercise books	215	70	-
Printing paper	75	300	-
Total	3955	2320	2220

Source: Diname.

Note: a)Different kinds of paper are imported under each heading; they are aggregated in the table.

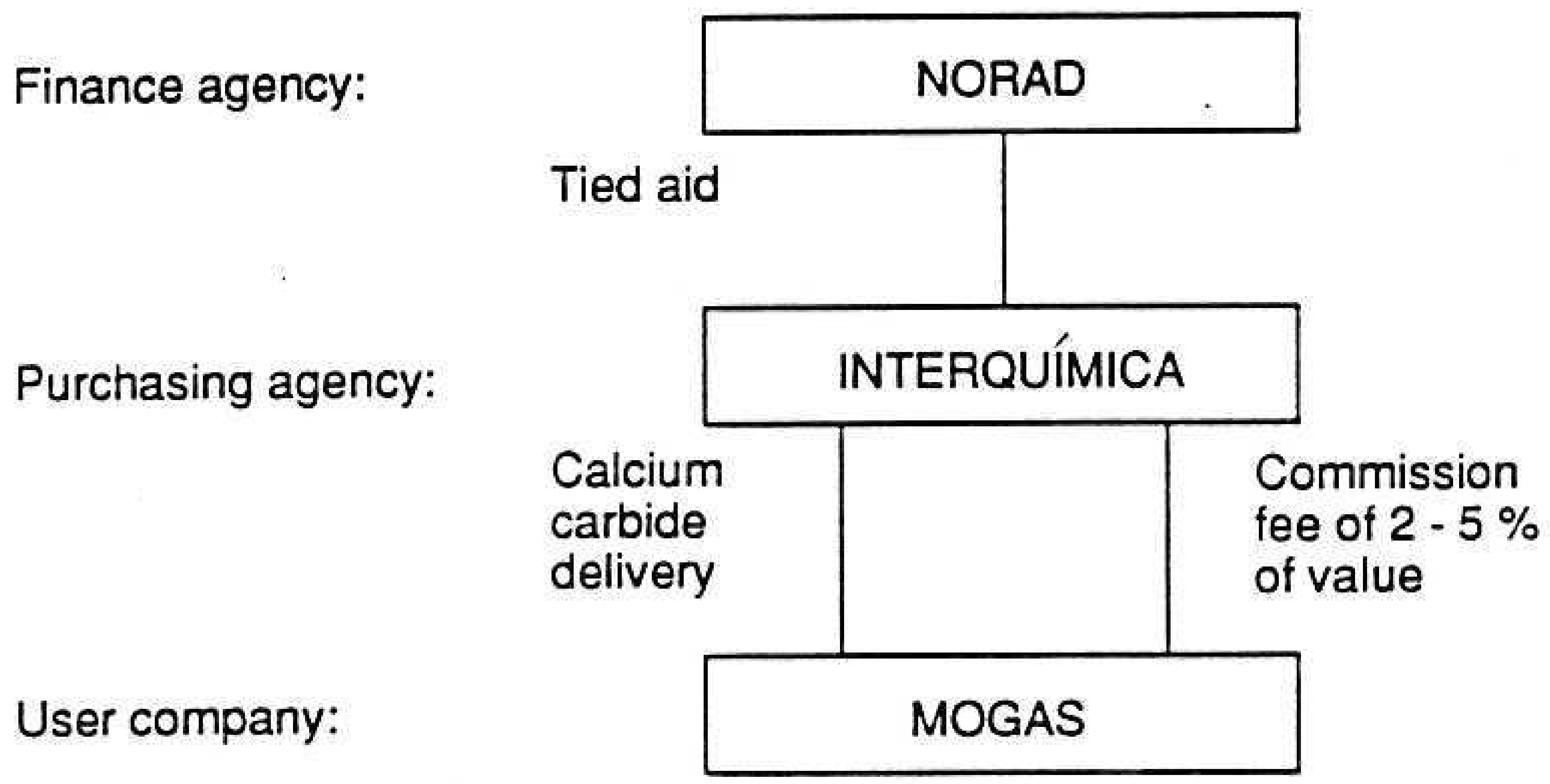
Book manufacturing facilities can be and are used for producing a variety of reading materials which serve other ends as well as education. Whatever the purpose, the paper is imported. Under a post-war situation there might well be sound prospects of making paper within Mozambique at an acceptable economic cost in which case the industry might be worthwhile from a foreign exchange perspective. Though it has not been possible to obtain sufficient data on costs and prices, the chances are that Mozambique could do better at the moment to try and obtain more ready made books from Finnida and cut back or eliminate domestic production until greater access to Mozambique's own raw materials can be obtained. This would release the Norwegian funds for use elsewhere. As things stand, there is little purpose in employing foreign exchange to maintain production rates when the items so fabricated are not being utilised. This is tantamount to putting foreign exchange into storage, a procedure which cannot be defended under any conditions.

