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The World Bank

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CR 2081 - MOZ

Report No.7826-MOZ

STAFF APPRAISAL REPORT

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

NOVEMBER 21, 1989

Industry and Energy Operations
Southern Africa Department

CURRENCY EQUIVALENTS

US$1 = 813 Meticais (MT) - October 1989
US$1 = 682 Meticais (MT) - at time of Appraisal (March 1989)
MT 1000 = US$1.47

ABBREVIATIONS AND ACRONYMS

ADL	Arthur D. Little
BE	Beneficiary Enterprise
BM	Bank of Mozambique
BES	Business Environment Study
BPD	Banco Popular de Desenvolvimento
BSTM	Banco Standard Totta de Mocambique
CCADR	Caixa de Credito Agrario e Desenvolvimento Rural
CDC	Commonwealth Development Corporation
CNP	Commissao Nacional de Planeamento (National Planning Commission)
CREE	Commissao de Relacoes Economicas Externas (Commission for External Economic Relations)
ERC	Enterprise Rehabilitation Component
ERP	Economic Rehabilitation Program
ERTU	Enterprise Restructuring Technical Unit
GOM	Government of Mozambique
GPIE	Gabinete de Promocao do Investimento Estrangeiro (Office of Foreign Investment Promotion)
IDIL	Instituto Nacional de Desenvolvimento de Industria Local National Institute for Light Industry Development
IFC	International Finance Corporation
MA	Ministry of Agriculture
MCW	Ministry of Construction and Water
MOF	Ministry of Finance
MIE	Ministry of Industry and Energy
ML	Ministry of Labor
MTC	Ministry of Transport and Communications
PETROMOC	Empresa Nacional de Petroleos de Mocambique (National Petroleum Company)
PFI	Participating Financial Institutions
PPF	Project Preparation Facility
RP	Rehabilitation Plan
SARL	Sociedades Anonimas de Responsabilidade Limitada (Public Limited Liability Companies)
SNAAD	System for Non-Administrative Allocation of Foreign Exchange
SEILA	Secretariat of State for Light Industry
SETEP	Secretariat of State for Vocational and Professional Education
SQRL	Sociedades por Quotas de Responsabilidad Limitada (Private Limited Liability Companies)
UNIDO	United Nations Industrial Development Organization

FISCAL YEAR

Government and Public Enterprises: Calendar Year

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

TABLE OF CONTENTS

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

TABLE OF CONTENTS

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

LIST OF ANNEXES

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

CREDIT AND PROJECT SUMMARY

Borrower: People's Republic of Mozambique

Beneficiaries: Ministry of Finance (MOF); Bank of Mozambique (BM); Ministry of Industry and Energy (MIE); and selected major beneficiary enterprises (BEs).

Amount: SDR 40 million (US$50.1 million equivalent)

Terms: Standard IDA terms, with 40 years maturity

Onlending Terms: Government will pass on US$50.1 million equivalent of the IDA credit to the BM to: (a) channel US$39.9 million to BEs under the Enterprise Restructuring Component (ERC); and (b) retain US$10.2 million equivalent for technical assistance to strengthen the Enterprise Restructuring Technical Unit (ERTU) and other agencies involved in the Project, for consultancies to BEs for subproject preparation, and for training. The ERC would be channelled to BEs primarily as loans through BM. However, in appropriate cases, the Government could use this component to make direct equity investments in BEs in combination with loans according to their assessed needs for financial restructuring. The BM would onlend the credit proceeds under the ERC in local currency to eligible BEs at adjustable interest rates based on the structure of rates prevailing in Mozambique. The credit risk on onlending would be borne by the BM who would receive an appropriate spread as determined by the banking system. The foreign exchange risk would be borne by the Government and would be covered by the interest yield on funds onlent, net of the service charge on the IDA credit, and the onlending spread of the BM. The Government would bear the risk on any equity investments. Subloans under the ERC would have maturities of up to 15 years, including up to a 5-year grace period.

Project Description: The Project's overall objective, which is in support of the Government's strategy, is to restore production and efficiency in a selected group of major industrial and agro-industrial enterprises. More specifically, the Project aims to: (a) introduce a framework and criteria for selecting enterprises for rehabilitation, based on potential economic, financial and technical viability, and on management capacity to operate efficiently and profitably; (b) finance the rehabilitation, financial restructuring and operational support to selected enterprises. The restructuring process would, where appropriate, include rationalization of capacity, privatization, technical partnership arrangements, or, if necessary, closure of nonviable operations; (c) protect the environment and worker safety; (d) strengthen Government's capacity to implement the rehabilitation

program; and (e) support policy reforms and subsector reviews designed to strengthen enterprise operations in a market-oriented environment.

Project Benefits and Risks:

Rehabilitation of selected major enterprises will yield high economic returns through restoration of employment and higher levels of production and incomes. Improvements in the institutional and policy framework, plus increased enterprise autonomy and competition, with more private sector involvement through joint ventures and divestiture, should enhance enterprise efficiency and profitability. The rehabilitation, financial restructuring, privatization and technical management approaches developed for enterprises under the Project will serve as demonstration cases for the design and implementation of similar programs in other enterprises. Further, the Project will aim to increase the market orientation of enterprises through improvements in financial and management information systems, with emphasis on accurate record keeping, cost controls and related training of enterprise personnel.

The major risks associated with the Project stem from: (a) the economy's fragility and therefore the possibility that political and social opposition may weaken Government's commitment to the ERP reform program during Project implementation, particularly the more sensitive changes (e.g. price liberalization and state enterprise divestiture or liquidations) which represent a significant departure from past policies; (b) limited Government and enterprise experience in implementing rehabilitation plans; and (c) the security situation, which might adversely affect project implementation. To mitigate these risks: (a) the Project would provide assistance in training and financing tools and equipment for laid-off staff in order to alleviate the social costs and therefore, reduce the risk of resistance on the part of the public; and (b) BEs will be selected primarily on the basis: of their potential economic, technical and financial viability; that they possess a capable management team or plans are made to secure such a team; and that their operations are not seriously affected by the security situations. The ERTU is being strengthened through the services of an experienced consulting firm and enterprise management will also be strengthened and, where necessary, assisted in formulating and implementing their rehabilitation plans. Close supervision during Project implementation will be maintained to deal with problems as they arise to ensure that the environment is not adversely affected by the operations of BEs. Government commitment to, and progress so far in, implementing the reform program has been encouraging and no evidence exists of flagging Government resolve.

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

PROJECT COSTS AND FINANCING PLAN

	Local	Foreign	Total
A. Estimated Project Costs 1/	(US$ Million Equivalent)		
Project Components			
1. Enterprise Rehabilitation Component: (Fixed investments, spares, working capital & TA)	33.5	62.4	95.9
2. Technical Assistance Component:	2.0	8.8	10.8
TOTAL COSTS	35.5	71.2	106.7
B. Financing Plan			
Government and enterprises	34.1	0.0	34.1
Co-financing 2/	0.0	22.5	22.5
IDA	1.4	48.7	50.1
TOTAL	35.5	71.2	106.7

C. Estimated Disbursements: 3/

IDA Fiscal Year:	FY90*	FY91	FY92	FY93	FY94	FY95	FY96
Annual	1.8	6.8	11.4	15.5	8.1	4.0	2.5
Cumulative	1.8	8.6	20.0	35.5	43.6	47.6	50.1
% of Total	3.5%	17.0%	40.0%	71.8%	87.0%	95.0%	100.0%

Estimated Completion Date: December 31, 1996

*Including the Repayment of PPF advance.

1/ Project Cost Estimates exclude taxes and duties.

2/ Interest to co-finance has been expressed by Italy (US$22.5 million equivalent). In addition, several bilateral and multilateral agencies may co-finance specific enterprise rehabilitation, including IFC, CDC, Caisse Central.

3/ Based on standard World Bank, Africa-Region disbursement profiles and recent disbursement experience in Mozambique.

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT 1/

STAFF APPRAISAL REPORT

I. THE ECONOMY

Background

1.01 Pre-Independence. Despite its considerable natural resource base, Mozambique's principal foreign exchange earnings during colonial times derived from transit trade services and mine workers' remittances, principally from South Africa and Zimbabwe. A variety of agricultural products (including prawns, cashew nuts, tea, cotton, copra, sugar and thyme, mostly from the settler-dominated estate sector) were also exported. Industry consisted of agro-processing operations closely linked to the agricultural estate sector and import substitution activities, which were concentrated in Maputo and Beira and depended on imported raw materials, equipment, and spare parts.

1.02 The 1973-86 Economic Decline. Between 1974 and 1976, the mass exodus (approximately 90%) of the Portuguese settlers and instability in the region, which spread into Mozambique, created major disruptions throughout the economy. Industrial enterprises and agricultural estate operations were abandoned by owners, managers and skilled technicians. Industrial production, which accounted for 12% of GDP in 1973, declined by almost 50% between 1973 and 1976. Destruction of production facilities and infrastructure by armed bandits intensified after 1980, and the deteriorating security situation in rural areas had a severe impact on agro-industries. After recovering somewhat between 1976 and 1980, industrial production continued to decline thereafter and in 1986, was estimated to be about one-third of the 1973 level. Effective production capacity declined sharply to about 10-40% of rated capacity because of obsolescence, mechanical breakdowns, shortages of replacements and spare parts, and war-related damage.

1.03 Other key economic indicators have also been in decline. Between 1980 and 1986 exports fell by nearly 75%; imports decreased by more than one-third from 1980 to 1985, before recovering somewhat in 1986. Since 1980, external imbalances, aggravated by the increasingly overvalued exchange rate, have led to the rapid accumulation of external debt service arrears. Internally, difficulties attributable to inappropriate economic policies were aggravated by the deteriorating rural security situation, which even now seriously disrupts agricultural export production.

1/ Detailed information and analysis on the economy and the sector are available in several Bank reports, including (a) Country Economic Memorandum (June 6, 1985); (b) Memorandum of the President for the 3rd Rehabilitation Credit (April 24, 1989): and (c) the green cover industrial sector "Business Environment Study" (June 20, 1989).

1.04 Government efforts to reverse the decline began in 1984-86 with the introduction of the Economic Action Program. Liberalization measures introduced in the program included a foreign exchange retention scheme for selected export enterprises and a new investment code to promote foreign direct investment. These measures were not sufficient to stimulate any significant turnaround in economic performance. The economy was isolated from international and domestic market forces by centralized economic management and control.

The Economic Rehabilitation Program and the Industrial Sector

1.05 In response to the continuing economic crisis, in 1987 the Government of Mozambique (GOM) with Bank and IMF assistance, launched a far-reaching Economic Rehabilitation Program (ERP).

1.06 In addition to major macroeconomic adjustment measures, which included progressive devaluations of an extremely overvalued metical, the GOM initiated major reforms in economic management. The reforms were intended to (a) progressively reduce centralized administrative controls and encourage private sector participation; (b) encourage improved resource allocation through indirect methods such as market determined prices and credit policies rather than administrative intervention; and (c) establish more direct links between economic performance and financial results.

1.07 Industrial sector objectives included in the ERP were to: (a) restore production, (b) improve efficiency of resource use, (c) increase enterprise autonomy and accountability, and (d) encourage a commercial business environment. Efficiency in resource allocation is being promoted by a combination of measures, including: (i) a revised foreign exchange allocation system, which became operative in 1987; (ii) more restrictive credit policies and reduced subsidies; (iii) increased freedom to adjust employment in response to economic signals; (iv) progressive decontrol of input and output prices; and (v) greater enterprise-level authority with respect to procurement and marketing. As a result of these measures, two and one half years after initiation of the ERP, enterprises are operating in a more market-influenced environment rather than under the heavily administered system of the past. To assist industrial enterprises in adjusting to this more open environment and to restore efficient production, the GOM requested the International Development Association (IDA) to help design and finance the proposed Industrial Enterprise Rehabilitation Project (IERP).

II. INDUSTRIAL SECTOR BACKGROUND

A. The Structure of Industrial Production, 1973, 1987

2.01 Annex 2-1 presents the structure of manufacturing industry. Data presented are from the last comprehensive pre-independence survey and from preliminary estimates for 1987. In 1973, 1,409 registered industrial enterprises employed 98,868 workers. Manufacturing value added was estimated at 12% of GDP. Numerically, the largest group of enterprises were the 331 (mostly village-level) flour mills (average employment 5.75) and the 285 small bakeries (average employment 15). The largest operations in terms of employment were six sugar mills (5,298 workers) and 15 cashew processing operations (20,850 workers, or 21% of total employment). The food, beverage, and tobacco sub-sectors were the largest contributors to value added (44%), followed by textiles, garments, and leather (16%), metals fabrication and engineering (13.5%), and wood, paper, and printing (10%). Several recent estimates of industrial employment and composition have been prepared from a variety of sources, but the results have been considerably divergent. A reconciliation of the latest data available from the Ministry of Labor (ML) and from the Ministry of Industry and Energy (MIE) shows an estimated industrial employment level for 1988 of 80-100,000 versus 98,868 reported in 1973. For 1984, a United Nations Industrial and Development Organization (UNIDO) study team estimated 100,000 employees for the formal sector and 50,000 for the informal sector, but these estimates appear optimistic. A 1987 ML survey, covering all enterprises, estimates for 1987 show that there were 66,500 in the manufacturing sector, 17,700 in construction, and 3,700 in public utilities. The National Planning Commission (CNP) estimates for 1987 show that there were 87,800 employed in nationally registered manufacturing enterprises.

2.02 Table 2.1 2/ traces the decline of industrial output from 1973 through 1987.

Table 2.1: MOZAMBIQUE - INDEX OF INDUSTRIAL PRODUCTION, 1973-87 A/ (1980 = 100)

	1973	1975	1980	1981	1982	1983	1984	1985	1986	1987
Total manufacturing output	139	87	100	103	90	70	56	43	42	45

a/ 1980 = Base Year, 100

Source: National Planning Commission (CNP), Informacao Estatistica, 1987.

2/ Based on gross output data for nationally registered enterprises only (over 50 employees).

The index indicates that output for 1987 was about 7% higher than in 1986, the first increase for 7 years. The modest improvement appeared to be mainly due to donor import support programs, including the IDA First Rehabilitation Credit (Cr. 1610-MOZ), which allocated about US$35 million to industry. The recovery, however, was uneven. Major improvements in production were recorded in textiles (21%), wood products (46%), chemicals and plastics (16%), and basic metals (136%). Tobacco and leather production registered declines. Preliminary indications are that industrial production increased by a further 7% in 1988.

2.03 Recent mission field surveys confirm that the composition of registered enterprises is relatively unchanged since the colonial period, due to the extremely low level of post-independence investment. Shutdowns have been numerous, and production by establishments that continue to function has substantially declined because of obsolescence and breakdowns.

2.04 Ownership Structure of Industry. In 1975, following independence, the State's decision to "intervene" in abandoned or commercially sabotaged enterprises radically changed the operating structure of industry. After an initial "intervention" in about 300 enterprises, the 1977 law (D-L 16-75 of February 13, 1975) permitted changes, including full state ownership or reversion to private ownership. By 1984, the structure of ownership of 575 nationally registered enterprises was as follows: state - 114; intervened - 140; private - 294; mixed and cooperative - 27.

2.05 As a result of many restrictions placed on market-based private operation, there was little interest in, or movement towards, privatization of "intervened" or mixed enterprises until the start of the ERP. Recently, the situation is beginning to change. The Government has begun to rationalize the status of some "intervened" enterprises by grouping those within the same subsector and converting them into state enterprises. Some of those already formed are SOVESTE, E.E. (garments - 5 factories); IMOCAL, E.E. (shoes and leatherwear - 5 factories); EMPLAMA E.E. (plastics - 5 factories); and COMETAL (railroad cars and heavy steel fabrication). Other "intervened" firms have either been sold to private investors or returned to the original owners. To date, decisions related to enterprise ownership have been on a case-by-case basis. It is expected however, that the pace of divestiture will significantly increase and will take place in a more systematic fashion, through the proposed IERP. Company asset valuations and the structuring of sales agreements have been carried out by working groups within the MIE. At the larger enterprise level, a number of "intervened" companies have been sold, usually to Mozambican entrepreneurs, who are starting to become interested in purchasing assets at current devalued prices.

2.06 Industrial Location. In 1973, 41% of industrial employment and 51% of sector value added were located in Maputo Province (Annex 2-2). If Beira were included in the calculations, employment and value added estimates were 57% and 71%, respectively. Manufacturing activities such as rubber, plastics, chemicals, paints, metal fabrication and engineering were heavily concentrated in these two cities. Agro-based activities such as cereals milling, cotton ginning, sisal and tea production, and forestry operations were more widely dispersed. By 1987, the pattern became further concentrated

because of the decline in agro-processing and an increase in the share of total production accounted for by Maputo province. This may reflect, in-part, under-reporting elsewhere. Nevertheless, reported absolute employment in manufacturing and processing in Maputo Province increased from 34,800 in 1973 to 46,400 in 1987.

2.07 **Current Investment Climate**. The business climate in 1987-88 has improved as a result of the ERP. Principal policy reforms have included: (a) devaluation and an increase in the relative price of internationally traded goods and lower real wages in the organized sector; (b) decontrol of pricing, distribution, and procurement; (c) movement towards non-administered foreign exchange allocation; and (d) increased efforts by the Government to stimulate local and foreign private investment through, *inter alia*, privatization efforts, investment incentives, and recognition of the role of the private banking sector. The increased availability of imports financed by donor aid has also been a positive factor. Nevertheless, the investment climate continues to be adversely affected by security problems, the generally poor condition of infrastructure and industrial plant, and the potential contraction of demand resulting from lower real wages.

2.08 The few indicators which are available show an upturn in activity. Foreign investment proposals to the Office of Foreign Investment Promotion (GPIE), which was established in 1985, have increased from a total of 15 for the 3-year 1985-87 period to 20 for the first 11 months of 1988. The majority of proposals in the pipeline are tourism and trade related; processing industry proposals included fish, cashew nuts, and tobacco.

2.09 **Demand for Industrial Sector Production**. Increased foreign exchange availability and market liberalization have created a short-term resurgence of industrial activity and consumer demand. Sustainability is uncertain until the security situation is resolved and rural areas can be reintegrated into the formal sector of the economy. In urban areas, the severe drop in real incomes, which has accompanied exchange rate adjustment, has eroded purchasing power at the lower levels of the economic pyramid. The Business Environment Study (BES) survey of 62 enterprises indicated that food processing activities continued to experience strong demand, but some softness was beginning to appear in sectors such as textiles, garments, shoes, and condensed milk. Soft demand for local manufactures may be due in part to a preference for newly available, higher-quality imports, particularly for shoes and apparel. Products whose principal markets are rural, such as bicycles and agricultural implements, continue to experience lagging sales and inventory buildup because of security problems that constrain access to markets.

2.10 **Industrial Efficiency**. A survey of industrial efficiency based on a domestic resource cost analysis of a 40-enterprise sample has recently been completed as part of the Business Environment Study. The objective was to identify and rank industrial subsectors in terms of operational efficiency and production cost structure relative to international competition. Given the deficiencies of most enterprise balance sheets, cost accounting practices, and other data shortcomings, the results should be interpreted as only indicative. The analysis indicated that, at the ERP adjusted exchange rates, a fairly wide cross-section of import-substitution industries and some

agricultural export operations have efficient short-run marginal production costs. This is in sharp contrast to the pre-ERP prevalence of negative value added operations. The long-run efficiency of industries was less clear, emphasizing the need for detailed enterprise-by-enterprise studies before embarking on major rehabilitation investments.

2.11 Preliminary as they are, study results indicate that potential exists for development of low-capital, labor-intensive export oriented operations in the Maputo area. These operations could take advantage of a relative abundance of idle factory capacity and (by Sub-Saharan Africa standards) a relatively industrialized work force. The study also indicates that local resource-based industries such as sugar and edible oil processing and textile manufacturing are currently burdened with high input and operating costs, resulting in part from security-related uncertainty of raw material supply and subsequent low capacity utilization.