The report therefore recommends that Norway should cease provision of foreign exchange for paper supply, and use the money elsewhere. Under existing circumstances that will lead to an absolute benefit. Mozambique may renegotiate its arrangements with Finnida and, indeed, with SIDA which also supplies paper. If suitable, and all three Nordic countries so wished, they could provide technical assistance to Diname for management and ultimately help in any post-war paper production.

5.3 Calcium carbide

Unlike the plastics and paper supplies, calcium carbide has always been a small part of Norwegian CA to Mozambique (the 1989 figure is in fact the highest absolute and relative level reached, yet even that is no more than NOK 3 mn). The commodity is used entirely for the production of acetylene by the monopoly manufacturer, *Mogas*. The procurement procedure summarised in Table 20 nevertheless runs through an intermediate agency, *Interquímica*, which charges a commission fee varying from 2 to 5 per cent to Mogas for its services. There is, in the view of this report, no useful function performed by persisting with Interquímica and it would be preferable for Mogas to conduct the purchasing operations for itself.

Table 20
Procurement procedures for calcium carbide



Acetylene production has a ready market in Mozambique and serves as an input for a number of industrial activities. Following the down years of 1983 to 1986, production has increased sharply and the dollar price is fast returning to levels which existed just prior to the 1987 beginning of the series of devaluations under the PRE. This means that the sales index based on dollar values is now close to 50 per cent above the 1983 level and there is every prospect this upward trend will continue. Current forecasts based on a cautious estimate of demand, expect a fairly steady growth of some 5 per cent per annum in sales and thus a continuing demand for calcium carbide supplies. The sales data are summarised in Table 21

Table 21
MOGAS acetylene sales by volume and value, 1983-1989

Year	Production (m^3)	Price (\$'000)	Sales (\$'000)	Salés index (1983=100)
1983	195.9	2.87	562.2	100
1984	150.0	3.11	466.8	83
1985	152.5	3.52	536.8	95
1986	158.0	4.18	660.4	117
1987[a)]	167.5	2.93	490.8	87
1988	200.1	3.09	618.3	110
1989[b)]	216.5	3.85	833.8	148

Source: Company data.
Notes: a) Beginning of devaluation under PRE. b) Provisional estimates.

The importance of acetylene in the foreign exchange management of the country is shown in Table 22. Since local production is an import substituting activity, the table compares the cost of importing acetylene on the basis of best available cif prices for each of the years 1983-1989 with the foreign exchange cost of domestic output. The calculations yield a saving per dollar spent of a constant USD 1.06; in other words, instead of importing finished acetylene, local manufacturing will require only half that amount in foreign exchange for importing raw materials and other inputs. The last row of Table 22 shows the value of calcium carbide as a percentage of domestic cost, and this figure is just above three quarters of the total. Hence, just as with raw materials supply to the plastics industry, so foreign exchange for importing calcium carbide supply is crucial for acetylene production. In this case, NORAD is the only supplier, and therefore its contribution is still stronger than in the plastics branch. This activity appears to be unproblematic at the moment and would certainly continue in a post-war situation.

Table 22
MOGAS foreign exchange savings from acetylene production and the contribution of Norwegian supply of calcium carbide

	1983	1984	1985	1986	1987	1988	1989
Cost of importing acetylene ($'000)	905	693	705	730	774	924	1002
Foreign exchange cost of domestic production ($'000)	438	338	343	355	376	447	483
Saving per $ spent	1.07	1.05	1.05	1.06	1.06	1.07	1.07
Value of calcium carbide as % of domestic cost	77	76	76	78	76	77	77

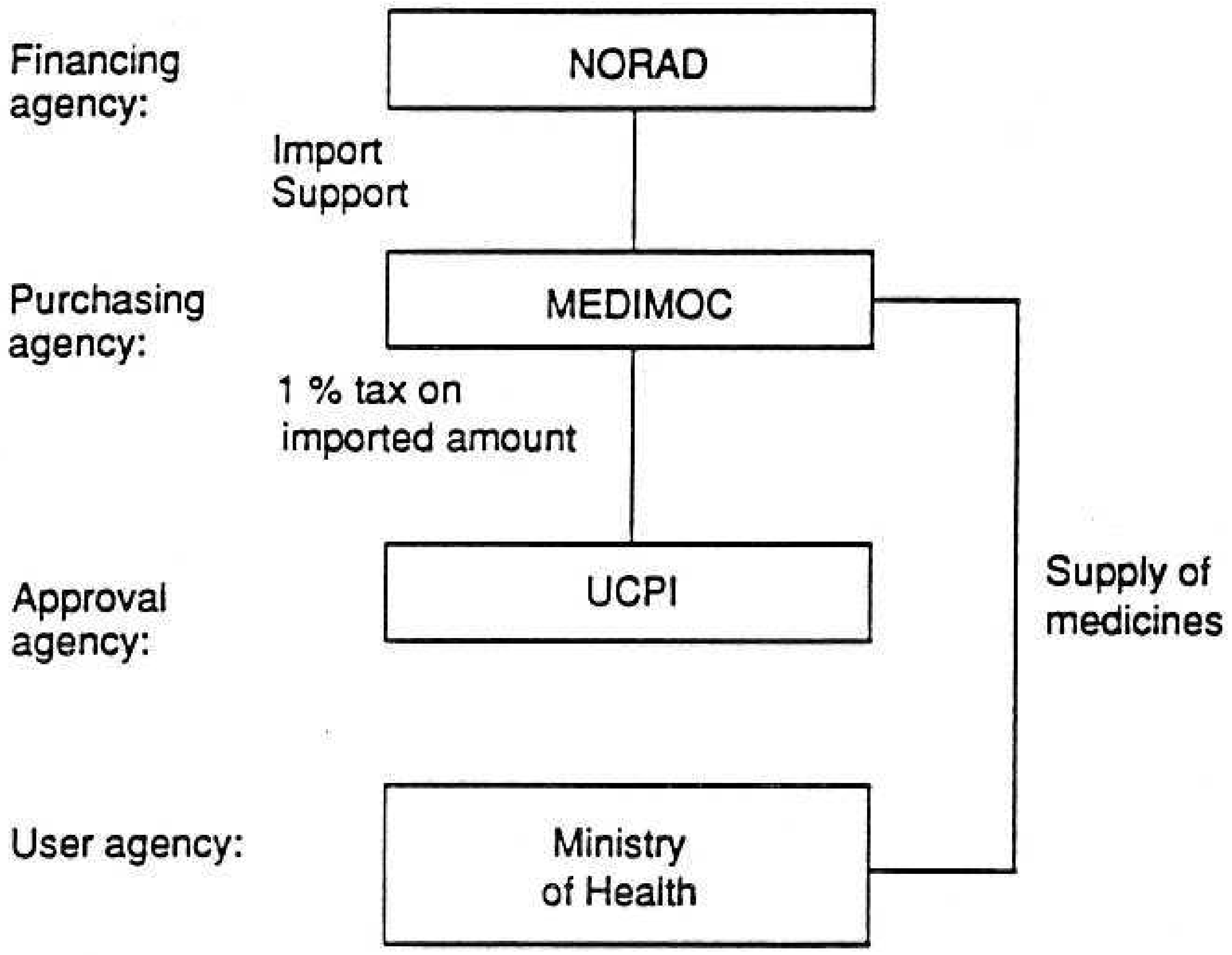
Source: Own calculations from company data.