B. Institutional Framework

2.12 The organization of the industrial sector reflects vestiges of a centrally planned economy. Enterprises deemed to be of national importance --whether state owned, "intervened," or private--come under the administrative "tutelage" of central ministries. Local enterprises are under the tutelage of the provincial directorates of the MIE. Approximately 580 registered national enterprises (not all in an operative state) are under the tutelage of eleven central ministries. Areas of administrative responsibility are given in Annex 2-3. As of March 1989, SEILA was dissolved as a Secretariat, but its functions were retained in a Light Industry Department created within the MIE.

2.13 Unidades de direcçao (Coordination Units) are responsible for supervision. There are a total of 11 unidades under the Light Industry Department (formerly SEILA) and 7 under the MIE, excluding energy production. Each unidade supervises a set of industrial subsectors, each containing between 10 and 30 individual enterprises. In some cases larger enterprises such as SOGERE (beverages) and ELECTROMOC (electrical services) act as the unidades for the rest of the particular subsector. SEILA was also responsible for the Directorate of Local Industries; this directorate is now the Institute for Local Industry Development (IDIL).

2.14 Until 1988, the unidades linked the enterprises with the central planning process. Their main responsibility in practice was the coordination of data for planners, based on data received from compulsory company reporting. The unidades were also responsible for price authorization, foreign exchange allocation, technical assistance, training coordination, and industry studies.

2.15 In practice, unidades varied considerably in terms of the functions they performed. More important, the level of autonomy permitted individual enterprises varied widely, especially with respect to foreign exchange allocation. In some unidades, enterprises could procure and import directly, whereas in others all such activity was carried out by the unidade's management, and individual enterprises were charged fees for the unidade's services.

2.16 Consistent with the rapidly changing sector environment, both de jure and de facto relationships between unidades and individual enterprises are in a state of flux. In general, enterprises enjoy greater managerial autonomy than in the recent past. An important indicator is that many enterprises are now permitted to trade directly with each other, rather than through wholesaling intermediaries, both in domestic and international trade.

C. Financial Sector

2.17 The present financial system came into being when the banking system was restructured in 1978. There are three banks, one of which, Bank of Mozambique (BM), is legally responsible for carrying out the dual functions of both a central and a commercial bank. Both BM and the second bank, the Banco Popular de Desenvolvimento (BPD), are 100% state-owned. The third bank, Banco Standard Totta de Mocambique (BSTM), is a (largely foreign-owned) private bank. In addition, an Agricultural Development Credit Fund (CCADR) was established in 1988. 3/

2.18 For the first decade after independence, the banking system operated mostly as a passive conduit of funds to finance production plans for the various sectors of the economy. In keeping with the Government's new economic policy, considerable changes are now under way in Mozambique's financial sector, including introduction of competition in resource allocation within the banking system. For example, while BM has held a monopoly on foreign exchange operations, a limited foreign exchange operations license was recently granted to BSTM.

2.19 Structure of Interest Rates. The structure of both lending and deposit rates of interest in Mozambique is shown in Annex 2-4 (including a translation of the Ministerial Order of 1989 which sets the most recent rates). As the Annex shows, the rates for 1981 and 1987 were very low in nominal terms, ranging from 0 to 6% for deposits, and 3 to 10% for lending. In real terms these rates were negative because inflation levels averaged in excess of 10% over the period. The structure of interest rates was revised (with increased interest rates on demand and time deposits) effective January 1987, as part of Mozambique's agreements with the IMF for a Structural Adjustment Facility (SAF). Effective January 1989, the number of lending rates was reduced to 16, ranging from 14% to 35%. The number of term (over one year) lending rates has declined from 27 to 7, and the range contracted from 18-35% to 22-34%, with rates for most categories increasing by 4-6%.

2.20 Interest rates are still negative in real terms, although less so now that inflation has started to decline. Under the terms of Mozambique's agreement with the IMF, interest rates would continue to be reviewed and be progressively revised to achieve positive real interest rates by 1990.

3/ A more complete discussion of the financial sector is contained in paragraphs 3.01 - 3.47 of the SMEDP (Small and Medium Enterprise Development Project) SAR (Report No. 7987-MOZ).

2.21 **Credit Allocation Policy and Sectoral Distribution**. Mozambique had no active formal credit allocation policy until 1987, when a ceiling on domestic credit expansion was introduced in the context of the SAF agreements with the IMF. Under the terms of the agreements, additional credit expansion is allowed to the extent of the countervalue in meticais of certain foreign exchange resources, such as IDA Credit loans.

2.22 **Credit Ceilings**. For 1988, the ceiling on domestic credit expansion was Mt 74 billion, of which Mt 20 billion was for lending to the State and Mt 54 billion for lending to the economy. The level of bank finance available to the State declined significantly in real terms. This shift partly reflects changes in the channelling of financial resources to State enterprises, in the context of rationalization of their operations, as well as increasingly tight controls on the Government's budget and the desire to make adequate funds available to the economy to stimulate growth.

2.23 Provisional figures for 1986 show an actual expansion in domestic credit of Mt 64.9 billion. In 1986, BM accounted for 79% of total bank lending, BPD for about 18%, and BSTM for about 3%. By year-end 1988, these figures were 69.5%, 23.6%, and 4.3%, respectively, with the remaining 2.6% lent by the newly established CCADR. More significant perhaps are the various institutions' shares in incremental lending in 1988: BM lent less than 48%, BPD accounted for about 37%, BSTM for about 7%, and CCADR for about 9%.

2.24 **Sectoral Distribution**. In recent years, agriculture has accounted for around half of total bank lending; of the remainder, industry accounts for about 17% (39-42% if primary transformation of agricultural products is included), construction for about 5-7%, transport and communications for around 12-14%, domestic trade for some 7-9% and foreign trade for 6%. Data for BM (Annex 2-5), which are fairly indicative since BM has accounted for 85% of industrial lending, suggest that manufacturing receives only about 11% of total lending. As of year-end 1988, BM accounted for 70% of total lending to industry, down from 85% in 1986, and BPD and BSTM accounted for 13.5% and 12.9%, respectively. The newly established CCADR accounted for 3.5%. BPD does not at present lend to the construction and trade sectors and only recently has it lent to the transport sector; BSTM has less than a 3% share in lending to construction and transport but an 11-13% share in lending to the domestic trade sector (Annex 2-6).

2.25 **Banking System Arrears and Capital Base**. The banking system faces a serious arrears problem, which has arisen from several sources. A significant portion of the arrears dates back to independence, when many Portuguese owners of firms left the country. Another portion stems from directed lending by the state-owned banks (mainly BM and BPD), largely to state enterprises and intervened firms. Much of this lending covered operating deficits. Total figures for this type of lending, and for arrears arising from it are not currently available. Since 1987, the Government has covered enterprise operating deficits through direct fiscal subsidies. The level of subsidy has been reduced substantially from Mt 9.1 billion in 1987 (most of which went to the agricultural sector) to Mt 6.8 billion in 1988.

2.26 The Government has begun to address the arrears problem in negotiations with BM, which holds most of the arrears (about Mt 40 billion). This amount represents only the principal in arrears, since BM does not accrue interest on doubtful loans. The proportion of these arrears in BM's overall portfolio is declining. In 1986, the proportion of arrears stood at 41%; by December 1987, they had declined to 34% and by December 1988, they were only about 15%. Other arrears deemed reprogrammable have declined from 42% of the total portfolio to 21% over the same two years. Reprogrammed amounts now constitute 25% of the portfolio and doubtful debts have remained fairly stable at about 6%. In the meantime, BM's healthy portfolio has increased from 13% to 33% (or to 58% if rescheduled amounts are included, and to 73% if the amounts the state has agreed to assume are also included). BM's equity and reserves also increased substantially in the last quarter of 1987, to Mt 25.9 billion; the adequacy (or degree of inadequacy) of this figure is quite difficult to judge because the extent of unrealized foreign exchange losses that may be allocated to the commercial banking function of BM is uncertain. The other two banks have begun similar negotiations with the Government. The total amount of debt the state will assume has not yet been decided. If the banks had to recognize the full extent of their current arrears as losses, they would have negative net worth, given the banks' narrow capital base. The capital-to-assets ratio was about 4% for BM in December 1987 (after an 82% capital increase), 2.3% for BPD, and 1.1% for BSTM. Assurances about timetables for clearing the commercial banks' lending arrears, and overall rehabilitation of the banking system, are being sought in the context of the Small and Medium Enterprise Development Project (SMEDP).

D. Sector Issues and Constraints

2.27 The constraints facing the industrial sector, which include antiquated plant and equipment, often unclear ownership, deficient financial structure, and underqualified management will clearly affect its capacity to respond to the expanded market opportunities that the new policy environment has made possible.

2.28 Initial supply response difficulties since the ERP began have highlighted a series of macro and enterprise-level constraints that must be addressed if the industrial sector is to respond fully to the opportunities inherent in Mozambique's changing circumstances. The following summarizes the latest developments and/or recent policy changes relevant to the industrial sector and areas where further work is needed.

2.29 **Exchange Rate Adjustment**. The ERP-induced devaluations have helped to rationalize the structure of domestic resource costs vis-a-vis foreign equivalents. Mozambique has become, in international terms, a low-labor-cost producer (in terms of salary, if not as yet in terms of unit cost). The policy of flexible exchange rate adjustment will be maintained, with quarterly reviews in light of actual price developments in Mozambique and abroad, and with a view towards narrowing the gap between the official and parallel market rates.

2.30 **Foreign Exchange Allocation**. The heavy reliance on external assistance, much of which is provided only on a tied basis, requires the

continued use of a system for centrally administered direct allocation of foreign exchange. While such a system is necessary, the Government will seek to enhance the operation and efficiency of the allocative mechanisms. As devaluation reduces the level of excess demand for foreign currency, a staged opening up of access to foreign exchange is becoming feasible. The Government has initiated liberalization of the foreign exchange allocation process by setting up two funds. The "Market Fund" provides foreign exchange for the purchase of inventory for trading companies, and the "Small Enterprise Fund" finances inputs for a short list of 180 designated enterprises. In 1988, a total of US$6.0 million was disbursed from both funds. The fund allocation for 1989 is expected to total US$25 million. With the objective of progressively moving toward a more open trade regime, in 1989, a System for Non-administrative Allocation of Foreign Exchange (SNAAD) is being introduced through the Third Rehabilitation Credit (Cr. 2021-MOZ). In the first year of operation, foreign exchange and import licenses will, on request, be automatically granted for a narrow range of imported inputs (spare parts for cargo and collective transport, and key inputs to the garment and shoe industries). These products will not be subject to domestic price control regulation. The estimated value of foreign exchange to be dedicated to the SNAAD is US$25 million, or about 20 percent of projected "free" exchange for imports during 1989.

2.31 Regulations require that a metical-denominated countervalue of the foreign exchange requested must be deposited in the BM before the foreign exchange can be utilized. Mission conversations with individual enterprises indicate that a metical scarcity--a result of devaluation and inflation--is impeding some firms from soliciting foreign exchange. Access to metical countervalue through the local banking system by BEs to be rehabilitated will be an essential part of the IERP. Operational sustainability of rehabilitated enterprises at satisfactory levels of capacity utilization will require that they have assured access to foreign exchange for the procurement of recurrent imported raw materials and spare parts.

2.32 **The Foreign Exchange Retention Scheme,** introduced in 1984, entitles exporters to hold a proportion of their sales proceeds at the BM in a convertible account. The proportion retained is variable, with a current average of about 50%. The retention account is normally denominated in meticais and is therefore convertible only at the prevailing exchange rate. Import licenses are granted only after the Ministry of Trade checks for possible local supply availability. A further issue concerns the mechanism for transfer of import entitlements to enterprises supplying the export sector. Refinement of this system in the short run would be beneficial; in the long run, the implications of this system to the economy-wide allocation of foreign exchange merit closer examination. The Government will seek to reduce the export retention rates as the scope of the SNAAD expand, and, with this objective, will review the rate structure in 1989.

2.33 **Tariff and Taxation Policy.** Before the ERP, fiscal and tariff structures were complex, with a system of turnover taxes and tariffs that had a cascade effect, acting as a disincentive for the use of domestic intermediaries in the absence of quantitative restrictions. The realignment of the currency and the progressive opening of foreign exchange allocation will now permit the price of foreign exchange to play a more important

allocative role. In line with the Policy Framework Paper (PFP), which has been agreed to with the Bank and IMF, the Government is implementing a two-stage reform of the tax and tariff structure. The first stage, completed in early 1989, concentrated on converting specific rates to ad valorem rates and simplifying rate structures through the consolidation of product categories and reduction in the number and range of rates.

2.34 The legislation also: (a) established a duty drawback scheme for export production with at least 35% local value added; (b) provided exemption for one-half of import duties for raw materials, equipment, and spare parts for import substitution projects with at least 45% local value added; (c) established the possibility of full tariff exemption for raw materials, equipment, and spare parts for export expansion projects; and (d) revoked all existing regulations pertaining to customs tariff exemptions. Measures were also initiated to strengthen the administrative capacity of the Customs Administration. During the second stage of tariff reform, to be completed by end-1989 under the Third Rehabilitation Credit, progress will continue in simplifying the system and harmonizing the tariff nomenclature with international conventions.

2.35 Pricing Policy. Reduction of the incidence of fixed pricing and replacement of ex ante authorization for price changes with ex post review have been key improvements in the industrial sector's operating environment. Those industrial products still subject to fixed pricing are cigarettes, beer, soap, wheat and corn flour, sugar, and cooking oil. All others are subject to price controls. Fixed prices are being periodically adjusted in relation to international prices. As supply conditions and competition improve, the GOM plans to adopt a more flexible pricing policy.

2.36 Distribution Policy. All industrial products except sugar are now freed from trading through monopoly trading corporations. All enterprises are now permitted to trade directly; state trading companies are expected to compete with the private sector. Control over foreign procurement is still exercised through the foreign exchange allocation system and import licensing. Administrative control over allocation of some essential industrial goods (e.g. flour) will be continued through rationing in Beira and Maputo and through priority rural distribution.

2.37 Enterprise Debt, Asset Revaluation, and Financial Restructuring. During the pre-ERP period many enterprises--state-owned, "intervened," and private--accumulated large debts from sustained operating losses, often due to price controls, which were subsidized by virtually unlimited credit from the BM. The combination of sustained operating losses, excessive debt, depreciated currency, and now-unrealistic depreciation allowances and understated asset values renders many enterprise balance sheets virtually meaningless. Financial restructuring will therefore be a central element of enterprise rehabilitation contemplated under the IERP. Decree 13/88 requires revaluation of all assets by enterprises, beginning with the balance sheets for fiscal 1988. To simplify the process, the revaluations will be carried out in accordance with a series of monetary correction coefficients issued in January 1989.

2.38 The Government has so far taken steps to transfer about Mt. 8.0 billion of the debt of ten State and "intervened" companies to the Central Budget, where revised terms and conditions of repayment will be worked out (para. 2.26). However, the Government has not considered the possibility of restructuring private company debt in this manner. Some individual debt reschedulings have also been arranged through the BM. The BM and Ministry of Finance (MOF) have begun to deal with the resolution of pre-ERP internal debts on a case-by-case basis for parastatal and "intervened" enterprises. Restoration of financial stability for each enterprise will be a subloan condition for enterprises supported under the IERP Credit (para. 4.13).

2.39 Accounting, Auditing and Financial Management Practices. A review of auditing, accounting, and financial management practices of both public and private enterprises was carried out by the World Bank's Internal Auditing Department (IAD) in 1987. The review team found that: (a) a system of standard accounts had been instituted in 1984; (b) because of a scarcity of trained accountants, the accounts of many state enterprises were in arrears; and (c) internal auditing quite often was deficient. Enterprises are currently required to submit annual financial statements to the MOF within four months of the end of the fiscal year. External audit of enterprise accounts is not required in Mozambique, and there is almost no independent accountancy profession. In fact, until recently, there were no public accounting firms in the country and there were only several dozen individual accountants with private practices. Some auditing for tax purposes is undertaken by a small unit in the Ministry of Finance (the Department of Audit and Tax, DAT), and some accounting firms are now showing interest in setting up offices. One local firm is carrying out company valuations on behalf of the Office of Foreign Investment Promotion. The recently promulgated decree requiring updated asset revaluation of all enterprises, though urgently needed, will impose an additional demand for expertise that is in very short supply in Mozambique. Larger firms often contract expatriate accountants. As a response to the shortage of accounting and auditing expertise, the MOF has already authorized a mixed venture with an international firm of chartered accountants and will soon authorize a second. Several large international accounting firms are also considering establishing offices in Maputo. The Commercial Institute of Maputo (CIM), a Government entity, is the only commercial training institute in Mozambique. It offers a concentration in accounting, approximately equivalent to the U.S. Bachelors degree. The lack of affordable and competent financial management expertise is a major constraint to expeditious preparation of plans for the financial restructuring of enterprises.

2.40 Incentive System. Between 1984 and 1986 a variety of measures with the stated objective of promoting private investment in productive activities was introduced. Their cumulative impact was marginal in the face of the fundamental policy, regulatory, and security barriers to most private investment activity. Since initiation of the ERP, considerable progress has been made in policy and regulatory areas to encourage private sector activity, but not much more than a modest recovery of investment activity can be expected regardless of the nature of the incentive system, until the security situation improves.

2.41 The Foreign Investment Law of 1984 and the domestic investment law of 1987 established modest systems of incentives including tax holidays, accelerated depreciation allowances and investment credits, and exemption from payroll and turnover taxes and import and export duties. All exemptions are usually negotiated on a case-by-case basis. Export operations are also able to negotiate foreign exchange retention schemes in order to procure imported inputs directly. Recent legislation has established a duty drawback scheme and a partial customs duty exemption for qualifying import substitution operations. Legislation to permit debt-equity swaps, through which foreign investors could acquire Mozambican assets in return for assumption of external debt, was promulgated in January 1989, but as of April 1989 had not yet been utilized. The legislation requires investment in fixed assets, technology, or foreign currency that is complementary to the swap. The legislation protects foreign investors against exchange rate risk but also contains restrictions on repatriation of capital and acquisition of clear title to "intervened" enterprises.

2.42 Legal and Regulatory Framework. The overall question of company formation and ownership has been partially addressed by the Government through legislation relating to "intervened" enterprises. The Government has sold off assets abandoned by previous owners and has come to specific agreements with new owners. Conditions of sale have been that the company is retained for its original purpose (otherwise a new license is required) and that labor is retained in accordance with the labor protection laws. Sales are negotiated case by case; however, no general clarification of the legal position of "intervened" enterprises has been made (Decree Law No. 16-75 dated February 13, 1975). The Government has expressed the intention to determine the legal position of intervened enterprises and, in general, to deal with the question of company formation and ownership for the benefit of attracting new investors. Agreement was reached at negotiations that, with IDA support, the Government shall, not later than December 31, 1990, prepare and complete an action plan to determine the legal ownership status of enterprises under Government intervention, and promptly thereafter, take all legal and administrative measures necessary to implement the Plan. Not later than June 30, 1993, the Government would, jointly with IDA, undertake a major review of progress in implementation of the Plan. Progress would also continue to be monitored as part of the normal Annual Project Implementation Review.

2.43 Labor Laws. Until January 1987, employment was governed by Law 4/80 of 1980, which set out 4 basic occupational categories. This system was inflexible and detracted from efficient use of labor. In 1985, a considerable amount of labor shedding took place, and in January 1987 Decree 5/87 implemented a new labor law setting 20 grade ranges in industry, specifying new pay levels, and allowing supplementary payments such as performance-linked and seniority bonuses. During implementation, a series of interim increases were permitted to offset part of the effects of devaluation-induced price increases. The aim was to permit more flexibility in employment by rewarding efficiency and allowing enterprises to lay off workers. It is intended that these measures will allow wage costs to reflect operating conditions more accurately. The prevailing base minimum industrial wage in March 1989 was Mt 16,000/month. The prevailing range is Mt 20-30,000

per month for production workers. Total employer costs are approximately twice the base salary.