One variant to present conditions would be worth considering in the light of the above findings. The fact that Mogas is saving, on a per unit basis, quite sizeable sums of foreign exchange, suggests it could compete successfully for allocations through UCPI. If this assumption is correct, then the money now granted could be used elsewhere. The overall situation would improve as long as the activity to which UCPI funds are now allocated (and which would lose them to Mogas) is less efficient than the activity to which the NORAD funds would then be dedicated. In practice there can be no guarantee this would be the case. Even so, this Report recommends that NORAD explore the possibility of letting Mogas compete for UCPI funds. The recommendation is based on the simple principle that UCPI will allocate foreign exchange in accordance with efficiency criterion.

5.4 Medicines

Mozambique's demands for pharmaceutical products are determined in the light of the WHO approach to rational drug use. NORAD provides IS i.e., untied assistance which goes to *Medimoc*, which in turn arranges purchases subject to the approval of UCPI. Table 23 shows how these supplies are then distributed to the Ministry of Health which is responsible for primary and other health care services.

Table 23
Procurement procedure for medicines



In the conditions of chronic foreign exchange scarcity which prevail in Mozambique, the actual imports of medicines remain well below the estimated requirements even with the latter determined according to quite strict criteria. Table 24 shows performance in the period 1985-1988. In absolute foreign exchange terms, the cost of required imports has risen by more than one half, yet the ratio of actual to estimated import needs has gone up still more rapidly. At the moment the country is able to purchase close to 80 per cent of the requirement and Norway's contribution to the foreign funding is around 9 per cent. While this proportion may not seem particularly high, the effect on Mozambique would be considerable were there to be any reductions in Norway's assistance. Procurement is through standard international procedures and the value per dollar of assistance is maximised both because of international bidding and through the careful specification of required products. In this area also requirements will persist for quite some years and the Norwegian support is relatively good. The one weak point, however, concerns the availability of information to the Mozambican authorities regarding the extent of Norway's contribution. In recent years, the practice has been for NORAD only to provide budgetary figures to the Mozambican government quite some time into the budget year. The result has been an unnecessary complication of planning. Recent proposals by the NORAD representative in Maputo, nevertheless, suggest that this defect of timing will be remedied in the near future.

Table 24
Import of medicines in Mozambique and the contribution of Norway's import support, 1985-1988

Year	Estimated requirements ($mn)	Actual imports ($mn)	Actual/ estimated (%)	Norwegian funding (%)[a)]	Norwegian share of import support (%)[b)]
1985	11.0	5.3	48.3	9.6	n.a.
1986	12.0	8.6	71.4	8.4	n.a.
1987	15.2	10.1	66.0	23.6	41.0
1988	17.3	13.6	78.0	9.0	22.0

Source: Medimoc and NORAD.
Notes: a) Share of the actual import bill paid by Norway. b) In 1987 import support accounted for 57.3 per cent of the total import bill and in 1988 for 41 per cent. Since all Norwegian assistance is provided through import support, figures in this column show the proportion of all import support to Mozambique which comes from Norway.

Norway could assist work in the medicines area by two actions which are separate from IS: The first is to emphasise support for the Basic Drugs policy both in Mozambique itself and in international fora. Ever since the policy was put forward, it has been under pressure from the pharmaceutical companies and there is no sign that the opposition will weaken. The constant suggestions to Mozambique to adopt more market-oriented policies could have particularly negative effects here — Norway should constantly add its voice to others so that Mozambique can maintain its policy. The second action, emphasising the first and designed to minimise planning and management complications, would be for Norway to offer multi-year commitments. Certainly this unilateral step would be strengthened if other donors would join the commitment and a common planning approach, drawing also on WHO, were formulated.

5.5 Sugar

Sugar has switched from being one of Mozambique's key export commodities to becoming an imported item where severe shortages now occur. Almost 20 years ago, production levels were running in the order of 370,000 tonnes; Table 25 shows that in 1988 output was a mere 5 per cent of that level. Hence, Mozambique currently satisfies only a small proportion of the minimum consumption requirement and the table underlines the growing import needs. In fact, those imports are forthcoming only on a scale of about one half of what is needed. Norway has recently being supplying through IS some 7-8 per cent of the sugar need.