2.44 Enterprise Management. A certain level of competent management (most often found in privately owned import substitution industries--e.g., food processing, light metal fabrication, etc.) does exist, but quality varies widely among enterprises. The situation in the parastatal, and especially "intervened" enterprises is critical. Typically, management is not sufficiently qualified in technical, marketing, and financial management skills and has matured in an essentially non-competitive environment where most allocation decisions were made at unidade levels. In many "intervened" enterprises, the skills required to identify markets, prepare financial and physical rehabilitation programs, and obtain term finance simply do not exist. Skilled supervisory and engineering personnel are also in short supply. Shortages of managerial and technical skills must be regarded as a principal constraint to sector rehabilitation.

E. Government Objectives and Priorities

2.45 Government objectives for the industrial sector are to restore production and efficiency and to develop a commercial business environment. To achieve these goals, Government has assigned high priority to: (a) selective investments for rehabilitation, financial restructuring, and privatization of potentially viable major enterprises; (b) improving the policy and incentives system; (c) allocating sufficient resources to manpower development; (d) support for the development of small and medium-scale enterprises (SMEs). The proposed IERP supports strategies (a) - (c). In 1987, the Government undertook the ERP, a far-reaching reform program, which incorporates this strategy and has resulted in some supply response (paras.1.05 - 1.07). However, it will take some time for most of the recent reforms to work through the system, for the shift and reallocation of resources to take place, and, thus, for restructuring to be accomplished. The Government has begun to address some outstanding issues in the sector by: (a) setting up an Enterprise Restructuring Technical Unit (ERTU) in the MOF in 1988 to provide the institutional framework to coordinate the overall rehabilitation program (para. 5.09); (b) preparing rehabilitation and restructuring plans (which may include privatization where necessary) for priority enterprises on a case-by-case basis; (c) initiating studies that will be the basis for reforming the corporate legal framework; and (d) carrying out subsector studies, which may include recommendations on the rationalization of capacity or closure of non-viable enterprises (para. 3.10). Given the large magnitudes, it is unlikely that the Government can raise enough resources in the short term to rehabilitate the entire enterprise sector and restore production to its pre-1975 peak. Moreover, rehabilitation of some production capacity may not be economically justified. Sectoral strategy is, therefore, viewed as essentially a two-phase process: first, cost-effective rehabilitation of selected enterprises to restore production over the short run, and second, a higher level of capital investment to sustain modernization and rationalization over the medium and long term.

F. Status of Enterprise Review

2.46 The Industrial and Agro-industrial Enterprise Review of 40 enterprises, completed early in 1988, formed the basis for the design of the IERP. The international consulting firm of Arthur D. Little was contracted to undertake this review, which was carried out at two levels. First, a sample of 40 enterprises, with characteristics representative of the large scale enterprise sector, were selected for the initial sectoral review. Subsequently, 15 enterprises were selected for prefeasibility level review. The prefeasibility studies for all fifteen enterprises have been completed.

2.47 According to the Review, most problems that enterprises face center around four issues: (a) impaired production capacity due to lack of foreign exchange; (b) inappropriate policy environment; (c) scarcity of managerial and technical skills; and (d) security. Donor balance of payments support is assisting Government to address (a) and (b) within the framework of the ERP. The study recommended that given the delicate economic and security situation, priority be given to rehabilitation of enterprises with high marginal returns, especially those that can either save or generate foreign exchange, those with basic managerial competence and those located in relatively secure zones. This strategy was followed in selecting the 15 enterprises for prefeasibility review and in designing the proposed project. The prefeasibility studies and subsequent feasibility studies will be used to prepare each enterprise's rehabilitation plan, which will include plans for physical rehabilitation, financial restructuring, and strengthening operational capacity (para. 4.10). If they meet the eligibility criteria, the 15 firms would form the core group of BEs for the IERP foreign exchange credit line. Annex 2-7 provides a snapshot view of the 40 enterprises.

G. IDA Assistance

1. Past Bank Involvement

2.48 IDA has so far made eight credits to Mozambique, both general balance of payments support and several project-based investment credits in various sector operations. At the macroeconomic level, IDA has already provided imported inputs and spare parts to the industrial sector through the First and Second Rehabilitation Credits, approved in 1985 and 1986, respectively, and will continue this type of balance of payments support under the Third Rehabilitation Credit approved in 1989. At the operations level, project investment aims to support restoration of production (and increased productivity), efficiency, and competitiveness. In parallel with the IERP, a project is being prepared to assist smaller enterprises via provision of an APEX credit line for foreign exchange requirements, technical assistance for the SME sector, and training in project and credit analyses for selected staff of participating banks (BM, BPD, BSTM). The Small and Medium Enterprise Development Project (SMEDP) will emphasize support for the emerging private sector entrepreneurs. In addition, the proposed Economic and Financial Management Technical Assistance Project was recently negotiated. Through the project, IDA would help finance institutional support to strengthen the capacity of key economic decision making agencies involved in the implementation of the ERP. IDA's program of sectoral support

will benefit from the Business Environment Study, which will enable the Bank to advise the Government on industrial strategy and policies beyond rehabilitation and recovery. IDA's dialogue with the Government, together with recent Government policy initiatives, suggests a strong determination to come to grips with the constraints in the enterprise sector, and a convergence of views is emerging on how to resolve some of these issues. Continued Bank involvement over the medium term is important to support and assist in deepening the reform process and in maintaining the momentum of economic recovery.

2. IDA's Role in the Sector

2.49 IDA's assistance strategy to Mozambique is consistent with the ERP and aims to provide: fast-disbursing support for the Government's broad policy initiatives to rehabilitate and restructure the economy by reducing or eliminating macroeconomic distortions and addressing structural constraints to economic growth; and project-based investment lending to facilitate the resumption of production, employment, and incomes in the productive sectors. The IERP would complement the Government's efforts by emphasizing: (a) enterprise rehabilitation to restore output or increase the rate of capacity utilization from the current low levels (10-30%) within existing production capacity; (b) restructuring of enterprises to restore financial stability; and (c) strengthening management and operations to improve competitiveness. The strategy views rehabilitation as having two levels. In the short term the objective is to restore production in those facilities that are still usable and that require relatively small investment in spare parts and upgraded equipment; over the medium and long term, much higher levels of investment in modernized plant and equipment will be required to sustain sector recovery in a more competitive external and liberalized internal environment.

III. THE PROJECT

A. Project Rationale

3.01 The IERP is an integral part of Government's strategy to resuscitate production and growth in Mozambique and complements the ERP's medium-term policy framework for economic recovery. The Project would aim to rehabilitate and restructure about 15 key enterprises that are considered important for a supply response and growth in the sector. The Project aims to build an institutional framework and approach to enterprise rehabilitation and restructuring that could form the basis for a continuing rehabilitation program. Review of the legal ownership status of enterprises under Government intervention under the Project is supportive of the move towards greater private sector involvement and a more market-oriented economy. IDA's involvement--through general policy dialogue, three rehabilitation credits and several project-based investment credits--has contributed significantly in shaping the Government's strategy and priority setting under the ERP. IDA's further involvement through this Project will help broaden and deepen the recovery program and is viewed by the Government as necessary to sustain the momentum of reform, to generate an adequate supply response, and to

encourage other donors (many of whom have already given strong support to the ERP) to support these efforts in a well-coordinated manner.

B. Objectives

3.02 The IERP is designed to: (a) introduce a framework and criteria for selecting enterprises for rehabilitation that is based on each enterprise's potential economic, financial, and technical viability and on its management capacity to operate efficiently and profitably and that they undertake to introduce measures to protect the environment; (b) finance rehabilitation, financial restructuring and operational support to preselected and potentially efficient major enterprises. The rehabilitation and restructuring process would, where appropriate, include rationalization of capacity, privatization, technical partnership arrangements, or, if necessary, closure of operations; (c) require that each BE institute measures to protect the environment and worker safety; (d) strengthen Government's capacity to implement the rehabilitation program; and (e) support policy reforms and subsector reviews designed to strengthen enterprise operations in a more liberalized, market-oriented environment. The project is conceived as a pilot effort that would develop an approach that could be replicated in other large-scale enterprise rehabilitation, restructuring, or privatization efforts.

C. Project Description

3.03 The Project, with a total cost of US$106.7 million (including IDA credit of US$50.1 million equivalent), would consist of two components: an Enterprise Rehabilitation Component and a Technical Assistance Component. A brief description of each is given below.

1. Enterprise Rehabilitation Component (ERC)

3.04 The ERC would assist the rehabilitation and financial restructuring of about 15 selected enterprises. Funds allocated for rehabilitation would finance fixed investments (the repair, replacement, or modernization of obsolete or damaged assets; elimination of uneconomic lines and activities; consultancy services, operational support and training to strengthen management) and incremental permanent working capital needs for the selected enterprises. The project would assist the financial restructuring of enterprises that have good rehabilitation prospects but face financial difficulties because of past policy distortions and operating inefficiencies. Restructuring would be achieved through recapitalization; conversions of debt into equity or quasi-equity; and injection of fresh equity through (where appropriate) divestiture, joint venture, or technical partnership arrangements with foreign or local private investors. The eligibility of BEs would be based on: confirmation (through appraisal) of their efficiency, economic and financial viability, and potential to earn or save foreign exchange; review and approval of their rehabilitation plans; and an undertaking to institute measures to protect the environment.

3.05 Subloans and investments under this component will finance: (a) rehabilitation or replacement of fixed assets (machinery, equipment, factory buildings and related civil works); (b) permanent working capital (increases in stocks of imported raw materials, spare parts, and components required to sustain production for the initial period following rehabilitation); and (c) operational support services (including expatriate staff, personnel training, and advisory services on environmental protection) to upgrade BEs' technical, financial, marketing, and general management capacity.

2. Technical Assistance Component (TAC)

3.06 The TAC would support institutional development in the following areas.

3.07 Assistance to ERTU. The Credit would finance the services of experts to strengthen the ERTU's (and other institutions) capabilities to implement the rehabilitation program and provide operational technical assistance to enterprises. These advisers would also provide training to local staff in project appraisal, enterprise rehabilitation and restructuring techniques and methodology. A detailed breakdown of technical assistance costs to the ERTU is given in Annex 3-1. The Project also makes provision for additional short-term consultants to assist ERTU in specialized areas.

3.08 Assistance to Enterprises. Most of the BEs will need outside expertise to develop satisfactory business or rehabilitation plans. The Project would, through the ERTU, support the hiring (on a reimbursable basis) of short-term consultant services for the preparation of prefeasibility studies, rehabilitation plans, and/or liquidation, privatization, or joint venture arrangements. Financing would be provided for the preparation of a further 10 enterprise rehabilitation plans, beyond those for the 15 enterprises already identified, whose implementation could be financed under parallel or subsequent projects. To assist enterprises to comply with reporting requirements, financing would be made available for external audits.

3.09 Training of Laid-off Staff. To alleviate the social costs of possible personnel reductions, the IDA Credit would include an allocation of US$1.4 million under the TAC to assist Government in the preparation of training programs for staff laid-off in the course of enterprise restructuring or liquidation. Since staff retrenchment could only be accurately identified after the completion of enterprise reviews and inclusion in the rehabilitation plans, the Government would, in consultation with enterprise managers, design specific training programs for re-deployed staff. The programs would include, inter alia, provisions for financing of skills training and (in some cases) of related tools and equipment for employees seeking to start up in trade or commerce on their own. Since many of the workers laid off are likely to be those with little formal education who may not immediately benefit from the training offered by existing institutions such as the Secretariat of State for Vocational and Professional Education (SETEP), skills training would aim to equip such staff with a practical trade or skill for redeployment or starting up on their own. Programs will be initiated by Government, which will submit them to the ERTU for review and transmission to IDA for approval. Implementation will be

overseen by the Ministry of Labor (ML), and will be supervised by the ERTU (which would be responsible for coordinating the program). Training will be provided at existing technical institutions in Mozambique. The Government is in the process of initiating changes in the education system that will strengthen the provision of technical training. A profile of some of the institutions in the country is provided in Annex 3-2. Some of these institutions are to receive technical assistance to strengthen their institutional capacity through a UNDP/UNIDO project. Most training programs would be carried out by local trainers, and the bulk of the costs involved would be local costs. Disbursement of IDA funds for training would be conditional on each concerned BE furnishing to IDA, through Government, the plan for implementing training.

3.10 Subsector Studies. The TAC would finance subsector and policy studies, which will be implemented by the MIE. On the basis of preliminary findings of the Business Environment Study, the subsectors that require further review include edible oils, textiles and garments, transportation, sugar, and public sector enterprise management. During appraisal, an understanding was reached with Government that four subsectors--packaging, metal-working, textiles and edible oils--would be studied initially. The scope of the studies is attached in Annex 3-3. At negotiations, the Government requested, and a decision was made, to undertake a fifth study for the construction and building materials subsector. The TOR for this study are expected from Government before end of FY90. The five studies will be initiated before end of FY89 through PPF financing and are expected to be completed by September 30, 1990. Provision has been made to finance several other sectoral and subsector studies in the course of Project implementation. Agreement was reached at negotiations that the Government shall: not later than April 30, 1991, submit to IDA acceptable terms of reference for all subsector studies in addition to the original five to be undertaken and completed under the Project Preparation Facility; not later than December 31, 1991, the Government shall carry out and submit to IDA the recommendations of all subsector studies; not later than June 30, 1992, the Government shall exchange views with the Association on the recommendations and agree on an action program; and not later than March 30, 1993, carry out the action program. It was agreed that Government will make efforts to initiate implementation of the recommendations for the original five studies before September 30, 1991.

D. Project Cost and Financing

3.11 Justification of Project Cost. Aggregate investment costs for the rehabilitation of all large-scale enterprises (UNIDO estimate for 130 large scale enterprises) in Mozambique over the next five years are estimated at about US$1.0 billion of which US$500 million would represent foreign exchange expenditures (equipment investment and spare parts, US$ 400 million; technical assistance, US$100 million). This amount would be divided about equally between fixed investments and increases in permanent working capital. Preliminary estimates of rehabilitation requirements for the 15 potential BEs are provided in Annex 3-4. The Project cost estimates and financing plan for the 15 BEs are summarized in Table 3.1. Total Project cost is estimated at

US$106.7 million equivalent, including US$71.2 million in foreign currency. The IDA Credit of approximately US$50.1 million equivalent would finance 47% of total Project costs and 70% of foreign exchange requirements. The balance is being sought from co-financiers. About US$34.1 million equivalent would be financed from local sources: BEs, Government, and local banks (paras. 3.12 - 3.14). The cost estimates under the ERC assume that rehabilitation of two enterprises (CIM and IMA) would be phased and exclude financing requirements for three enterprises (CELMOQUE, CAJU and CARMOC) that are being considered under separate operations. Should financing from those sources not materialize, these enterprises would be eligible for financing under the IERP. If they were to be included in the estimates (and if CIM's and IMA's rehabilitation were not phased), total ERC costs would be US$107.9 million ($74.4 million in foreign currency). Detailed project costs for these enterprises are on Project file.

Table 3.1: MOZAMBIQUE - PROJECT COST ESTIMATES AND FINANCING PLAN

	Local	Foreign (US$ million)	Total
Enterprise Rehabilitation Component (ERC)			
Fixed Investments	4.8	36.6	41.4
Spare Parts	1.2	2.8	4.0
Working Capital (incremental)	27.2	18.2	45.4
Technical Assistance	0.3	4.8	5.1
Subtotal	33.5	62.4	95.9
Technical Assistance Component (TAC)			
ERTU operations	0.6	3.5	4.1
Other institutions	-	1.0	1.0
Technical assistance to enterprises	-	3.8	3.8
Other studies	-	0.5	0.5
Staff training	1.4	0.0	1.4
Subtotal	2.0	8.8	10.8
Total project cost	35.5	71.2	106.7
FINANCING PLAN:			
IDA	1.4	48.7	50.1
Government/Project Entities	34.1	-	34.1
Co-financing: Not yet finalized	-	22.5	22.5
Total Project Finance	35.5	71.2	106.7

3.12 Co-financing. In view of the large foreign currency requirements of the sector, co-financing from other donors is being sought to fill the financing gap. IDA's involvement in providing untied long-term financing of the foreign exchange component is important in coordinating and attracting further co-financing for enterprise rehabilitation. The other donors look to IDA to assure the technical and financial viability of the BEs and their economic contributions to Mozambique. Discussions have taken place, and official solicitations of interest were sent to several potential co-financiers for a financing gap of US$22.5 million equivalent. The Government of Italy has agreed in principle to co-finance the project through bilateral

agreement with the Government of Mozambique. The IFC and Commonwealth Development Corporation (CDC) have also indicated their interest in co-financing the Project. Prefeasibility studies for some of the fifteen enterprises have been sent to CDC. Participation by both institutions would be on an enterprise-by-enterprise basis, contingent on viability of the enterprise. Caisse Central de Cooperation Economique may also participate on a case-by-case basis. To encourage full use of cofinancing, IDA financing of individual subprojects will be limited to US$8 million. For enterprises with financing requirements exceeding US$8 million (4 out of the 15 enterprises may fall into this category - Annex 3-4), Government will be required to seek other sources of financing to complement the IDA credit.

3.13 **Local Currency Financing.** The BEs would finance about 23% of the physical rehabilitation and related working capital expenditure in local currency. This will, to the extent feasible, be financed by: enterprise net profits, new shareholders through cash purchases of newly issued enterprise shares, and new borrowing from the local financial markets.

3.14 Government contribution to Project financing will be limited by the tight foreign exchange and fiscal budget constraints prevailing in Mozambique. The Government would finance 5% of overall Project costs, mostly in the form of the recapitalization of enterprises through equity contributions and the local operating costs for the ERTU. A 10% cost contingency has been included in the rehabilitation cost estimates. A reliable estimate of the financial needs of each enterprise to be rehabilitated will only emerge from the final feasibility studies, which will provide a basis for adjusting the scope of the project during implementation. Should financing be insufficient to cover all 15 enterprises, Government (with agreement from IDA) may delete some of these enterprises from the Project. Conversely, if funds available exceed the requirements of these enterprises, additional enterprises could be selected jointly by IDA and Government for prospective rehabilitation according to the process established under the Project.

3.15. **Technical Assistance Requirements**. The foreign exchange requirements of the TAC would total US$8.8 million over the Project period for: (a) consultancy services to prepare prefeasibility studies and rehabilitation plans; (b) Project management and ERTU training; and (c) sectoral and subsector studies. The cost is estimated on the basis of actual costs for those contracts already concluded and similar experience in the region. The magnitude of this technical assistance is explained by the complex nature of this Project in the Mozambican environment; the multiplicity of enterprises in a wide range of subsectors to be assisted, each requiring specialized expertise currently unavailable in the country; and the need to have appropriate quality control and to strengthen management skills within the ERTU and the BEs. Valuable transfer of know-how is expected to be derived from the presence of external experts, in sector management as well as in the technical aspects relating to enterprise operations. In view of limits on Government expenditure as part of its recent agreements with both the Bank and the IMF, IDA would allocate the equivalent of US$1.4 million in local currency to help finance the local costs of retraining laid-off workers.

IV. MAIN FEATURES OF THE CREDIT

A. Credit and Onlending Terms and Conditions

4.01 The proposed IDA Credit of US$50.1 million equivalent will be made to the People's Republic of Mozambique on standard IDA terms. The Government will pass total credit proceeds to BM to: (a) channel $39.9 million equivalent to BE's primarily as loans. However, in appropriate cases the Government could use the ERC to make direct equity investments (US$5 million should be initially allocated for this purpose) in BEs in combination with loans according to their assessed needs for financial restructuring as identified in the Rehabilitation Plan (RP); and (b) US$10.2 million would be retained for the TAC, to be administered by the ERTU. The ERC amount will be passed on by the Government to the BM under a subsidiary administration agreement on terms and conditions acceptable to IDA. The onlending arrangements as well as the eligibility criteria for BEs, subloan processing and administration, and onlending terms and conditions are briefly outlined below.

4.02 Financial restructuring would be a major issue for almost all the enterprises assisted under the proposed Project. BM is the commercial bank with which most of the targeted enterprises have operated and, therefore, which holds most of their debt. BM is also an interested party, in its capacity as Central Bank, in all programs to help clear the banking system's loan portfolio arrears. For this reason, BM would be the financial intermediary for the ERC under the proposed Project. Once the initial subloan is made, it would be possible for subloans to be sold by BM to the other commercial banks, either in entirety or through syndication, with BM acting as the lead manager. BM would be acting in its commercial banking function when making subloans, for which it would bear the normal banking risk. The signing of a subsidiary administration agreement between the Government and BM, transferring the funds to BM and defining the functions and responsibilities of the latter, shall be a condition of Credit effectiveness.

4.03 With respect to the lending portion of the ERC, the BM would make the Credit proceeds available to the BEs at variable interest rates in accordance with the interest rate structure prevailing in Mozambique. That structure has been established in consultation with the IMF, and it has been agreed that the level of interest rates will evolve so that they become positive in real terms by 1990. The revised interest rate structure (para. 2.19) introduced in January 1989 raised lending rates for loans with maturities of over one year to between 22% and 35% and was also considerably simplified. Annual reviews of the interest rates charged on subloans under the Project will be undertaken jointly by the Government and IDA.

4.04 The subloans or investments in BEs would be denominated in meticais converted at the exchange rate prevailing on the date of disbursement from the Special Account. The BM would retain, out of the interest payments due from the BEs, an annual administration fee (about 0.5% of the outstanding subloan amounts) to cover its costs in administering the Credit plus a margin

not to exceed 45% of the annual interest rate charged by the BM to the BE to cover the credit risk. The foreign exchange risk would be borne by the Government and would be covered by the interest yield on funds onlent, net of the service charge on the IDA credit, and the onlending spread of the BM. The Government would bear the risk on any equity investments.

4.05 Subloans for financing fixed assets, spare parts, and the associated increase in permanent working capital, and for the preparation of rehabilitation plans would have maturities of up to 15 years, including grace periods of up to 5 years. Onlending to BEs will be under subloan agreements on terms and conditions acceptable to IDA. Repayment of each subloan by a BE to the BM would be on the basis of a fixed amortization schedule.

4.06 The Government could use up to US$5 million of the Credit to make equity investments in enterprises where this is necessary for financial restructuring. The proceeds of the investment would also finance fixed assets, spare parts and permanent working capital. All such equity investments, including the respective Investment Agreement between BM on behalf of Government and the respective BEs, would require prior approval by IDA. Whenever equity investments are made, a divestiture policy satisfactory to IDA would be adopted. When a divestiture takes place, the Government's equity investment under the proposed Project could be repaid either at once or on the basis of a fixed amortization schedule. The funds repaid by the BEs to the BM could be used by the Government to finance enterprise rehabilitation and restructuring in a manner consistent with the objectives and financing arrangements under the Project. Eligibility criteria for subprojects, and onlending terms and conditions under the Project will be reviewed at least once annually to identify changes needed to ensure successful Project implementation.

B. Selection of Potential Beneficiary Enterprises (BEs)

4.07 During Project preparation, the Government in consultation with IDA selected 15 enterprises, from a sample of 40 enterprises studied by a team of consultants, as potential Project BEs. The 15 prospective BEs were selected on the basis of their potential technical, economic and financial viability and on their ability to adjust to or operate under the new incentive system. Viability would be confirmed through prefeasibility studies to evaluate market potential as well as technical and managerial capacity. The status of studies undertaken so far is summarized in para. 5.12. Other enterprises may be added depending on the availability of finance (para 3.14). The enterprises that were selected fall into three broad categories: agro-industry, as represented by processing of cashew nuts (Caju de Mocambique) and edible oils and soaps (Grupo Madal and FASOL/SABOREL), timber (Madeiras de Cabo Delgado), citrus fruit (Citrinos de Manica), and grain milling (Compagnhia Industria de Matola); light manufacturing industry, represented by metal working (Metal Box and ECOME), cables (CELMOQUE), paper cartons (CARMOC), pipes and roofing material (IMA), steel drums (Van Leer), construction material (PROSUL), plastics, and rubber products (FACOBOL); and heavy industry (Cimentos de Mocambique-Dondo). As a group the selected enterprises have: (a) a significant impact on the performance of the subsectors they represent; (b) a substantial impact on foreign exchange savings through efficient import substitution or generation

through exports; (c) important links to other enterprises; and (d) important potential as generators of employment and incomes.

4.08 To overcome security constraints, only those projects located in fairly safe zones were initially selected. The maximum amount of ERC proceeds that could be used for investments or subloans to a single enterprise would be US$8 million. This ceiling would enable the Credit proceeds to be spread equitably among the 15 BEs. For subprojects with large rehabilitation requirements, Government would make efforts to secure additional financing above the US$8 million from other sources, especially to meet the enterprise's working capital requirements (allocations for this purpose could come from the import support programs). The Government would actively seek the involvement of institutions such as IFC and CDC to supplement the IDA funds. Specific eligibility criteria for BEs are summarized in paras. 4.10 - 4.13.

C. Sample Enterprise Profiles

4.09 Summary details of the 15 beneficiaries enterprises are provided below in Table 4.1, and more complete profiles are provided in Annex 4-1.

Table 4.1: MOZAMBIQUE - PROFILES OF ENTERPRISES ENVISAGED FOR REHABILITATION UNDER INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

ENTERPRISE	ACTIVITY	OWNERSHIP	FINANCING REQUIREMENTS			SALES (US$ MILLION 1986) a/	No. EMPLOYEES (Approx.)	REHABILITATION REQUIREMENTS b/
			FOREIGN	LOCAL	TOTAL			
AGRO-INDUSTRIES								
Caju de Mocambique	Cashew nuts	State	8.53	0.00	8.53	12.3	6,500	Equipment rehab./replacement
Madeiras de Cabo Dalgado	Timber	State	3.00	0.00	3.00	1.2	400	Expansion, transport equip.& infrastructure
Citrinos de Manica	Citrus	State	4.05	0.00	4.05	5.3	1050	irrig. rehab./expansion
Madal Group	Copra & edible oil	Private	8.43	3.42	11.85	3.5	3600	To be defined (equip. rehab. & replacement)
FASOL	Vegetable Oil/ By-products	Intervened	6.46	5.03	11.49	4.4	485	Rehab./financial restr.
Compagnhia Industria de Matola	wheat products/ milling/confectionary	Intervened	11.96	18.33	30.29	32.1	450	To be defined (rehab. in phases)
Sub-total			42.43	26.78	69.21	58.8	12485	
LIGHT INDUSTRY								
Metal Box	Metal containers	Private	1.50	0.00	1.50	1.2	250	Equipment rehab./replacement/spares
Celmoque	Cables	Intervened	1.50	0.00	1.50	1.3	160	New equipment; tech. assist.(TA)
Cammc	Paper carton/liner-boards and suitcases	Mixed	2.00	0.00	2.00	0.4	250	Minor plant and equip rehab foreign exchange working capital
IMA	Pipes & roofing material	Mixed	8.64	3.07	11.71	0.4	310	Reconstruct damaged pipe Fabrication line
ECOME	Metal products	State	2.28	0.26	2.54	2.0	360	Equipment rehab.
PROSUL	Construction Materials	Intervened	5.03	0.78	5.81	4.0	1306	Equipment rehab./Fin restr./TA.
VAN LEER	Steel drums/plastic sheetings	State	1.67	1.13	2.80	0.5	72	Equipment modernization; Foreign exchange working capital
FACOBOL	Rubber & canvas prods. (tennis shoes, rubber fittings, gaskets)	Private	5.44	1.07	6.51	7.2	400	Equipment modernization; TA Management contract
Sub-Total			28.06	6.31	34.37	17.0	3108	
HEAVY INDUSTRY								
Cimentos de Mocambique (Dondo)	Cement	State	3.91	0.40	4.31	3.2	300	Reactivation of DONDO (Beira) Plant
Total for 15			74.40	33.49	107.89	79.0	15,893	

a/ Forty enterprises were studied by Arthur D. Little, Inc. (ADL) as a representative sample of the enterprise sector. 1986 sales figures may be distorted due to overvalued exchange rate.

b/ Major constraints to enterprise operations include weak or lacking: markets; raw materials; planning procedures; financial controls; production technology; management capacity; infrastructure; labor; foreign exchange; security; training; ownership.

D. Enterprise (Subproject) Eligibility Criteria under the ERC

4.10 **Rehabilitation Plans (RPs).** Under the Project, BEs will be required to prepare RPs once their potential viability is established through the prefeasibility studies. (Terms of reference for pre-feasibility studies were agreed to between IDA and the Government during project preparation and are available on the Project file.) If necessary, the Project will finance consultants hired by the enterprises to assist with the preparation of RPs. For an enterprise found viable, a full RP will be developed by enterprise management for subsequent negotiation with the Government and BM in order to reach agreement on an effective rehabilitation and restructuring program. The agreement reached shall be documented in the subproject appraisal report prepared by the ERTU and in the subloan and investment agreements.

4.11 The RP would include: (a) a marketing plan aimed at establishing realistic marketing goals in domestic and foreign markets and identifying steps to improve the product mix, distribution channels, product design, quality etc.; (b) a plan for the rehabilitation of plant and equipment to restore production and to fill needs identified in the marketing plan; (c) a plan to strengthen management and technical skills and to rationalize staffing; (d) a financial restructuring plan to reduce the debt burden to serviceable levels, to restore the enterprise's financial stability and, where necessary, a plan for privatization or involvement of foreign investors through equity participation or technical partnership arrangements; (e) a proposal for a subloan to finance fixed investments, permanent working capital and technical and managerial service contracts; (f) proposals for access to foreign exchange to meet recurrent working capital needs for imported raw materials, spares, and other inputs during the first three years of operations; and (g) financial projections showing the expected results of all these measures.

4.12 Another element of the financial restructuring will be to strengthen enterprise financial and accounting standards and practices to be in line with national accounting standards. Where these do not exist, the RP should include measures to strengthen the enterprise's financial and accounting systems (including adoption of and adherence to generally accepted accounting standards and practices, the hiring of competent financial managers, and use of a firm of qualified accountants as external auditors). Use of external auditors, who may be financed through the Project, will be a condition for subloans to enterprises.

4.13 The appraisals of all RPs and their related restructuring proposals (and, where necessary, divestiture or technical partner arrangements) would have to be done on a case-by-case basis. They would be expected to include a calculation of the enterprises' incremental internal economic rate of return (IERR) and incremental financial internal rate of return (FIRR). Subloan requests would be financed only if the incremental FIRR and IERR exceed 12% in real terms. Similarly, equity investments would be expected to yield an after-tax return of 12% in constant prices. The IERR would be estimated using border prices. To determine if the RP is viable, the ERTU would ensure that the proposed restructuring plan would, given reasonable assumptions, enable the enterprise to service adequately its debt while maintaining

satisfactory liquidity (with a debt service ratio of at least (3:1). The 15 enterprises selected would be eligible if they were found to be viable. The IDA Credit would finance up to 100% of eligible foreign expenditures of the subproject. Guidelines for the operations of the ERTU, subproject eligibility criteria, and subloan administration are provided in Annex 4-2.

E. Subloan Processing and Administration

4.14 Primary responsibility for preparation of prefeasibility studies and RPs, and for implementation of the actual rehabilitation will rest with enterprises seeking financing. However, the technical requirements for defining and preparing the rehabilitation plans are likely to be complex and beyond the capacity of most enterprises. Many enterprises lost key management, professional or technical staff over the past ten years resulting in a generalized shortage of qualified personnel in Mozambique. To overcome this constraint, the Government would, through the ERTU, finance the enterprises' hiring of consultants to assist with preparation of feasibility studies, RPs, and when necessary, implementation of the actual rehabilitation. These costs would be refinanced through subloans.

4.15 The BM will assume the credit risk on subloans financed by the proposed Credit and will satisfy itself that the rehabilitation and restructuring plans are sound and the enterprise is creditworthy. The BM will also undertake to supervise subprojects it finances. BM's review of subprojects would be based on the subproject appraisal reports prepared by the ERTU. The BM would appoint a qualified officer to coordinate and work with the ERTU during subproject appraisal. Through working with the ERTU and with training to be provided under the Project, it is expected that staff of the BM will over time develop the necessary experience to undertake in-house appraisals of large, complex projects.

4.16 The ERTU will undertake a detailed analysis of each RP to ensure that enterprises meet established eligibility criteria. On the basis of the review, the ERTU will prepare a subproject appraisal report recommending that the Minister of Finance approve or reject the subproject (including the rehabilitation plan). In reviewing the subproject, the ERTU will determine whether there are policy issues (such as divestiture, resolution of ownership, joint venture arrangements, or a complex restructuring plan) that require Government decision. In such a case, if the subproject meets the other eligibility criteria, it will be approved then submitted by the Minister to the Commission for External Economic Relations (CREE) for resolution of the issues identified by the ERTU. The BM will then indicate its approval or rejection for financing of investment proposals on the basis of banking criteria. The MOF and BM will actively seek to secure co-financing (especially for enterprises requiring large investments) from private sector joint venture or technical partners, both local and foreign, including IFC and CDC.

4.17 All subprojects would require IDA's prior review and approval for financing under the proposed Credit. Subprojects submissions sent by the ERTU to IDA for review would include: (a) an appraisal report of the subproject, analyzing the economic, financial, technical, and environmental

viability. The appraisal would be carried out in accordance with guidelines satisfactory to IDA; (b) a copy of the rehabilitation plan; (c) the proposed terms and conditions of the subloans or equity investments; (d) a list of goods and services to be financed out of proceeds of the IDA Credit and the respective method of procurement; (e) the method of procurement of goods and services; and (f) where necessary, the results of efforts to secure co-financing. ERTU and the BM would coordinate closely to ensure that all required elements of the package are submitted to IDA. BM and IDA will review jointly the subproject approval procedures after the first three subproject have been approved by IDA.

4.18 The ERTU and BM would regularly supervise subprojects to ensure that implementation is effective, that subloans are utilized for the intended purposes, and that sub-borrowers adhere to subloan conditions. ERTU would keep supervision reports on file for review by IDA Project supervision missions. The ERTU and BM would also have the right to visit the BEs as necessary and to receive relevant information, including enterprise quarterly and annual audited financial statements. The BM will submit to the ERTU quarterly reports on the performance of the portfolio financed from the Credit proceeds. As part of Project preparation the ERTU will hold orientation seminars for the staff of BM, Ministries responsible for potential BEs, MOF, and enterprises to familiarize them with project appraisal, financial restructuring techniques, and procedures for subloan processing and administration. A series of training seminars and workshops coordinated by the ERTU will be held throughout Project implementation to train local staff in these institutions in the use of project appraisal and restructuring techniques.

4.19 **Environmental Safety Arrangements**. In reviewing subprojects, the ERTU would assess the environmental aspects of all subprojects to ensure that they do not negatively impact the environment. BEs will be required to protect the environment by incorporating in the RP measures to minimize the discharge of pollutants and to provide for a safe working environment for their workers. The environmental impact and necessary measures to control effluent emission for each of the 15 enterprises for which prefeasibility studies have been undertaken are briefly discussed in Annex 4-1. Supervision missions will be required to review compliance of the BEs with the parameters set for pollution control and document any variations and the reasons for not meeting the limitations.

V. PROJECT IMPLEMENTATION

A. Institutional Setting and Management

5.01 The arrangements for the organization and management of the Project and ERTU shown in Annex 5-1 reflect the various aspects of enterprise rehabilitation which must be addressed in the RPs. These include term lending, debt to equity conversions, debt rescheduling, joint venture or technical partner arrangements or privatization, training, sector and subsector studies, and policy and institutional reforms affecting several Ministries and the enterprise sector in general. These arrangements also

take into account Mozambique's administrative system which divides responsibilities among several different Government entities.

5.02 Commission for External Economic Relations (CREE). CREE was established by the Government of Mozambique to serve as a coordinating committee on external economic relations, particularly those relating to foreign exchange allocation among competing projects. For the proposed Project, the CREE will act as the Steering Committee, responsible for providing inter-Ministerial coordination in planning, resource allocation, policy coordination and resolution of issues affecting project implementation. CREE meets on a weekly basis and is chaired by the Prime Minister. Other members include: the Minister of Planning; the Minister of Finance; Minister of International Cooperation; Minister of Foreign Affairs; Minister of Trade; and the Governor of the BM. Other sector Ministers and Government agencies are co-opted whenever issues affecting operations under their jurisdiction are being discussed.

5.03 The Ministry of Finance (MOF), will be the Project executing agency. Acting on the recommendation of the ERTU, the Minister would approve financing of RPs. Once approved by the Minister, in consultation with the responsible Ministry and the BM, a subproject would be submitted to IDA for approval of financing under the Credit in accordance with the process described in paras. 4.14 - 4.18.

5.04 Bank of Mozambique (BM). The BM will make final arrangements for subloans with BEs for approved RPs. The BM would bear the credit risk on the subloans. As fiscal agent of the Government, the BM would operate foreign exchange accounts and designate officials who would sign withdrawal applications for eligible expenditures. As a member of CREE, BM will also be actively involved in approving RPs and will cooperate with ERTU in subproject implementation. The ERTU, which would have primary responsibility for subproject appraisal and supervision, would work and coordinate closely with the BM to ensure smooth Project implementation.

5.05 BM is the largest of the three banks, and the one with the broadest mandate. It was created in 1975 to take over the central banking role previously played by Portugal's Banco Nacional Ultramarino (Statutes approved by Decree No. 2/75 dated May 17, 1975). In 1978, it absorbed the Mozambican operations of four Portuguese-owned banks. BM has 10 filiais (provincial head offices), 17 agencias (district branches) and 13 delegacoes (deposit offices). The limits assigned to each branch for credit approval tend to vary from branch to branch and according to factors such as the size and complexity of operations. Each directorate has a staff of three or four credit analysts, of whom on average one may have been to university. The remainder usually will have completed secondary school and done some vocational training, generally in accounting or a related subject. Many BM credit analysts, from both Maputo and the provinces, have received training in project analysis and processing, financed under an IDA PPF advance.

5.06 Central vs. Commercial Banking Functions. Although distinctively defined in its statutes, the two functions of BM, as central bank and commercial bank, were not clearly distinguished in practice. It is still difficult today to distinguish properly between these two functions in both

accounting and operational terms. BM is now taking steps to distinguish between and separate these two roles.

5.07 In 1988, BM introduced a new accounting framework to be fully applied to all banks. This framework will eventually permit all aspects of operations to be clearly identified according to either the central banking or the commercial banking function of BM. A full separation of accounts along these lines is expected to be available after 1992.

5.08 Financial Situation. Its two functions make BM's financial situation more difficult to evaluate. Selected BM financial statements and a Monetary Survey are shown in Annex 5-2 and Annex 5-3, respectively. An important development in the balance sheet is noted in 1987 and 1988 and reflects the impact of the devaluation of the Metical. The devaluation caused medium to long-term foreign liabilities to increase from Mt 36.8 billion in December 1986 to Mt 612 billion in December 1988 (of which Mt 78 billion corresponds primarily to IDA financing), with corresponding unrealized losses. The sectoral distribution of credit, covering the bulk of BM's lending portfolio, indicates that from 1987 to December 1988 the relative share of agriculture declined from about 42% to 39% of total lending, whereas industry's share declined slightly from 17% to 16%. The share of domestic trade increased from 8% to almost 14%, with construction and foreign trade each accounting for about 7-8% and transport and communications accounting for the remaining 17-18%.

5.09 Enterprise Restructuring Technical Unit (ERTU). The ERTU was created in the MOF on February 19, 1988, to help design and coordinate implementation of the ERP. The ERTU is responsible for planning, managing and supervising Project implementation, including: supervision of enterprise studies; appraisal of enterprises' RPs; providing advisory support to the Government on enterprise policy issues; and supporting enterprises in identifying and organizing management training. The terms of reference for the ERTU were agreed between IDA and the Government during Project preparation and are available in Annex 5-4. The ERTU would be responsible for the day-to-day management of the Project and for monitoring the use of Project funds and ensuring that reporting requirements are met (para. 5.24). The MOF's assistance to enterprises includes the preparation of financial restructuring proposals, seeking local and foreign private sector investors, preparing joint venture or technical arrangements, and overseeing implementation of approved RPs. A detailed budget for technical assistance to the ERTU is provided in Annex 3-1.