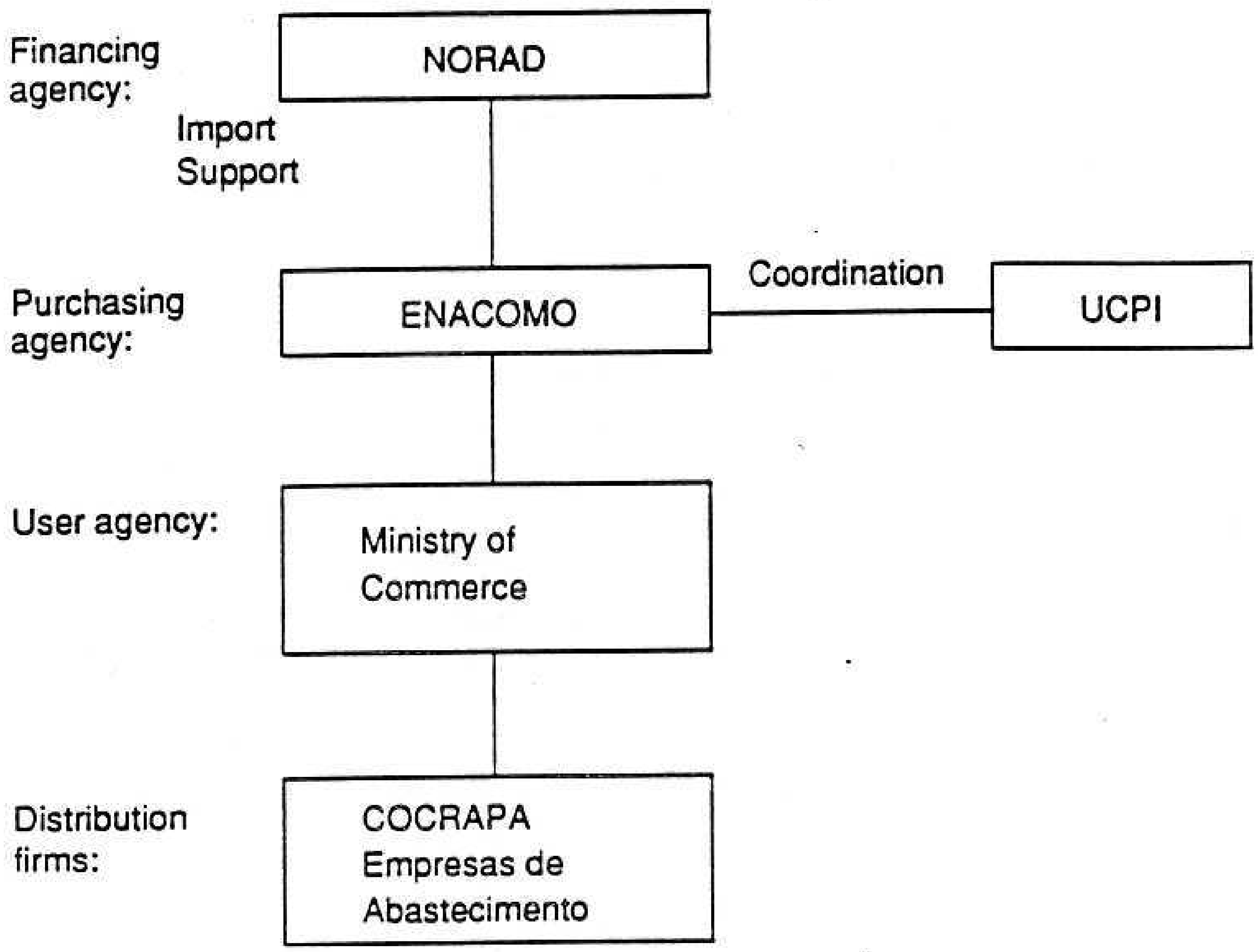
Table 25
Sugar balance sheet, 1983-1988 ('000 tonnes)

Item	1983	1984	1985	1986	1987	1988
Production[a)]	74	26	30	27	55	19
Minimum consumption requirement[b)]	128	131	135	139	142	146
Import requirement[c)]	54	105	105	112	87	127
Ratio of actual to required imports (%)[d)]	71	43	48	49	69	47
Estimated Norwegian contribution to imports (%)				20.9	8.3	7.0

Source: FAO Production Yearbook, own calculations.
Notes: a) Estimates. b) Calculated on the basis of an intake of 25 g per person per day, and a population growing at about 2.7 per cent per annum. c) The numbers here are low estimates since they do not take account of exports. d) Accurate information on imports does not appear to be available. Partial evidence suggests a level of about 40,000 tonnes per year in 1983 and roughly 60,000 tonnes now. The amount is assumed to have increased by equal amounts per year from 1983 to 1988.

In principle, this situation will alter once hostilities are ended and the situation in the countryside is normalised. Yet, as indicated in the preceding section, this might not occur for at least 2-3 years, so the demand for Norwegian support is not likely to be reduced. The procurement procedure is relatively straightforward and conforms to the UCPI monitoring criteria. Table 26 summarises the information.

Table 26
Procurement procedures for sugar



Sugar has been regarded as a cheap source of food energy, and a critical food item in Mozambique, the nutritional value of which is held to be difficult to obtain from other commodities. While the argument that sugar will be present in a post war economy is fully acceptable, the question whether the import of sugar is the best way of meeting nutritional needs while the war continues, remains a little open. Severe shortages of sugar are a constant nutritional problem in war settings and many countries have had experience in seeking out alternatives. It may be worth investigating whether a more favourable ratio of nutritional value to foreign exchange used could be obtained through methods other than straight sugar imports. There is, in any event, a case for bringing the allocation directly under the control of UCPI.

6. Summary and conclusions

6.1 Overall conclusions

This report has dealt with what has come to be known (not quite accurately) as non-project financial assistance (NPFA). By this is meant funds for the purchase of commodities (and possibly for services), not directly linked to projects where Norway is otherwise directly involved. The dominant forms are *commodity assistance (CA)* and *import support (IS)*, financed as part of the regular bilateral aid programme. In addition, Norway has provided *rehabilitation grants (RG)* supplementing the World Bank/IDA rehabilitation credits and channelled through IDA; and provided substantial amounts as *emergency aid (EA)*, outside of and additional to the regular aid programme. Seeing that Norway has not provided any direct balance-of-payments or budget support, it is these four forms that make out Norway's NPFA to Mozambique.

It should be noted that the regular projects also contain substantial shares of commodities and equipment, but though the borderline sometimes may be vague between project-related and non-project commodity aid, this report has not considered project-linked commodity aid.

Emergency aid has quite different objectives, and must by its very nature operate on a short-term and partly *ad hoc* basis, as opposed to the more regular development aid. For this and other reasons it was found that though the EA functions partly as a commodity aid programme, it cannot be evaluated in the same way as the other items. With the exceptions of the deliveries of sugar and medicines that were financed under EA in 1988, this report therefore has not made any further assessments of the modalities nor the impact of this assistance.

The Norwegian NPFA being considered in this report, has thus during the years 1986-89 amounted to between NOK 45 and 75 millions in yearly allocations, and represented between 20 and 30 per cent of Norway's total aid to Mozambique.

Many of the problems associated with the present pattern of assistance stem from the unnecessary classification of NPFA into several categories. These categories differ according to who maintains control over purchasing choices, the criteria adopted for those choices, and the agency responsible for actual purchasing.[1] The three components of Norwegian NPFA differ in where they place the decision making responsibility:

[1] Three entities are essentially involved, namely Norwegian official bodies (whether in Oslo or Maputo), Mozambican authorities (of which the role assigned to UCPI is of crucial significance), and the World Bank group through its rehabilitation credits.

* RG are given to IDA and then employed according to overall priorities in Mozambique with purchasing monitored by UCPI. Employment of international competitive bidding (ICB) methods for these funds ensures that best value on the international market is achieved for the cash spent.

* IS is a matter between Norway and Mozambique, but purchases are not tied to Norwegian sources. ICB methods are again the rule with UCPI playing a prominent monitoring role.

* CA keeps the decisions in Norwegian hands; funds are tied, actual purchasing is carried out by Norwegian agents and the only role for Mozambican entities is the distribution of supplies within the sector concerned.

Both CA and IS mean negotiation among Norwegian and Mozambican authorities regarding the specific products which funds will be used to obtain. Superficially, this gives Norway some say in choosing priorities but that say is only minor — Mozambique can always go to other and usually larger donors if there is an item it wants but Norway is reluctant to support.