5.10 The ERTU is headed by a Project Director (the Deputy National Director of Treasury in the MF), who reports directly to the Minister of Finance. At negotiations, it was agreed that the Project Director would devote sufficient time to the Project to ensure effective implementation. Besides the Project Director, the ERTU includes a technical assistance team of three experts provided by PARTEX, CPS, an international consulting company. The team, which was initially employed under a PPF advance and has been in Mozambique since October 1988, includes a Project Advisor, who coordinates the work of other professional staff, supervises the work of all consultants hired by the ERTU, and provides policy advice on enterprise sector issues to the Minister of Finance; an Engineer who oversees all

technical aspects of the Project; and an Economist, responsible for economic analysis and for providing project appraisal training. A local Economist has also been seconded from the MF as counterpart to the expatriate economist. Other local staff to be recruited include, an Accountant and a Procurement Advisor. Terms of reference for the expatriate staff are provided in Annex 5-5. To complement its full-time staff, the ERTU will also have access to the services of consultants (including legal expertise on corporate workouts, ownership arrangements, and liquidations) and will be able to co-opt staff from other Government Ministries for specific tasks. The ERTU will also provide advisory service to the Government on issues affecting enterprise performance, and will, as may be requested by enterprises, continue to provide technical assistance after completion of this project. Government gave assurances at negotiations that it will take all necessary steps to ensure that ERTU staffing remains both capable and sufficient in numbers to discharge the responsibilities associated with the IDA Credit.

5.11 **Interministerial Working Group (IWG)**. The IWG's objective is to ensure that relevant sector Ministries, and the BM, concur with RPs prepared for various enterprises, that the enterprises have an opportunity to participate in the discussion of the RPs, and that most issues are resolved before the proposals are submitted to the Minister of Finance. The Project Director would be expected to seek the advice of the IWG in carrying out his responsibilities. The IWG would be composed of senior-level officials representing *inter alia* the Ministry of Finance; Ministry of Industry and Energy; Ministry of Construction and Water; Ministry of Agriculture; Ministry of Transport and Communications; and Bank of Mozambique, all of which will be directly involved in Project implementation.

B. Status of Project Preparation and Implementation Schedule

5.12 Preparation of the Project was undertaken in close collaboration with the ERTU. Inputs were also provided by other Government agencies (BM and MIE) and enterprises. During Phase II of the Arthur D. Little (ADL) Enterprise Review, ten enterprises participated in "profiling" sessions which involved most key people who would need to cooperate in project implementation. The objective of the sessions was to discuss with the principal managers and staff, the merits and disadvantages of various rehabilitation alternatives and to attempt to reach a consensus on which alternative should be pursued. The premise of the rehabilitation program is that it will only be successful if it is accepted by all concerned parties. Given the skills shortage in Mozambique, the sessions imparted knowledge about project evaluation and financial restructuring to local staff of the ERTU, Government, and the enterprises. Government has indicated that it will continue the approach in reviewing other enterprises for rehabilitation. Enterprise managers expressed their appreciation that for the first time they were directly involved in developing ideas affecting the future of their companies. Preparation activities have proceeded well and are nearly complete.

5.13 **Implementation Schedule**. An appraisal mission visited Mozambique in March 1989, and reviewed with Government the rehabilitation prospects of each potential BE. On the basis of this review it was estimated that implementation of approved RPs will stretch over 3 - 5 years starting March

1990. Restructuring of enterprise balance sheets may take slightly longer, which leads to a conservative estimate of a Project implementation period of six years with completion in December 31, 1996. The Credit is expected to be closed by December 31, 1997.

C. Project Preparation Facility

5.14 A PPF advance for US$750,000 was approved by IDA on January 19, 1988, for project preparation. The PPF advance provided financing for: (a) the cost of hiring an international consulting firm to provide technical assistance to the ERTU; (b) enterprise prefeasibility studies (Phase II studies) and RPs; and (c) sector reform studies. Following appraisal, IDA approved a second PPF advance of US$700,000 to supplement the first PPF and to ensure completion of preparation activities and prompt Project start up. The advance total now stands at US$1.45 million.

D. Procurement

5.15 Enterprise Rehabilitation Component. The ERTU would supervise procurement and will ensure that BEs follow established and suitable commercial practices acceptable to IDA. The ERTU would be responsible for both International Competitive Bidding (ICB) and non-ICB procurement and for ensuring competitiveness (in price and quality), of the items procured and their suitability for the purpose intended. Assurances were given at negotiations that award of rehabilitation contracts will not be undertaken without a detailed RP and engineering estimates of the actual rehabilitation needs of each BE. Given the weak technical, administrative and financial capacities of some enterprises, the ERTU would closely monitor the procurement process.

5.16 All individual contracts with a value of US$500,000 and above would be procured in accordance with ICB, with prior IDA review of the bids as well as contracts. Preferences would be granted to domestic manufacturers and contractors for purchases of goods costing less than US$500,000 which shall be procured on the basis of local competitive bidding (LCB), or international or local shopping (IS or LS) procedures, as appropriate, but with quotations from at least three suppliers eligible under World Bank guidelines, and contracts will be reviewed by the ERTU prior to award. The aggregate value of IS and LS procurement would be approximately US$10.5 million, and for LCB $1.6 million. LCB procurement would be limited and mainly for the procurement of civil works (foreign firms would be allowed to participate in such bids in accordance with local procedures acceptable to IDA). The first LCB document will be reviewed by IDA prior to its release to bidders. IDA requirements for LCB should be specified in local advertising, including public bid opening, clarity in evaluation criteria, and award to the lowest evaluated responsive bidder.

5.17 Specific brands of spares and equipment made by only one manufacturer for the ERC and ERTU would be purchased directly from the

suppliers of the original plant and equipment through direct contracting procedures. Where enterprises are unable to undertake their own procurement, advice may be sought through the Procurement Advisor at the ERTU. All subproject appraisal reports prepared by the ERTU would include a list of goods and services to be financed under the credit and the methods of procurement. Procurement of vehicles, office equipment, and furniture under the technical assistance component would be through local shopping as described for international shopping above. Appointment of an Accountant to the ERTU acceptable to IDA will be a condition of Credit effectiveness.

5.18 Consultants. Consultancy services necessary for Project implementation (categorized under "other procedures" in Table 5.1), will be procured locally and internationally in accordance with Bank Guidelines for the Use of Consultants. To ensure knowledge transfer, those activities requiring the use of foreign firms and experts would be linked to training programs. All consultancy contracts would have terms of reference and consultant selection subject to IDA approval before contracts are awarded.

5.19 As part of its normal supervision of subprojects, the ERTU would review procurement to ensure that approved practices have been followed. The ERTU would maintain records of the procurement methods and documents in order to monitor use of Credit funds (see Table 5.1). IDA supervision missions would review procurement procedures to ensure compliance with the agreed Procurement Guidelines.

Table 5.1: MOZAMBIQUE - PROCUREMENT ARRANGEMENTS (US$ million)

Project Item	ICB Procedures	IS/LS	LCB	Other Procedures	Total
Enterprise Rehabilitation Component (ERC):					
Rehabilitation, Restructuring and TA to Enterprises a/	28.3 (28.3)	10.0 (10.0)	1.6 (1.6)	56.0 d/ (0.0)	95.9 (39.9)
Technical Assistance Component (TAC)		0.3 (0.3)		10.5 (9.9)	10.8 (10.2)
Consultants' Services b/				7.6	7.6
Training of laid-off staff				1.4	1.4
Vehicles and Equipment c/		0.3		0.0	0.3
Refunding of PPF				1.5	1.5
Total	28.3 (28.3)	10.6 (10.3)	1.6 (1.6)	66.5 (9.9)	106.7 (50.1)

Note: Figures in parentheses are the respective amounts financed by IDA.

a/ Contracts would be awarded as follows: (i) in excess of US$500,000 equivalent through ICB; (ii) less than US$500,000 through LCB and local and international shopping (IS/LS); LS/LCB (with public bid offering) would be suitable for civil works contracts.

b/ Consultant contracts would be procured in accordance with Bank's Consultants' Guidelines.

c/ Procurement of vehicles and equipment would require at least three price quotations.

d/ Items to be financed by Government, enterprises and co-financiers.

E. Disbursement

5.20 The allocation of the IDA Credit is summarized in Table 5.2 and the disbursement schedule in Annex 5-6. The IDA Credit would be disbursed against the following items: (a) for the Enterprise Rehabilitation Component, 100% of the foreign exchange expenditures or 100% of subloans and equity investments, 100% of expenditures for technical assistance to enterprises, and 100% of approved expenditures for training of staff laid off as part of the rehabilitation effort; and (b) for the Technical Assistance Component, 100% of foreign expenditures, 100% of foreign expenditures for vehicles, equipment, and office supplies, 100% of operating costs of ERTU, and 100% of expenditures for technical assistance and training. The IDA Credit would also reimburse the PPF advance. Disbursements would be made on the basis of full documentation, except for withdrawals related to contracts valued at less than US$20,000 equivalent, equipment and civil works contracts valued at less than US$100,000 equivalent, and local training programs, which would be disbursed on the basis of statements of expenditure (SOEs). Supporting documents related to amounts withdrawn on the basis of SOEs would be retained by the ERTU and made available on request for review by auditors and Project supervision missions. Only expenditures made no more than 180 days prior to the receipt by IDA of information relating to a subloan or investment operation, or before the receipt of the request by IDA for approval of the subproject shall be eligible for reimbursement. The extension of the normal 90 day limit is justified by the limited implementation capacity in Mozambique. Appointment of a Procurement Advisor, and approval by IDA of a model subloan agreement between BM and the respective BEs, will be conditions of disbursement on the ERC.

Table 5.2: MOZAMBIQUE - ALLOCATION OF IDA CREDIT

Category	Amount (US$ million)	% of Expenditure to be Financed
Enterprise Rehabilitation Component (ERC) (Rehabilitation, restructuring and TA to enterprises)	39.9	100% of foreign expenditures of each subproject.
Operating Costs of ERTU	0.2	100% of total expenditures.
Technical Assistance to ERTU: (Consultant services, training, vehicles & equipment)	2.9	100% of foreign expenditures.
Consultant services for Feasibility Studies & Subsector Studies	3.2	100% of foreign expenditures
Training of laid-off staff	1.4	100% of total expenditures.
Refunding of PPF	1.5	100% of amount advanced.
Unallocated	1.0	
TOTAL	50.1	

5.21 **Disbursement Schedule.** In accordance with the standard disbursement profile for industry loans and credits in the Africa Region and recent disbursement experience in Mozambique, the IDA credit is expected to be disbursed as shown in the schedule given in Annex 5-6. The last date for the submission of subprojects for IDA approval or authorization would be December 31, 1996, and the Project closing date would be December 31, 1997.

F. Special Account

5.22 To facilitate disbursements, a Special Account to be managed by the ERTU and operated by the BM would be established in US dollars at a commercial bank acceptable to IDA. The Special Account, with an initial deposit of US$2 million (equivalent to an average disbursement of four months) would finance Project-eligible expenditures under the ERC. All foreign exchange transactions would be made through BM under existing regulations governing the allocation of foreign exchange in Mozambique. BM would advise ERTU promptly of all transactions affecting the special account. The ERTU through its Accountant would be responsible for all record keeping, reconciliation of bank statements under the credit as required by IDA, and for preparation of replenishment applications for signature by designated BM officials.

5.23 Documentation to be submitted by the ERTU for withdrawal authorization from the Credit account or from the Special Account with respect to subloans or investment operations would include: (a) a summary description of the BE and an appraisal report on the subproject, including its economic, technical and financial viability, and environmental aspects in accordance with guidelines satisfactory to IDA; (b) a list of goods and services to be financed out of the proceeds of the IDA Credit; (c) the methods of procurement of the goods and services; and (d) terms and conditions of the subloan or investment, as appropriate.

G. Accounting and Auditing Requirements

5.24 The ERTU would maintain accounts and records adequate to reflect the Project's operations and financial situation in accordance with sound accounting principles. Independent auditors acceptable to IDA would annually review: (a) project accounts kept by the ERTU; (b) the Special Account; and (c) financial statements of each BE, including a statement on compliance with eligibility criteria and subloan covenants. The auditors would also include a separate statement on whether satisfactory accounting procedures are in operation. Assurances were obtained from Government at negotiations that audit reports of the Project and the audited accounts of the BM shall be submitted to IDA not later than six months after the end of each Government of Mozambique fiscal year. The audited statements of enterprises are also expected to be submitted to IDA. If a suitably qualified Government employee cannot be found to prepare accounts, the credit would finance a consultant to serve as Project Accountant, and any training program needed to equip a local staff member to take over this responsibility.

H. Monitoring and Reporting Requirements

5.25 For monitoring Project implementation, the ERTU will prepare an implementation schedule that establishes monitorable milestones, which would be used to assess progress in the various components. The ERTU would be responsible for monitoring, evaluation, and reporting activities. The ERTU would be required to prepare, in consultation with other agencies involved in project implementation, detailed Project monitoring formats for review by IDA. Other project implementing agencies would provide the ERTU with the data necessary for preparing reports for submission to IDA. Based on this data, the ERTU would prepare consolidated annual progress reports. BM would submit to the ERTU the following: (a) a monthly report summarizing all transactions on the Special Account; (b) a quarterly report on the status of the portfolio of subloans and investments financed under Project; and (c) disbursement reports on the Project Accounts. BEs would submit quarterly reports and audited annual financial statements to the ERTU, with copies to the BM. The ERTU shall consolidate the quarterly reports with reports on other Project activities and would prepare a quarterly report on the progress of Project implementation. Such progress reports would be submitted to IDA one month after the end of each quarter. In addition, the ERTU would prepare an annual report summarizing progress in all key areas of the Project to be submitted to IDA three months after the end of each year. At the close of the Credit, the ERTU will prepare a Project Completion Report, based on the PCR preparation arrangements summarized in Annex 5-7.

VI. PROJECT BENEFITS AND RISKS

A. Benefits

6.01 Major enterprise rehabilitation will likely yield high economic returns through restoration of production employment and higher production levels and incomes. Improvements in the institutional and policy framework, plus increased enterprise autonomy and increased competition from more private sector involvement through joint ventures and divestiture, should enhance enterprise efficiency and profitability. The rehabilitation, financial restructuring, corporate privatization, and technical management approaches developed for enterprises under the Project will serve as demonstration cases for the design and implementation of similar programs in other enterprises. The Project will also contribute significantly to the strengthening of Mozambican institutional capability to develop and implement rehabilitation and restructuring plans and, where appropriate, privatization. It is expected that the rehabilitation and financial restructuring strategies developed under the Project will contribute to improvements in enterprise operations, including consolidation or specialization in core businesses while abandoning or separating out unprofitable or unrelated activities, with emphasis on achieving a viable scale of enterprise operations. Further, the Project will aim to increase the market orientation of enterprises through improvements in financial and management information systems, with emphasis on accurate record keeping, cost controls, and related training of enterprise personnel. Individual enterprise rehabilitation investments must have

minimum economic rates of return of 12%. In most cases the rates of return are expected to be substantially higher.

B. Risks

6.02 The major risks associated with the Project stem from: (a) the economy's fragility and, therefore, the possibility that political and social opposition may weaken the Government's commitment to the ERP during Project implementation (particularly to the ERP's more sensitive changes e.g., price liberalization and state enterprise divestiture or liquidations which represent a significant departure from past policies); (b) limited Government and enterprise experience in implementing rehabilitation plans; and (c) the security situation, which may adversely affect project implementation. To mitigate these risks: (a) beneficiary enterprises will be selected primarily on the basis of their potential economic, technical, and financial viability (i.e., that they possess a capable management team or plans are made to assure such a team, and that their operations are not seriously affected by the security situation); (b) the Project would provide assistance in training and redeployment of laid-off staff in order to alleviate the social costs of adjustment and therefore, reduce the risk of resistance on the part of the public. The ERTU is being strengthened through the services of an experienced consulting firm; and enterprise management will also be strengthened and, where necessary, assisted in formulating and implementing their rehabilitation plans. Close supervision during Project implementation will be maintained to deal with problems as they arise. Government commitment to and progress so far in implementing the reform program has been encouraging and no evidence exists of flagging Government resolve.

VII. SUMMARY OF AGREEMENTS AND RECOMMENDATIONS

7.01 During negotiations, the following major assurances and agreements were obtained from Government regarding:

(a) Formulation with IDA support by December 31, 1990, of an action plan to determine the legal ownership status of intervened enterprises, and to promptly thereafter take all necessary legal and administrative measures to implement the Plan. Although implementation progress would be reviewed as part of the Annual Implementation Review, a major review shall be undertaken by June 30, 1993 (para. 2.42);

(b) Submission to IDA for review of the terms of reference for subsector studies to be undertaken under the Project would not be later than April 30, 1991 and all studies would be carried out by December 31, 1991. The Government will exchange views with IDA on recommendations of the studies and agree on action program by June 30, 1992, and carry out said action program by March 31, 1993 (para. 3.10);

(c) Government and IDA will, not later than June 30, 1991, and annually, as part of the annual project implementation review, undertake reviews of the interest rates charged on subloans under the proposed Credit, including commitment levels, subproject eligibility criteria, onlending terms and conditions, and general project implementation progress (para. 4.03);

(d) The Project financing plan (para. 3.11), arrangements for channelling the credit to the eligible BEs, economic, financial and technical subproject eligibility criteria, and onlending terms and conditions (paras. 4.01 to 4.08);

(e) The credit operating guidelines and subloan processing and administration procedures (para. 4.18);

(f) Procurement, disbursement, accounting, and reporting and monitoring arrangements (paras. 5.15 - 5.24);

(g) An Enterprise Restructuring Technical Unit and IWG, shall be maintained throughout the life of the Project with staff and responsibilities acceptable to IDA, (para. 5.09);

(h) Audit reports of the Project and audited accounts of enterprises to be submitted to IDA not later than six months after the end of each Government of Mozambique fiscal year (para. 5.23).

(i) All subloans to be financed under the Credit shall require prior approval by IDA (paras. 4.17 and 5.22);

(j) All equity investments would be under an investment agreement that shall require prior approval by IDA (para. 4.06);

(k) Financing of training programs for laid-off staff would require prior IDA approval (para. 3.09); and

(l) The Government would carry the foreign exchange risks (para. 4.04).

7.02 Conditions of credit effectiveness would be:

(a) Signing of the subsidiary administration agreement between the Government and BM passing on US$39.9 million to BM for the ERC and defining the functions and responsibilities of the latter (para. 4.02); and

(b) Appointment of an accountant as part of the ERTU staff (para. 5.16).

7.03 Conditions of disbursement for the ERC would be:

(a) Submission to IDA and its approval of a model subloan agreement between the BM and the respective BEs (para. 5.19); and

(b) Appointment of a Procurement Advisor (para. 5.19)

7.04 On the basis of the above assurances and agreements being reached, the Project would be suitable for an IDA Credit of US$50.1 million equivalent to the Government of the People's Republic of Mozambique at standard IDA terms, with a 40-year maturity.