As seen from Mozambique, the general argument that the more the control by the donor, the less value for the recipient may be correct, but is probably a weak one. At the same time, it can be argued that greater control from Norway may create more policy freedom for Mozambique, as long as Norwegian views do not fully coincide with those of other major donors.

Norway has, to a certain degree, maintained a perspective which is differentiated from the World Bank mainstream. It is likely that Norway's influence in propagating its views on larger aid and development issues is helped by maintaining the RG, whereby Norway becomes an active partner in a dialogue with the World Bank.

In sum it must nevertheless be concluded that the value of the assistance to Mozambique is not strongly dependent on the various forms or categories of assistance provided by Norway, nor on the degree of control by Norway. The genuine debate has more to do with how Norway perceives the utility of its actions, than with the direct impact of these actions on the recipient.

The other main findings of the report are as follows:

* Norwegian assistance (CA/IS) is only about 2-3 per cent of similar commodity support programmes from all major donors, yet is important in the areas where it is given;

* Within CA/IS there is pronounced concentration on a small set of products, particularly plastics and paper, which together have been accounting for around 60 per cent of the total;

* On a sector basis, Norway contributes approximately 90 per cent of raw material supplies to plastics and raw materials in turn make up approximately

70 per cent of the industry's costs. In paper the contribution is much smaller. Calcium carbide supplies provide all of the needs for acetylene production in Mozambique and the foreign exchange savings are substantial;

* Procurement procedures do not, on the whole, allow sufficient learning on the Mozambican side. In one or two cases, the internal procedures impose unnecessary charges on user enterprises;

* Planning of contributions, being on a 12 month basis and not sufficiently coordinated between Norway and Mozambique, leaves local entities with management problems that could be avoided;

* There is no evidence to suggest that funds are being misused. Where commodity support is tied, overpricing on the Norwegian side does not seem to be large. Losses in Mozambique due to corruption, though hard to estimate, are probably not big and becoming less as the internal management system improves;

* The situation in the country will certainly be changing with geo-political developments within Southern Africa, but the strong likelihood is that the need for CA/IS assistance will continue in the next three to four years.

6.2 Conclusions regarding individual commodities

The supply of *raw materials to the plastics industry* is a key component of the Norwegian CA programme. This support is also crucial for the sector in Mozambique. In 1988 NORAD supplied 90 per cent of the raw materials and thus close to two-thirds of all donor assistance to the industry. Indeed, the companies would be unable to function without Norwegian support, unless they could obtain similar materials from other donors. One relevant question has therefore been whether the needs of the Mozambican companies stretch beyond raw materials, and whether thus a fully fledged sectoral support policy should be established by NORAD.

However, a broader look at the existing and potential plastics industry in Mozambique today and in the future would rather indicate that the sector do not fulfill any of the three main conditions for special treatment under present circumstances: The industry does not produce vital consumer goods nor products with a powerful incentive effect; the role of the industry as supplier to other production operations is not too convincing; and it is not an important generator or saver of foreign exchange. Moreover, in a post-war situation the competitive position of the industry in Mozambique will be most doubtful.

The overall assessment therefore leads to a conclusion that Norway should rather leave this sector to compete for foreign exchange on a more competitive basis, and dissociate itself from participation in an activity which can hardly justify special treatment from Norway.

The supply of *paper for producing school books* is another major item for Norway's CA. Norway has been the only supplier of paper, while Mozambique has also imported ready made school books printed in Finland. However, during the years 1987-88 the stocks of school books for a variety of reasons were building up at an alarming rate. Even though both in the short and the longer run school books are an essential element in the education system, the question is whether production of the books in Mozambique based on imported paper supplies make good sense.

In the short run, however, there is little purpose in employing scarce foreign exchange to maintain production rates when the items so fabricated are not being utilised. This is tantamount to putting foreign exchange into storage. This report therefore recommends that Norway should cease provision of foreign exchange for paper supply, and use the money elsewhere.

Mozambique may wish, however, to renegotiate its arrangements with NORAD, Finnida as well as with SIDA which is a major donor in the education sector, in order to provide additional assistance to the book producer *Diname E.E.* and ultimately to help in any post-war paper production inside of Mozambique.

The situation relating to Norway's supply of *calcium carbide* for the production of acetylene, is quite different. The final product has no market problems, and the local production actually saves approximately one additional US dollar in foreign exchange, for every dollar spent. Acetylene serves as an input for a number of industrial activities. NORAD is the only supplier of imported calcium carbide, and therefore of crucial importance. However, with the establishment of UCPI for an efficient foreign currency allocation, there are all reasons to assume that the acetylene company *Mogas* would be able to compete successfully for its foreign exchange needs. This report therefore recommends that NORAD explore this possibility of letting Mogas compete for UCPI funds on its own.

A third major item in Norway's IS/CA, is the supply of *medicines* to the state importing and distribution agency *Medimoc*. Norway's contribution has accounted for approximately 9 per cent of the total foreign funding, which is nevertheless of vital importance. Mozambique has been following the WHO approach to rational drug use, and procurement is normally through standard international procedures, ensuring that the value per dollar of assistance is maximised. In this area requirements will persist for quite some years, and the Norwegian assistance is considered relatively good.

The main weak point has been NORAD's practice to provide budgetary figures only for one year at a time, and quite some time into the budget year, which has resulted in unnecessary complication of planning. Norway's support could therefore be further strengthened by offering multi-year commitments, but also from further support to Mozambique's basic drugs policy in the view of the increasing pressures from the international pharmaceutical industry to disband this.

The last commodity which has been separately assessed in this report, is *sugar*. It is indeed a tragedy that Mozambique would have to import any sugar at all, seeing that they were a major exporter before the production and transport structures were too strongly affected by the war. Norway has recently been supplying some 7-8 per cent of the sugar need. Sugar has been imported as a cheap source of food energy, and a critical food item. It is nevertheless recommended to investigate whether other food items could provide a better ratio of nutritional value to foreign exchange. As for the present import and procurement procedures, this is relatively straightforward, but could be brought more fully under the control of UCPI. In the longer run, it can be expected that Mozambique's own production will be rehabilitated eliminating the need for further imports.

6.3 Recommendations relating to Mozambique

While the Mozambican government is ultimately responsible for the selection of priorities and for other policy decisions, there are certain issues on which NORAD should urge improvements. The management procedures within a number of companies utilising CA/IS assistance are extremely weak. The urgent need is for major strengthening of cost accounting procedures and for management services to assist inventory handling, utilisation and maintenance of equipment, and for improvements in distribution systems. NORAD should try to pinpoint a programme for such help with Mozambique. A possibility would be to combine work of staff selected from Norwegian companies with training for Mozambican managers in Norway (in companies and in business schools).

6.4 Recommendations for NORAD

The report has argued that, within NPFA, the emphasis should be on simplification of procedures, strengthening of management by official bodies (especially UCPI) in Mozambique, and use of ICB to maximise the value obtained from foreign exchange supplied. In practical terms this emphasis means the following:

* retain RG as a way of providing Mozambique with resources freely usable while simultaneously obtaining a voice in World Bank rehabilitation approaches;

* for IS there seems little purpose in Norway going through its own procedures on items Mozambique anyway requires through international sources;

* for CA the idea of negotiating over particular products with Mozambique seems of little use. Norway should cut out the direct support to plastics and paper under present conditions due to the doubtful value of the former and the wastage now owing under the latter. At the other end of the spectrum, the value of acetylene production based on calcium carbide is such that this commodity could safely be left to bid for its foreign exchange needs through UCPI;

* NORAD should assist in strengthening UCPI by contributing to its management training, accepting the harmonisation of procedures now being proposed, and ensuring that maximum monitoring responsibility devolves on UCPI.

These are decisions which can be implemented readily; where necessary, advance warning can be given to the Mozambican authorities.

The experience with NPFA in Mozambique has some lessons for the future, both in that country and elsewhere:

First, cumulative ad hocery is rarely advisable. Even under the severe conditions affecting Mozambique, the result has been a complication of procedures and dilution of the financial and other values of the assistance to the country.

Second, scarce managerial resources for assistance from Norway would be better occupied focusing on key longer-term development requirements rather than on negotiations over which commodities to support and how to support them.

Third, although the absolute volume of Norwegian assistance is not large compared with that of other donors, Norway's views will be heard. It jeopardises its audience by too much ongoing over procedures which reduce the value of aid. In those circumstances Norway will increase the hearing for its views by clarifying procedures and leading by example.

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