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

A N N E X E S

MOZAMBIQUE - STRUCTURE OF MANUFACTURING INDUSTRY - 1973, 1987

Food Products	Number of Establishments	Percentage	1973 Employment	Percentage	1973 Value Added (Esc Million)	Percentage	1987.0 a/ Employment %	1987.0 a/ Output %
Food Products	772.0	54.8	41643.0	42.1	1516.4	29.6		26.0
of which:								
Vegetable Oil	9.0		1887.0		130.6			
Flour Mills	331.0		1909.0		81.6			
Sugar	6.0		5298.0		530.2			
Cashew Processing	15.0		20850.0		284.4			
Tea	19.0		3073.0		87.8			
Bakery, Confectionary	285.0		4304.0		83.6			
Beverages, Tobacco	24.0	1.7	4111.0	4.2	732.0	14.3	30.0	11.0
Textiles, Garments								
Leather, Fibre	111.0	7.9	16679.0	16.9	808.5	15.8	24.0	26.0
of which:								
Cotton Ginning	21.0		2954.0		186.5			
Spinning, Weaving	3.0		4461.0		256.9			
Garments	28.0		4211.0		156.2			
Wood, Paper, Printing	227.0	16.1	15797.0	16.0	528.5	10.3	14.0	10.0
of which:								
Logging, sawmilling	76.0		7665.0		143.0			
Carpentry, furniture	91.0		3507.0		102.6			
Printing	45.0		3293.0		199.9			
Petroleum, Chemicals								
Rubber, Plastics	65.0	4.6	4088.0	4.1	449.9	8.8	8.0	11.0
of which:								
Rubber Products	2.0		774.0		66.8			
Plastic Products	12.0		742.0		54.2			
Paint, Varnish	4.0		393.0		129.7			
Nonmetal, Mineral Products	62.0	4.4	4686.0	4.7	360.3	7.0	3.0	2.0
of which:								
Glass Products	1.0		667.0		53.1			
Cement	3.0		898.0		184.0			
Metals and engineering	139.0	9.9	11484.0	11.6	692.9	13.5	19.0	14.0
of which:								
Struct. Metal Prods.	40.0		2107.0		101.4			
Basic Iron & Steel	3.0		1131.0		57.0			
Metal Furniture	15.0		1618.0		89.0			
Shipbldg, Repairs	8.0		1436.0		110.6			
Other Industries	9.0	0.6	380.0	0.4	26.2	0.5	2.0	
TOTAL	1409.0	100.0	98868.0	100.0	5114.8	100.0	100.0	100.0

Source: Based on Estatisticais Industriais 1973 and 1987.

Note: a/ Based on gross output at 1985 prices, VA figures are not available for 1987; however 1973 and 1987 output shares appear comparable.
b/ Includes food products and beverages, tobacco, textiles and garments.

ANNEX 2-2

MOZAMBIQUE

GEOGRAPHICAL DISTRIBUTION OF INDUSTRIAL ENTERPRISES - 1973

Province	Enterprises		Employment	
	Number	% of Total	Number (000's)	% of Total
Maputo	428	34	34.8	41
Beira (Sofala)	229	18	12.9	16
Vila Pery (Nampula)	88	7	6.6	8
Zambezia	166	13	4.7	6
Manica	121	9	16.3	19
Geza	52	4	4.3	5
Tete	86	7	0.7	1
Cabo Delgado	29	2	1.0	1
Inhambane	49	4	2.7	3
Niasa	24	2	0.3	1
TOTALS	1272	100%	84.3	101

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

TUTELAGE OF MANUFACTURING INDUSTRY
(activities supervised)

MINISTRY OF INDUSTRY AND ENERGY (MIE)

Electric Power
Petroleum Refining [Management Unit (U.D.) for Petroleum] a/
Metallurgy (U.D. for Metallurgy)
Heavy Metalworking
Metal Fabrication (Gabricom)
Electrical Machinery and Materials (U.D. for Electrical Engineering)
Refrigeration and air-conditioning equipment (U.D. for Refrigeration)
Rubber and Rubber Goods
Glass and Glassware
Basic Chemicals (U.D. for Chemicals)
Fertilizers and Pesticides (U.D. for Chemicals)
Paints, Varnishes and Lacquers (U.D. for Chemicals)
Explosives (U.D. for Chemicals)
Miscellaneous Chemicals Products (U.D. for Chemicals)
Paper, Paperboard and Paper Products (U.D. for Chemicals)
Shipbuilding and repair - steel vessels (MIE)
Shipbuilding and repair - wooden and other vessels (U. D. for Fishing)
Office Equipment (U.D. for Electrical Equipment)
Support for Industrial Machinery (EQUITEC, E. E.)

PREVIOUSLY UNDER STATE SECRETARIAT FOR LIGHT AND FOOD INDUSTRY (SEILA) (339 ENTERPRISES) b/

Textiles from cotton and other fibres (U.D. Textiles)
Garments (U.D. for Garments)
Footwear and Tanning (U.D. for Footwear and Tanning)
Animal and vegetable oils and fats (U.D. for Oil Products)
Soap including toilet soap (U.D. for Food Products-UDRAT)
Noodles, Confectionery and Cakes (UDRAT)
Dairy Products (UDRAT)
Processed Tobacco (UDRAT)
Canned Fruit and Vegetables (U.D. Agro-Foodstuffs)
Cleansing Products (M.U. for Matches and Hygiene)
Raw, homogenized and refined salt (U.D. for Salt)
Plastic Articles (U.D. for Plastics)
Wet and Dry Batteries
Miscellaneous Metal Products (U.D. for Beverages)
Wood Furniture (U.D. for Wood Furniture)

a/ U.D. - Unidade de Direccao (Management Unit)
b/ Formerly SEIDA, which was integrated into the MIE in March, 1989.

SECRETARY OF STATE FOR FISHING (SSF) (2 ENTERPRISES)

Building and Repair of wooden and fibre boats
Canned fish
Manufacture of fishing nets

MINISTRY OF CONSTRUCTION AND WATER RESOURCES (MCA) (21 ENTERPRISES)

Cement and lime
Pottery and cement products

MINISTRY OF AGRICULTURE (MA) (77 ENTERPRISES)

Processed tea
Processed and canned meat
Milk and dairy products
Sawing and machining of wood
Rice hulling and polishing
Sisal defibering

MINISTRY OF INFORMATION (31 ENTERPRISES)

Printing and publishing

MINISTRY OF HEALTH (MS) (1 ENTERPRISE)

Pharmaceutical products

SECRETARY OF STATE FOR COTTON (MA) (9 ENTERPRISES)

Cotton ginning and pressing

SECRETARY OF STATE FOR CASHEW (MA) (14 ENTERPRISES)

Preparation of cashew kernels

NATIONAL SUGAR INSTITUTE (MA) (5 ENTERPRISES)

Raw and refined sugar

MINISTRY OF EDUCATION (1 ENTERPRISE)

PEOPLES REPUBLIC OF MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT
Structure of Interest Rates

(In percent)

	Rates Effective from January 1, 1981						Rates Effective from January 1, 1987 1/					
	Public Enterprises	Cooperatives	Family Sector	Private Enterprises	Individuals		90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years
						LENDING RATES 2/						
Agriculture												
Investment	4	3	4	5	-	LEVEL 1. Priority productive sectors.						
Working Capital	5	3	4	6	-							
Fishing						Group I: Agriculture, light manufacturing (consumer goods), traditional exports, fishing, and mining	12/14	13/15	16/18	18/20	19/21	20/22
Investment	5	3	4	6	-							
Working Capital	6	3	4	7	-							
Industry & Tourism						Group II: Public tranportation, construction, agricultural, traders, manufacturing (other), and housing.	13/15	16/16	17/19	19/21	20/22	21/23
Investment	5	4	-	6	-							
Working Capital	6	4	-	7	-							
Transportation												
Investment	5	-	-	6	-							
Working Capital	6	-	-	7	-	Group III: Hotels (tourism) and other priority activities.	16/16	15/17	18/20	20/22	21/23	22/24
Trade & hostelry												
Investment	5	4	-	6	-	LEVEL 2. Services, commerce, crafts, and personal (essential consumer goods, etc.)	16/18	18/20	20/22	22/24	24/26	25/28
Working Capital	7	4	-	8.5	-							
Other Activities												
Investment	5	-	-	6	-	LEVEL 3. Nonessential goods and services	25	26	28	30	32	35
Working Capital	7	-	-	8.5	-							
Housing	5	4	-	6	6-10							
Consumption 3/	-	-	-	-	8-10							
						DEPOSIT RATES						
Demand deposits	0	2	1	1	2	Demand deposits: 3 percent	-	-	-	-	-	-
Time Deposits						Time deposits	12	13	16	18	20	20
180-365 days	0	3	3	2	3							
1-2 years	0	4	4	3	4							
Over 2 years	0	6	6	4	6							

Source: Bank of Mozambique

1/ Lower rate shown applies to cooperatives and family sectors; and higher, to enterprises (public and private).
2/ Central bank discount rate: 3 percent, 1981-86; 10 percent, 1987 on amounts up to 6% of demand deposits; 12% on additional 6% of deposits).
3/ So-called "guided" consumption, i.e, for purchases of durables such as furniture, appliances, bicycles.

INTEREST RATES, 1989
THE MINISTRY OF FINANCE AND THE BANK OF MOZAMBIQUE

MINISTERIAL ORDER

Pursuant to the provisions of numeral 5 of Resolution 11/80 of December 31, concerning credit and interest rate policy, the Minister of Finance and the Governor of the Bank of Mozambique order the following:

1. The following interest rates are hereby fixed for lending transactions:

1. Central Bank discount window:

Rate 1

a. Rate: 10 percent p.a.

b. Amount: up to 6 percent of demand deposits

c. Term: Up to 3 weeks

Rate 2

a. Rate: 12 percent p.a.

b. Amount: Up to an additonal 6 percent of demand deposits

c. Term: Up to 2 weeks

II. Level 1

Covers the following economic sectors:
- Agriculture and forestry
- Farm marketing
- Coor ratives (agricultural, consumer, and others)
- Food industry
- Electricity, gas, steam, and water

Working Capital			Investment		
To 90 days	To 180 days	To 365 days	To 2 years	To 3 years	Over 3 years
(In percent)					
14	15	16	22	22	22

III. Level 2

Covers the following economic sectors:
- Manufacturing (light and heavy)
- Extractive industries
- Construction, public works, and housing
- Export
- Fishing
- Railroad and maritime transportation and other public transportation for passengers and freight (enterprises and associations)

Working Capital			Investment		
To 90 days	To 180 days	To 365 days	To 2 years	To 3 years	Over 3 years
(In percent)					
18	20	22	24	25	26

IV. Level 3

Covers the following economic sectors:
- Wholesale and retail trade, restaurants, hotels, tourism, and other
- Passenger and freight transportation (individual operations)
- Other activities not included in Levels 1 or 2 and individuals

Working Capital			Investment		
To 90 days	To 180 days	To 365 days	To 2 years	To 3 years	Over 3 years
(In percent)					
26	28	30	32	33	34

2. Investments in construction and freight transportation made by the commerce and tourism sector and the housing sector by individuals may benefit from Level 2 interest rates.

3. Surplus inventories of essential goods in the consumer goods, commerce and industry sector may benefit temporarily from credit support Level 2 rates.

4. The Bank of Mozambique will determine by public announcement which goods are to be financed on these terms and the loan terms therefore.

5. The interest rate system fixed herein may also be applied to loans outstanding on the date of entry into force of this ministerial order if the pertinent contracts provide for modification of the interest rate in the event a different ceiling is legally established.

6. Disputes arising from interpretation and implementation of this ministerial order shall be settled by joint order of the Minister of Finance and the Governor of the Bank of Mozambique.

7. This ministerial order shall enter into force on January 1, 1989.

Maputo, December 31, 1988

/s/

Eneas da Conceicao Comiche
Governor, Bank of Mozambique

/s/

Abdul Magid Osman
Minister of Finance

MOZAMBIQUE ANNEX 2-5

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT
Sectoral Distribution of Credit

(Meticais, million)

SECTORS	12/31/86			12/31/87			09/30/88		
	Working Capital	Investment	TOTAL	Working Capital	Investment	TOTAL	Working Capital	Investment	TOTAL
1. AGRICULTURE AND CATTLE	41208	746	41954	48293	1403	49696	54622	1454	56076
Tea	5504	62	5566	5570	96	5666	7085	96	7181
Sugar	24093	563	24656	27252	694	27946	28657	694	29351
Cashew	1522	8	1530	1587	18	1605	2627	18	2645
Sisal	-	-	0	-	-	0	-	-	0
Copra	1781	66	1847	2503	354	2857	3096	445	3541
Cotton	7731	15	7746	10509	70	10579	12296	0	12296
Others	577	32	609	872	171	1043	861	201	1062
2. FORESTRY AND WOOD PRODUCTS	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
3. FISHERIES	2648	191	2839	4277	120	4397	5681	0	5681
4. MINING	2078	129	2207	2181	134	2315	2181	134	2315
Coal	1504	129	1633	1574	134	1708	1574	134	1708
Others	574	0	574	607	0	607	607	0	607
5. MANUFACTURING	12127	770	12897	12801	693	13494	16027	997	17024
Food, Bev. & Tobacco	2302	74	2376	2762	133	2895	3770	527	4297
Textiles & Garments	1854	222	2076	2096	255	2351	4000	19	4019
Chemicals	843	255	1098	946	217	1163	1353	247	1600
Metallurgy	3724	80	3804	4271	24	4295	4367	60	4427
Others	3404	139	3543	2726	64	2790	2537	144	2681
6. ELECTRICITY GAS & WATER	0	140	140	0	83	83	0	0	0
7. CONSTRUCTION & PUBLIC WORKS	7367	1142	8509	8629	1453	10082	10206	418	10624
8. DOMESTIC TRADE	2564	144	2708	9122	360	9482	14997	891	15888
9. EXTERNAL TRADE	7118	0	7118	9079	0	9079	11076	0	11076
10. TRANSPORT, WAREHOUSING & COMMUNICATION	8096	7324	15420	11119	9837	20956	11175	12698	23873
Rail Transp.	7137	5707	12844	9761	8210	17971	9761	10683	20444
Road Transp.	117	588	705	179	512	691	23	648	671
Other Transp & Warehousing	665	1029	1694	900	1115	2015	1112	1367	2479
Communications	177	0	177	279	0	279	279	0	279
TOTAL	83206	10586	93792	105501	14083	119584	125965	16592	142557

SOURCE: Banco de Mocambique, November 23, 1988

ANNEX 2-6

MOZAMBIQUE
INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

Evolution of Bank Credit to Enterprises by Bank and Activity

(Meticais, million)

DESCRIPTION	12/31/86		03/31/87		06/30/87		09/31/87	
	Value	%	Value	%	Value	%	Value	%
Total Credit	125,380	100	128,460	100	131,870	100	137,953	100
B.M	99,210	79	101,630	79	103,990	79	109,567	79
B.P.D	22,400	18	23,040	18	23,890	18	24,818	18
B.S.T.M	3,770	3	3,790	3	3,990	3	3,568	3
Agriculture	63,090	100	64,780	100	66,730	100	69,532	100
B.M	42,320	67	43,510	67	44,540	67	46,534	67
B.P.D	20,700	33	21,270	33	22,190	33	22,967	33
B.S.T.M	70	0	0	0	0	0	31	0
Industry	21,420	100	21,390	100	22,280	100	22,841	100
B.M	18,130	85	17,990	84	18,820	84	19,303	85
B.P.D	1,700	8	1,770	8	1,700	8	1,851	8
B.S.T.M	1,590	7	1,630	8	1,760	8	1,687	7
Construction	8,580	100	8,590	100	9,040	100	9,004	100
B.M	8,500	99	8,500	99	8,970	99	8,955	99
B.P.D	0	0	0	0	0	0	0	0
B.S.T.M	80	1	90	1	70	1	49	1
Transport	15,450	100	16,290	100	16,720	100	17,714	100
B.M	15,310	99	16,160	99	16,640	100	17,657	100
B.P.D	0	0	0	0	0	0	0	0
B.S.T.M	140	1	130	1	80	0	57	0
Commerce	16,840	100	17,410	100	17,100	100	18,862	100
B.M	14,950	89	15,470	89	15,020	88	17,118	91
B.P.D	0	0	0	0	0	0	0	0
B.S.T.M	1,890	11	1,940	11	2,080	12	1,744	9

SOURCE: Banco de Mocambique. Maputo, February 4, 1988

MOZAMBIQUE
INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT
SUMMARY DATA ON 40 MAJOR ENTERPRISES

EMPRESAS	PRINCIPAIS ACTIVIDADES	ORGANISMOS DE TUTELA: N. Indústria e Energia	S.E. Ind. Lig. e Alimentar	M. Construção e Águas	I. Agricultura	REGIMES DE PROPRIEDADE: Estado	Mista	Intervencionada	Privada	VOLUMES DE VENDAS M $USD — MERCADOS: Exportação	Nacional	Total	VOLUME DE EMPREGO: PERMANENTES + TEMPORÁRIOS	PRINCIPAIS OBSTÁCULOS: Mercados	Matérias primas	Processos de planeamento	Controlos financeiros	Produção e tecnologia	Capacidade de gestão	Infraestruturas	Preços	Mão de obra	Investimentos	Segurança	Formação	Número de técnicos	CLASSIFICAÇÃO
25 - CAJÚ DE MOÇAMBIQUE	Processamento de castanha					X				11,610	1,290	12,900	6.300														
35 - MADEIRAS DE CABO DELGADO	Toros de madeira									0,472	0,686	1,158	400														Geradores primários de divisas
37 - CITRINOS DE MANICA	Citrinos									2,160	1,440	3,600	1.030														
27 - EMOCHÁ	Chá									30,875	1,625	32,500	17.500														
15 - EXTRASAL	Sal									--	1,500	1,500	375														
32 - BOROR	Copra, sabão									104,000	104,000	208,000	5.968														
34 - GRUPO MADAL	Copra, óleos alimentares									2,993	0,798	3,791	5.300														
17 - METAL BOX	Latoaria (concentores)									--	1,155	1,155	250														Geradores secundários de divisas
07 - CELMOQUE	Cabos eléctricos									--	1,290	1,290	160														
06 - CARMOC	Cartões para embalagem									--	0,330	0,330	305														
01 - MABOR	Pneus									--	7,300	7,300	585														
05 - IMA	Tubos de aço									--	0,413	0,413															
21 - CIMENTOS DE MOÇAMBIQUE	Cimentos									--	3,200	3,200	1.049														Exploradores de matérias primas nacionais para consumo nacional
22 - PROSUL	Azulejos e telhas									--	3,900	3,900	1.306														
24 - ICM	Cerâmica branca									--			90														
23 - LUSALITE DE MOCAMBIQUE	Construção, tubos, tanques									--	0,891	0,891	207														
26 - GRUPO J.F. SANTOS	Algodão, cizal									--			2.166														
30 - IFLOMA - IND. FLORESTAIS DE MANICA	Toros de madeira									--	4,000	4,000	1.472														
31 - LIONDE - EMP. AGRÍCOLA DE LIONDE	Arroz									--	4,600	4,600	793														
14 - FASOL - FÁBRICAS ASSOCIADAS DE ÓLEOS	Óleos									--	3,200	3,200	485														
10 - SOCIRE - CERVEJAS E REFRIGERANTES	Cerveja									--	56,000	56,000	2.500														
29 - SOCIEDADE AGRÍCOLA DO INCOMATI	Açucar									--	3,500	3,500	3.600														
38 - AÇUCAREIRA DE MAFAMBISSE	Açucar									--	1,900	1,900	6.000														
13 - TEXTÁFRICA	Texteis									--	11,566	11,566	4.000														
40 - ALGODÃO DE INHAMBANE	Algodão									--			405														
02 - FÁBRICA DE BICICLETAS DE MOCAMBIQUE	Bicicletas									--	3,600	3,600	184														Indústrias substituidoras de importações utilizando matérias primas importadas
03 - GRUPO BERGER	Tintas									--	0,435	0,435	42														
20 - FACOZA - FAB. DE COBERTORES DA ZAMBÉZIA	Cobertores									--	0,414	0,414	98														
16 - EMBALAGENS VANLEER	Tambores de aço									--	0,540	0,540	68														
18 - COMEC	Cutelaria, utensílios metálic.									--	0,360	0,360	550														
11 - UNIÃO FABRIL - UFA	Sapatos de borracha									--	3,000	3,000	400														
12 - TACOBOL - FAB. CONTINENTAL DE BORRACHA	Sapatos									--	3,300	3,300	400														
04 - CIFEL	Fundição									--	2,341	2,341	760														
19 - SOCIEDADE DE TABACOS - SAT	Tabaco									--	9,900	9,900	126														
36 - AGRICOM	Comercialização prod. agrícol.									--	44,000	44,000	2.700														Empresas de serviços e/ou comerciais
35 - BOROR COMERCIAL	Adubos, sementes, etc.									--	20,080	20,080	235														
25 - GETA - OBRAS DE ENGENHARIA	Nivelação de terrenos									--	20,000	20,000	3.400														
33 - MECANAGRO	Assistência a equip. agrícol.									--	4,000	4,000	1.415														
08 - OGES	Sólidos, bases aquosas									--	2,737	2,737	250														
09 - ECOME	Material agrícola									--	2,700	2,700	305														—
		1	11	5	12	13	5	10	8																		

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

TECHNICAL ASSISTANCE COSTS TO THE ENTERPRISE RESTRUCTURING UNIT
(US Dollars, 000)

ITEM	1988(Actual)			1989			1990			1991			1992			1993			1994			TOTAL			
	MxM	L.C.	F.C.	MxM	L.C.	F.C.	MxM	L.C.	F.C.	MxM	L.C.	F.C.	MxM	L.C.	F.C.	MxM	L.C.	F.C.	MxM	L.C.	F.C.	MxM	L.C.	F.C	
A. PARTEX STAFF COSTS																									
1. Lead Ind. Advisor	3	0.00	29.50	12	0.00	111.60	12	0.00	119.41	12	0.00	127.77	12	0.00	136.71	12	0.00	146.28	12	0.00	156.52	75	0.00	827.81	
2. Economist	3	0.00	24.20	12	0.00	91.20	12	0.00	97.58	12	0.00	104.41	12	0.00	111.72	6	0.00	59.77	3	0.00	31.98	60	0.00	520.87	
3. Engineer	3	0.00	24.20	12	0.00	91.20	12	0.00	97.58	12	0.00	104.41	12	0.00	111.72	6	0.00	59.77	3	0.00	31.98	60	0.00	520.87	
Total Partex Costs	9	0.00	77.90	36	0.00	294.00	36	0.00	314.58	36	0.00	336.60	36	0.00	360.16	24	0.00	265.83	18	0.00	220.48	195	0.00	1,869.55	
B. LOCAL STAFF																									
4. Project Coordinator	12	2.07	0.00	12	2.07	0.00	12	2.21	0.00	12	2.37	0.00	12	2.54	0.00	12	2.71	0.00	12	2.90	0.00	84	16.88	0.00	
5. Economists (x2)	0	0.00	0.00	24	3.11	0.00	24	3.32	0.00	24	3.56	0.00	24	3.80	0.00	24	4.07	0.00	24	4.36	0.00	144	22.22	0.00	
6. Procurement Officer	0	0.00	0.00	12	2.07	0.00	12	2.21	0.00	12	2.37	0.00	12	2.54	0.00	12	2.71	0.00	12	2.90	0.00	72	14.81	0.00	
7. Engineer	0	0.00	0.00	12	2.07	0.00	12	2.21	0.00	12	2.37	0.00	12	2.54	0.00	12	2.71	0.00	12	2.90	0.00	72	14.81	0.00	
8. Accountant	0	0.00	0.00	12	0.99	0.00	12	1.06	0.00	12	1.14	0.00	12	1.22	0.00	12	1.30	0.00	12	1.39	0.00	72	7.11	0.00	
9. Lawyer	0	0.00	0.00	6	1.44	0.00	6	1.54	0.00	6	1.65	0.00	6	1.76	0.00	6	1.88	0.00	6	2.02	0.00	36	10.29	0.00	
10. Secretary (x2)	0	0.00	0.00	24	1.90	0.00	24	2.03	0.00	24	2.17	0.00	24	2.33	0.00	24	2.49	0.00	24	2.66	0.00	144	13.58	0.00	
11. Other Support Staff (Driver & Cleaning)	0	0.00	0.00	24	1.21	0.00	24	1.29	0.00	24	1.38	0.00	24	1.48	0.00	24	1.58	0.00	24	1.69	0.00	144	8.64	0.00	
Total Local Staff Costs	12	2.07	0.00	126	14.85	0.00	126	15.89	0.00	126	17.01	0.00	126	18.20	0.00	126	19.47	0.00	126	20.83	0.00	768	108.32	0.00	
Total Staff Costs	21	2.07	77.90	162	14.85	294.00	162	15.89	314.58	162	17.01	336.60	162	18.20	360.16	150	19.47	265.83	144	20.83	220.48	963	108.32	1,869.55	
C. OPERATING COSTS																									
12. Translation		0.00	0.00	0	0.00	21.60	0	0.00	23.11	0	0.00	24.73	0	0.00	26.46	0	0.00	28.31	0	0.00	30.30	0	0.00	154.51	
13. Domestic Travel		0.00	0.00	0	20.00	0.00	0	21.40	0.00	0	22.90	0.00	0	24.50	0.00	0	26.22	0.00	0	28.05	0.00	0	143.07	0.00	
14. Other Equipment		0.00	0.00	0	80.65	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	80.65	0.00	
15. Miscellaneous		0.00	0.00	0	44.78	0.00	0	47.92	0.00	0	51.27	0.00	0	54.86	0.00	0	58.70	0.00	0	62.81	0.00	0	320.33	0.00	
16. Housing (PARTEX)		0.00	9.60	0	0.00	40.80	0	0.00	43.66	0	0.00	46.71	0	0.00	49.98	0	0.00	53.48	0	0.00	57.22	0	0.00	301.45	
17. Intntl Travel (PARTEX)		0.00	6.60	0	0.00	13.20	0	0.00	14.12	0	0.00	15.11	0	0.00	16.17	0	0.00	17.30	0	0.00	18.51	0	0.00	101.02	
18. Equipment (PARTEX)		0.00	60.55	0	0.00	50.00	0	0.00	0.00	0	0.00	0.00	0	0.00	70.00	0	0.00	0.00	0	0.00	0.00	0	0.00	180.55	
19. Home Off Costs (PARTEX)		0.00	2.88	0	0.00	26.70	0	0.00	28.57	0	0.00	30.57	0	0.00	32.71	0	0.00	35.00	0	0.00	37.45	0	0.00	193.87	
Total Operating Costs		0.00	79.63	0	145.43	152.30	0	69.32	109.46	0	74.17	117.12	0	79.36	195.32	0	84.91	134.09	0	90.86	143.48	0	544.04	931.41	
D. CONTINGENCIES																									
20. Foreign Costs (5%)		0.00	0.00	0	0.00	22.32	0	0.00	21.20	0	0.00	22.69	0	0.00	27.77	0	0.00	20.00	0	0.00	18.20	0	0.00	132.17	
21. Local Costs (5%)		0.00	0.00	0	8.01	0.00	0	4.26	0.00	0	4.56	0.00	0	4.88	0.00	0	5.22	0.00	0	5.58	0.00	0	32.51	0.00	
Total Contingencies		0.00	0.00	0	8.01	22.32	0	4.26	21.20	0	4.56	22.69	0	4.88	27.77	0	5.22	20.00	0	5.58	18.20	0	32.51	132.17	
TOTAL COSTS	30	2.07	157.53	162	168.29	468.62	162	89.47	445.24	162	95.73	476.41	162	102.43	583.26	150	109.60	419.92	144	117.28	382.16	963	$684.88	$2,933.13	$3,618.01
																							18.93%	81.07%	100.00%

NOTES: MxM = manmonths, L.C = local currency, F.C. = Foreign Currency

ANNEX 8-1

MOZAMBIQUE

HUMAN RESOURCES AND TRAINING INSTITUTIONS IN THE INDUSTRIAL SECTOR

The acute shortage of qualified personnel is a major constraint to industrial sector development. The banking sector requires personnel trained in financial and credit analysis; the business community requires trained employees, in the areas of general business management, financial management, accounting, marketing and sales, production, inventory control, and plant management and technical fields. Computing and information management systems are needed in all sectors.

Between 1975 and 1986, Government accorded high priority to education. Primary enrollment more than tripled and secondary enrollment more than quintupled. Over 1.5 million adults enrolled in specially-designed courses at all levels of the education system. The literacy rate jumped from an estimated 10 percent to about 38 percent during the same period. In 1986, there were an estimated 1.26 million enrolled at the primary level, 132,000 at the secondary level and 1,630 at post-secondary level. The effects of Government attention to education are apparent in the 1980 census data, which show literacy rates for the 15-24 year age cohort reaching 40-50 percent, as opposed to less than 8 percent for the over-60 population. 1/

The two IDA credits to the industrial sector would support Government efforts to build and sustain human resource capacity: the Small and Medium Scale Enterprise Development (SMED) credit--to strengthen the capacity of the banking system to manage long-term credit, its appraisal and supervision; and the IERP credit--to strengthen Government capacity to implement the overall rehabilitation program, in particular to finance training and to assist Government develop redeployment programs for laid-off staff.

The following preliminary assessment of available training facilities which could eventually provide assistance to the industrial sector is based on mission interviews and visits.

Ministry of Labor (ML). At present Government maintains within the Ministry of Labor a Provincial Labor Directorate (Gabinete da Funcas Publica) with a department where those who have lost jobs or seek employment may register. Most of the applicants who register are low-level, unskilled workers. Some ministries and enterprises notify the Directorate when they have vacancies, others do not. A recent draft proposal on labor force policy--which was to be discussed in March by the Council of Ministers--would require enterprise registration of vacancies and prohibit an employee who has

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1/ Data in this paragraph taken from the SAR for the Mozambique Education and Manpower Development Project, April 15, 1988.

a job from accepting new employment without first leaving the current one. This is intended to discourage job-hopping motivated by higher salaries.

SETEP (Secretaria de Estado da Educacao Tecnico Profissional) is the State Secretariat for Technical-Vocational Instruction. Under the Ministry of Education, SETEP is responsible for coordinating at a central level and setting guidelines for technical and vocational training throughout the country. It began functioning as the National Directorate of Technical Education in 1977, with training followed by job placement; in 1983, SETEP was created, and in 1986, legislation was enacted formally setting it up as a semi-autonomous entity within the Ministry of Education. SETEP carried out job placement until 1987, when the function was transferred to the Ministry of Labor. SETEP maintains that the ML is not make sufficient efforts to place those who have completed training. However, there is a reorganization underway within both the SETEP and the Ministry of Labor and it is uncertain which entity will eventually handle job placement.

Under the auspices of SETEP within the subsystem of technical and vocational training, there are 24 basic level schools (8 agricultural, 2 commercial, 6 industrial and 8 commercial/industrial) and 8 medium-level institutes, of which 1 is commercial and 2 are industrial. It is required that those intern at the basic level have four years of primary education. At medium-level nine years of educations are required. Lack of books, inoperative equipment and scarcity of teachers undermine the quality of vocational education.

SETEP TRAINING CENTERS AND INSTITUTES

The Commercial Institute of Maputo (ICM) offers a medium-level certificate in accounting in both three-year (full-time) and four-year (part-time) programs. The academic requirement for entrance is nine years of primary education. Last year the ICM trained 617 students in the two programs. Graduates from the ICM are qualified to begin university training. The ICM is presently receiving assistance under the on-going IDA Education and Manpower Development project to update accountancy curricula and examinations that would be of sufficiently high standard to be internationally competitive. The Commercial and Industrial Institute of Beira is expected to begin offering medium-level courses with IDA assistance under the Beira Corridor and Second Education projects. SETEP expects to set up a commercial institute in Nampula in the future.

There are several vocational training schools (for high-school aged students) and centers (for adults) in Maputo and all are constrained by lack of technology, old machinery, dilapidated buildings, lack of qualified instructors, inadequate budgets, and outdated equipment not relevant to enterprises for which they are training. The schools (escolas) are geared to young people who enter after six years of primary education. The May 1 Industrial School offers courses in lathe operation, welding, civil construction, design for civil construction, analytical chemistry, and electricity. After three years, including 2-3 months with OTJ training in an enterprise, students receive a Basic-level Certificate and are placed in enterprises. Their first year of work is difficult since they have had a

limited amount of actual machine time, and training has been on outdated equipment. The Industrial School of Matola has similar curricula and similar problems: the pedagogical director mentioned that the machinery used for teaching was installed in 1979 when the school was opened.

The centers/institutes cater mostly to enterprise employees. The Electro-Technia Center trains enterprise employees in industrial electronics, coil-winding, electrical installation, and automobile electricity. Courses last for 36 weeks followed by 10 weeks of on-the-job practical application in their respective enterprises. A certificate of professional qualification is granted after passing exams. In 1984 one course on refrigeration was given; however, after the instructor left the country, the equipment fell into disuse and the course was not offered again. Sometimes Electro-Technia accepts repairs from enterprises which are more poorly-equipped.

The Industrial Institute of Maputo (IIM) offers three-year (full-time) and 3.5-year (part-time) courses in general mechanics, electricity systems, industrial electronics, construction, hydraulics and analytical and industrial chemistry. A certificate of mid-level technician is awarded after exams. Graduates are prepared to enter university-level engineering training. Most return to their sponsoring enterprises. The IIM director cited problems in providing practical experience to students, especially lack of modern equipment (for general mechanics and electricity) and limited access to raw materials (for construction). The IIM has contracts with various enterprises to provide its students with practical training in electricity systems and electronics. IIM received Swiss and Swedish support in the past and expects continued SIDA assistance in construction of a new building for electric systems and electronics.

The Vocational Training Center of Machava trains students in automechanics and carpentry. It operates at 50 percent capacity and in 1988 trained 24 students. A Certificate of Category C is awarded after the first 10 months of training; if a student returns for more technical training, usually the case in automechanics, he would receive a Certificate of Category B after 10 months.

SETEP coordinates with the National Planning Commission (NPC) the employment needs of ministries, including enterprises under their supervision. The NPC is responsible for establishing skilled manpower allocations for university graduates and for technical graduates. Ministries and State Secretariats inform NPC annually of their needs for medium- and higher-level technical staff in each specialty. On the basis of these requests, manpower needs are registered at SETEP, which then supplies ministries with graduates from the technical/vocational and commercial training institutions under its tutelle. However, SETEP does not contact ministries directly.

SETEP is willing to provide assistance to enterprises and maintains that 90 percent of its personnel are skilled technicians. SETEP would likely benefit from increased promotions of its services. Recently it has prepared information brochures with animated designs in black-and-white to inform the public of opportunities for technical/vocational training in, inter alia,

civil construction, mining, administration (bookkeeping, typing), industrial and laboratory chemistry, electricity and construction.

At present SETEP offers job counseling in vocational training only for full-time students but plans to set up a similar program for adults. There was a first meeting of all directors of vocational training in May 1988 and SETEP is now preparing a policy to implement decisions taken at that time.

MINISTRY OF INDUSTRY AND ENERGY TRAINING CENTERS

Ministry of Industry and Energy (MIE). There are three training centers set up under the MIE: The **Center for Industrial Training (CFI)**, which was set up under the previous MIE; and two **Vocational Training Centers**, which were established under the previous SEILA. On March 15, 1989, both vice-ministers of MIE were to present to the Minister a plan to integrate MIE and SEILA, including the merger of the CFI and SEILA training centers under one umbrella. At appraisal, this had not been completed: MIE was basically at a standstill due to its reorganization and consequent turf battles at the management level and uncertainty on the part of employees about their future.

Center for Industrial Training (CFI). While the majority of courses offered by CFI are technical (production planning and management, maintenance, design, inventory and stock control) and clerical (word-processing, bookkeeping, stenography, English), there are several courses aimed at middle-level managers (basic and applied accounting of 1.5 months each, financial management including economics in association with the Eduardo Mondlane University for 3 months). CFI was originally set up under MIE as its Department of Human Resources. Beginning in 1986 with SIDA support, and in 1987 with UNDP/UNIDO assistance, it began to operate with financial autonomy while still under the auspices of MIE. It offered courses in operational methods for foremen (OTJ with machine training) and a seminar for managers on industrial development and training (organization, methods, work simplification). It was intended to assist enterprises under the tutelle of MIE although its services are available to enterprises which fall under the tutelle of other ministries; cooperative agreements with eight of these have been signed. Enterprises cover the fees for their personnel to attend courses at CFI.

Since February 1988, CFI has been self-financing. About 8,000 students have enrolled in various courses at CFI during its two years of operation. The academic entrance requirement for most business courses is six years of primary education. CFI has eight classrooms and is well-equipped. In Phase 2 of UNDP/UNIDO and SIDA assistance, which would focus more on enterprise management, CFI expects to target middle- and higher-level managers and plant supervisors from the 40 selected enterprises drawn up by Government and the Bank to be considered for rehabilitation assistance, beginning with ERMOTO, ELECTROMOC and AGRO ALFA. CFI would continue to offer the above-mentioned courses as well as workshops to address problems particular to women, establish a personnel information system in MIE and a documentation center. CFI hopes to recruit instructors from the university

to reinforce its own in-house personnel in order to develop a local consulting capacity.

SEILA Vocational Training Centers (2). Originally established in 1978 under the Ministry of Labor and transferred in 1984 to SEILA to assist enterprises under its tutelle, SEILA vocational training is offered in two locations. With Italian financial and technical support, the centers offer practical training in repair and maintenance of equipment with courses in mechanical design, civil and industrial electrical installation (at one center) and in machine tool work, machine maintenance and welding (at the second center). A new site for consolidation of some activities is nearly finished and some classrooms are operational. The academic requirement for welding and machine training is completion of the sixth year of primary school. For electricity and design, ninth year. Since 1984 the SEILA centers have trained around 124 workers. Course duration runs from 12-28 months, depending on the subject. In periodic inspections, the Ministry of Labor evaluates classes to determine the level of professional qualification. A certificate of professional qualification is awarded upon completion of each level of instruction, e.g., welder, first-level, second-level, third-level.

SEILA officials state that there are few course participants from enterprises; experience has shown that enterprise employees drop out after six months, due to a law which states that the employee must contribute a percent of his salary to cover training costs after six consecutive months of training. Thus SEILA estimates that 97 percent of those who attend training are private individuals who do not have jobs prior to training but secure employment after its completion. Other problems cited by SEILA officials include reticence by enterprises to contribute to operating costs of the training centers, need for modern equipment and protective clothing and participants' difficulties with transportation, lodging for those from outside Maputo, and a relatively low average and general level of literacy.

ENTERPRISE TRAINING CENTERS

Enterprise Centers. Several enterprises maintain their own training centers, which vary from one room with some equipment to a well-planned training program for each employee, classrooms, workshops, equipment and visual aids. A few of the better-equipped enterprises include ENTREPOSTO, MABOR, EDM and SOGERE. ENTREPOSTO, the Mercedes and Peugeot dealer in Mozambique, maintains a showroom, garage and training program in each of its four centers: Maputo, Beira, Nampula and Quelimane. Courses are given in electrical systems, fuel injection, general mechanics and parts maintenance. Completion of the sixth year of primary school is a prerequisite for enrollment in this program. Entreposto covers the cost of training external participants, which have included employees from the military, PETROMOC, EDM, CAJU and Toyota as well as interested individuals. The enterprise trains approximately 300 persons annually depending on needs in their four centers. A diploma is given upon completion of each course. Turnover is extremely low. ENTREPOSTO has modern well-maintained workshops, equipment and machinery, and benefits from private, as well as KfW, financing for its activities.

The President and General Manager of **MABOR**, the tire company, believes that the most pressing need in the industrial sector is for trained middle-level managers. Each new employee takes an exam (reading, problem-solving, accounting) to determine scholastic ability and placement. He is then interviewed by the President. If an employee receives a favorable evaluation by supervisors after an initial 1-3 months, a training program--both on-the-job and coursework--is developed and his progress reviewed by the President every six months. In order to raise the literacy level of staff, the enterprise offers evening classes such as math and chemistry. Classes in English are mandatory and employees are aware that they cannot progress beyond a certain stage without it. There are about 500 employees in MABOR.

MABOR accepts about 20-30 employees per year from other enterprises, e.g., TEXLON, PETROMOC, MAQUINAGA, VIDRERA and provides them with the same evaluation and opportunities for training. It has also provided training of 3-4 months for employees from Tanzania and Angola tire plants. About 10 percent of higher-level technicians are female and the percentage is increasing.

EDM (Electricity of Mozambique) provides training for its own employees and for staff whose enterprises sponsor them to learn production and distribution of energy. It maintains a new, well-equipped training center in Maputo.

The Ministry of Agriculture controls the planning and curricula of several enterprises which offer training. One of these, **MECANAGRO**, is essentially a service enterprise for agricultural machinery but also makes spare parts. With technical assistance from Italy, the self-financing center instructs 70 students per annum in a basic course of 10 months in operation and maintenance of tractors, diesel mechanics, automobile electricity and spare parts management and inventory. Nearly all places are filled by MECANAGRO employees--sent from branch offices--although outsiders are allowed to attend, at a fee, on a space-available basis. The minimum academic requirement is sixth year primary. After completion of the course, a Certificate of Vocational Training is awarded. The center has equipment in good operating condition, some of it brand-new, financed by Italy.

Other agricultural enterprises require four years of primary education before commencing training, such as **GAPECON**, a dairy and training center in Namaacha, and **INCOL**, a pig-raising enterprise in Maputo; both offer training for 6-12 months and award the same certificate. Women from rural cooperatives are more visible in the two latter agricultural training activities (5-15 percent) than in the agro-industrial or industrial training.

SETEP should make available to enterprises its information on training opportunities, but the Ministry of Labor is better-placed to handle and match offers of supply and demand, as it is already doing. This is recommended at least for the present until Government has reorganized (within both SETEP and the Ministry of Labor; it is uncertain which will handle job placement in the future, and there is also discussion that some of their functions may be merged).

MOZAMBIQUE
INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

DRAFT SCOPE OF PACKAGING SUB-SECTOR STUDY

1. Approach to the Study. Packaging is of great importance for the protection of goods during transport and handling as well as for the marketing of goods with the help of attractive appearance and/or clear definition of the content of the package. Therefore it is proposed that a team of consultants would review the principal packaging practices and materials in Mozambique in order to provide the Government with recommendations for rehabilitation, diversification and/or increase of its packaging materials industry. The terms of reference and the selection of consultancies would be jointly made by the Government, UNIDO and the World Bank in Accordance with the Bank guidelines for the rise of consultants. The consultancies would be financed under the proposed Industrial Enterprise Restructuring Project (IERP), initially through an IDA Project Preparation Facility advance (P-470-1).

2. Study Objectives. The consultants would carry out an in-depth study to: (a) analyze the present practices of packaging goods, including industrial products. The study would identify areas for improving packaging practices with the view to possibly reduce the cost of packaging, increase attractiveness of goods and reduce transport damages and increase the use of locally available raw materials for packaging; (b) propose possible solutions to existing problems in the packaging material industry, including the analysis of the present trend to disperse the production of packaging materials such as glass bottles and tin sheet containers. The results should lead to recommendations to a development strategy and to medium-term policy measures to be implemented at the macro-economic, sub-sectoral and enterprise level.

3. The scope of the investigation and the final report would cover the following issues:

(a) The packaging practices and their improvement, covering packaging materials such as paperboard and paper, wood, glass, plastic natural and artificial fibres etc.;

(b) The analysis of the locally available and the imported packaging materials with the view of increasing the use of locally available raw materials and their processing;

(c) The investigation of existing industrial capacities for packaging material production: capacity utilization, degree of equipment obsolescence, production technology, locations and ownership. The investigation should also include a description of inputs and sales markets, including connections for imports and exports;

(d) Individual enterprise-level, key performance indicators will be determined such as production efficiency, cost, profitability, product demand (domestic and abroad). These data should be compared with comparable performance indicators from other developing countries.

(e) Constraints should be identified which may impede the adjustment of the packaging industry of Mozambique towards the desirable volume and composition of output. Such impediments could be technology, management, logistics (transport), labor, finance, etc.; and

(f) Recommendations should comprise an overall long-term development strategy for the packaging sub-sector, medium-term policy measures necessary to support restructuring and rehabilitating the sub-sector, and selected, individual measures, primarily at selected enterprise level, such as modernization of technology, re-investment, divestiture, mergers, product diversification, etc.

MOZAMBIQUE
INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

DRAFT SCOPE OF METAL-WORKING SUB-SECTOR STUDY

1. Approach to the Study. The Metal-Working industrial sub-sector is to be understood to cover all metal-mechanical and metallurgical industrial processing activities. In Mozambique, main activities include non-flat steel re-rolling, ferrous and non-ferrous casting, mechanical processing. In the field of industrial operation and product design, there is certainly room for improvement. At the same time, production cost and product prices could be reduced in absolute terms. Therefore it is proposed that a team of consultants would review the current status of this sub-sector (excluding metal packaging which will be covered by the packaging sector study) with a view to provide the Government with recommendations for rehabilitation and possibly for restructuring, and for efficient growth. The terms of reference for the consultancies and the selection of the consultants would be jointly made by the Government, UNIDO and the World Bank in accordance with the Bank guidelines for the use of consultants. The consultancies would be financed under the proposed Industrial Enterprise Restructuring Project (IERP), initially through an IDA Project Preparation Facility (PPF) Advance (P-470-1).

2. Study Objectives. The consultants would carry out an in-depth study to: (a) obtain an overview of the existing metallurgical and metal mechanical industrial activities in Mozambique, including existing vertical and horizontal inter-sectorial linkages; (b) identify possibly existing productive imbalances and/or missing production steps which might be introduced; and (c) identify possible solutions to constraints, including recommendations of policy measures which could be implemented by the Government at macro-economic, sectoral and enterprise level for the rehabilitation and rationalization of this sub-sector.

3. The scope of the study would, therefore, cover at least the following main issues:

(a) The structure of the sub-sector with main industrial processing activities and units; the present effective industrial capacity; the degree of capacity utilization; the present condition of plant and equipment as well as the applied technology. Patterns of ownership, domestic and foreign markets, capital structure, etc. should be described;

(b) The performance should be analyzed showing brands, production volume and composition, costs and productivity, domestic and export sales, competitiveness and efficiency. The study would compare the performance of selected Mozambican enterprises with those from other, comparable developing countries;

(c) Constraints would be identified which impede continuous growth and efficiency of different segments of the sector, such as technology, engineering, linkages or integration with other industrial sub-sectors. Problems may also be identified in the areas of management and labor, industrial inputs, access to financing for assets and/or working capital. etc.;

(d) Serious deficiencies in labor safety and/or pollution control should be identified and improvements should be proposed; and

(e) Recommendations should be made concerning a longer-term development strategy for this sub-sector. These concepts should be supported by medium-term policy measures such as investment incentives, export promotion, improved provision of industrial infrastructure (energy transport, etc). The sub-sector rationalization should also consider possible divesture, mergers, etc.

MOZAMBIQUE
INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

DRAFT SCOPE OF TEXTILE SUB-SECTOR STUDY

1. Approach to the Study. The textile sector plays an important role in the economy of Mozambique in terms of employment and value added. Therefore, it is proposed that a team of consultants review the current status of the sector with a view to provide Government with recommendations for its rehabilitation/restructuring and promoting its efficient growth. The selection and terms of reference for the consultancies would be jointly made by the Government, UNIDO, and the World Bank in accordance with Bank guidelines for the use of consultants. The consultancies would be financed by the proposed Industrial Enterprise Restructuring Project (IERP) and IDA's Project Preparation Facility (PPF) Advance (P-470-1).

2. Study Objectives. The consultants would carry out an in-depth study to: (a) identify productive constraints that face enterprises within the different segments of the textile chain (ginning, spinning, weaving, knitting, and garments). The study would, in particular (but not exclusively) include in its review a comparative analysis of performance and problems that affect public sector textile firms; (b) identify possible solutions to the constraints, including recommendation of policy measures to be implemented by Government at the macroeconomic, sectoral, and enterprise level for the rehabilitation and rationalization of the textile sector.

3. The scope of the study would, therefore, cover the following issues:

(a) The structure of the sector: usable capacity; capacity utilization; present condition of plant and equipment and technology; patterns of ownership; distribution (domestic and exports markets) channels; capital structure etc.;

(b) Performance: key indicators of performance (trends, production data, costs, productivity); effective demand (domestic and export) estimates and competitiveness; efficiency. The study would compare the performance of Mozambican enterprises with those from relevant developing countries;

(c) Constraints: identify the factors that have impeded the growth and efficiency of the different segments of the sector (technology, engineering, linkages or integration with other sectors, management and labor, non-labor inputs, access to long term finance, etc.), marketing etc;

(d) Safety (sanitation, pollution control, effluent treatment etc.); and

(e) **Recommendations.** (i) short term measures necessary to rehabilitate/restructure the sector, (ii) medium policy measures on export and investment incentives, import competition, sector rationalization (divestiture, mergers, etc.), term finance etc. The objective would be to reorient the sector in a manner consistent with Mozambique's comparative advantage.

MOZAMBIQUE
INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

DRAFT SCOPE OF EDIBLE OIL SUB-SECTOR STUDY

1. Approach to the Study. Potential exists for the edible oil sub-sector to quickly begin to make a significant contribution to industrial growth in Mozambique, provided its assets are rehabilitated and complementary policy measures instituted. Government, therefore, proposed to retain a team of specialized consultants to review the current status of the sub-sector with a view to provide Government with recommendations for its rehabilitation/restructuring and promoting its efficient growth. The selection and terms of reference for the consultancies would be jointly made by the Government, UNIDO, and the World Bank in accordance with the Bank guidelines for the use of consultants. The consultancies would be financed by the proposed Industrial Enterprise Restructuring Project (IERP) and IDA's Project Preparation Facility (PPF) Advance (P-470-1).

2. Study Objectives. The consultants would carry out an in-depth study in order to provide the background data and the insights necessary to put the enterprise-specific studies in their proper context. A clear global picture of the industry will be necessary as a basis for decisions regarding its rehabilitation and restructuring. The study would identify productive constraints that face enterprises in the sub-sector, its performance, and recommend possible solutions (both enterprise-specific and policy measures) to the sub-sector constraints at the macroeconomic, sub-sectoral, and enterprise level.

3. The scope of the study would, therefore, cover the following issues:

(a) The edible oil sub-sector structure: domestic milling usable capacity (including an inventory of oil mills in the country, focusing on solvent extraction facilities); size and location of plants; capacity utilization; present condition of plant and equipment and technology; patterns of ownership; distribution (domestic and exports markets) channels; capital structure etc;

(b) Raw material supply, both domestic and imported; in the case of domestic supply of inputs- marketing channels from farm gate to oil mills, mode of payment and terms, and transportation issues should be highlighted. Data on imported inputs such as sunflower and palm oil. Prospects for the supply of inputs from both local and foreign sources should be evaluated, as well as the likely and desired evolution of the marketing chain, and the extent to which operations (including transportation) are affected by the war;

(c) Performance: key indicators of performance (trends, production data, costs, productivity); effective demand (domestic and export) estimates and competitiveness; efficiency, the actual delivered cost of oil from the main sources of supply to the urban retail outlets;

(d) Constraints: identify the factors that have impeded the growth and efficiency of the sub-sector (technology, engineering, demand (actual and potential demand of oil by type and region) management and labor, non-labor inputs, access to long term finance, etc.), policy environment (production licensing, pricing, e.g., pan territoriality of prices etc., taxation and institutional issues);

(e) Safety (sanitation, pollution control, effluent treatment etc.); and

(f) Recommendations. (i) short term measures necessary to rehabilitate/restructure the sector, (ii) medium policy measures on investment incentives, import competition, sector rationalization (divestiture, mergers, etc.), term finance etc.

PEOPLE'S REPUBLIC OF MOZAMBIQUE
INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

Cost Estimates For 15 Likely Project Beneficiaries
(USDlrs, million)

ENTERPRISE	CAPITAL INVESTMENT			SPARE PARTS			WORKING CAPITAL			TECHNICAL ASSISTANCE			TOTAL INVESTMENT	Foreign Currency	Local Currency
	L.C.	F.C.	Total C.I.	L.C.	F.C.	Total S.P.	L.C.	F.C.	Total W.C.	L.C.	F.C.	Total T.A.			
01. CAJU (Mozamb)1/	0.00	3.00	3.00	0.00	0.00	0.00	0.00	2.83	2.83	0.00	2.70	2.70	8.53	8.53	0.00
02. CITRINOS (Manica)	0.00	1.47	1.47	0.00	0.00	0.00	0.00	0.75	0.75	0.00	1.83	1.83	4.05	4.05	0.00
03. MADEIROS (C. D.)	0.00	2.50	2.50	0.00	0.00	0.00	0.00	0.50	0.50	0.00	0.00	0.00	3.00	3.00	0.00
04. METAL BOX	0.00	1.00	1.00	0.00	0.00	0.00	0.00	0.50	0.50	0.00	0.00	0.00	1.50	1.50	0.00
05. CELMOQUE 1/	0.00	1.00	1.00	0.00	0.00	0.00	0.00	0.50	0.50	0.00	0.00	0.00	1.50	1.50	0.00
06. IMA 2/	0.03	1.50	1.53	0.11	0.64	0.75	2.93	6.50	9.43	0.00	0.00	0.00	11.71	8.64	3.07
07. MATOLA 2/	1.00	10.41	11.41	0.65	0.00	0.65	16.68	0.60	17.28	0.00	0.96	0.96	30.29	11.96	18.33
08. FACOBOL	0.66	3.15	3.81	0.02	0.05	0.07	0.39	2.00	2.39	0.00	0.24	0.24	6.51	5.44	1.07
09. CIMENTOS (Dondo)	0.40	2.27	2.67	0.00	0.00	0.00	0.00	0.87	0.87	0.00	0.77	0.77	4.31	3.91	0.40
10. CARMOC 1/	0.00	2.00	2.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.00	2.00	0.00
11. ECOME	0.00	1.15	1.15	0.03	0.10	0.13	0.00	0.93	0.93	0.23	0.10	0.33	2.54	2.28	0.26
12. MADAL	1.80	5.73	7.53	0.29	0.72	1.01	1.28	1.48	2.76	0.05	0.50	0.55	11.85	8.43	3.42
13. VAN LEER	0.00	0.40	0.40	0.09	0.20	0.29	1.04	1.00	2.04	0.00	0.08	0.08	2.80	1.67	1.13
14. PROSUL	0.78	3.50	4.28	0.00	1.03	1.03	0.00	0.50	0.50	0.00	0.00	0.00	5.81	5.03	0.78
15. FASOL	0.13	3.50	3.63	0.00	0.11	0.11	4.90	2.50	7.40	0.00	0.35	0.35	11.49	6.46	5.03
TOTAL	4.80	42.58	47.38	1.19	2.85	4.04	27.22	21.46	48.68	0.28	7.52	7.80	107.89	74.40	33.49
Total Funding Requirements *:													896.86	862.37	333.49

NOTE: The data is derived from consultant field work and preliminary analysis.

1/ Caju, Celmoque and Carmoc may be excluded from this Project and considered under separate IDA-supported projects.

2/ The assumption is that Matola and IMA would be rehabilitated in stages. Costs estimates are: for Matola - US$39.62 million (with $20.69 million in foreign currency), and IMA - US$31.05 million (with $28.01 million in F.C) which would increase total project costs, the ERC component, to US$136.56 million (with $102.5 million in F.C).

* Total Funding Requirement estimates exclude financing requirements for CARMOC, CELMOQUE (both of which have already secured financing), and CAJU, whose financing requirements are being considered under a separate IDA operation.

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT
DATA SHEET ON PROBABLE REHABILITATION/RESTRUCTURING ENTERPRISES

I. CELMOQUE (Fabrica de Conductores Electricos de Mozambique) SARL, Beira

1. **Current Status/Ownership**: Intervened.

   Supervising Ministry: Ministry of Industry and Energy, but under control of Electromoc E. E.

   Original Owners: The British Group, BICC, through CEL-CAT, its subsidiary in Portugal. CEL-CAT has expressed interest to participate in CELMOQUE in the future.

   Origin: Celmoque was formed in 1961 by private sector interests (British and Portuguese) in the 1950s and 1960s. In 1976 the Government intervened and all the mid- and high-level technicians left the country.

2. **Products**: High and low tension cables, and insulated wire for automotive, television and telephone use.

   Raw Materials: Imported.

   Markets: Government and private sector (civil construction).

3. **Operational Data and Background**: Capacity: copper wire/year (3 shifts): 1,000 tons; Cable (installed but inoperable): 1,000 tons.

   Employment: 160 workers.

   The equipment was installed in 1961 and is still in operating condition even though some of it is over 40 years old. A recent study, by GEL-CAT engineers, concluded that rehabilitation of equipment could be made at a cost of US$500,000, including $200,000 for equipment and the remainder for technical assistance. Financial proposals for new competitor projects were estimated at between US$2 and 3 million. The new line, if made operational, would permit polyethylene coating.

4. **Firance and Accounting**. CELMOQUE is in fairly good financial condition. As other industries, around 80% of its fixed assets are already amortized. The firm's cost accounting system does not include annual depreciation of fixed assets and thereby understates the costs of production. The cost accounting system needs to be strengthened.

Financial Highlights: Operating Results	1983	1984	1985	1986
		(Mt. Millions)		
Total Receipts	n.a.	n.a.	n.a.	56.87
Total Expenses				43.68
Operating Profit(Loss)				13.20

Balance Sheet	1983	1984	1985	1986
		(Mt. millions)		
Current Assets	161.77	160.57	148.13	n.a.
Fixed Assets	11.34	7.84	5.97	n.a.
Total Assets	173.12	168.41	154.10	n.a.
Current Liabilities	102.33	107.61	78.36	n.a.
Long Term liabilities	n.a.	n.a.	n.a.	n.a.
Net Worth	70.79	60.80	75.74	n.a.

5. Prospects and Rehabilitation Requirements. Celmoque is a company that was operating successfully prior to independence and is in a line of business that can be rehabilitated and returned to profitability at an estimated cost of about US$500,000 (capital investment and technical assistance). To realize this rehabilitation, the following areas need to be addressed: improved access to foreign exchange for rehabilitation and import of inputs, improvements in financial practices and controls, strengthened management, resolution of the ownership question, study and implementation of a market development strategy, technical assistance during the start up period for the second line of production, and staff training. BICC, the previous owner, has already prepared a rehabilitation study and is willing to provide technical assistance and supply equipment. BICC has also expressed interest to return as a shareholder.

6. Environmental Impact. The production process involves use of coating extruders for plastic coating, wrapping machines for applying ribbon insulation, and cable twisting and bunching machines. The environmental impact of the process is through dust emission which would have no permanent adverse effects. However, to control dust emissions for the work place and to protect the workers, the enterprise would be required to institute measures to keep the dust levels below the threshold limit valves (TLV).

II. METAL BOX, S.A.R.L., Machava Industrial Area, Maputo.

1. Current Status/Ownership: Private sector

Metal box, South Africa - 53% (expected to be transferred to Metal Box, U.K. in the future). Printex Fabrica de Tintas - 47% Government Supervision: Secretariat of Food and Light Industry.

Origin: Metal Box was started by private sector interest in 1965 and remains in the hands of foreign private investors. A proposal has been put forward to alter the capital structure and is awaiting a decision.

2. Products: Metal cans.

Raw materials/suppliers: Tin plate and solder are supplied by Metal Box RSA and other foreign companies.

Customers: Various local food product canners, paint companies.

3. Operations Data and Background: Capacity: 38 million units; Employment-250; Sales - 3.9 million units (1986 est.). Although the 15 stamping presses are well maintained, they are old and obsolete. The plant is fully depreciated. The lead-based solder Metal Box used inhibits exports to the USA and EEC.

4. Finance and Accounting: General accounts for 1986 had been closed. By 1986, the company had incurred a debt of more that US$12 million at the BM and Banco Standard Totta.

Financial Highlights	1983	1984	1985	1986
Operating Results:		(Mt. millions)		
Total Receipts				49.13
Operating Expenses				49.12
Operating Profit (Loss)				0.01
Balance Sheet				
Current Assets	109.88	93.87	118.35	
Fixed Assets	21.85	18.80	316.78	
Total Assets	131.73	112.71	135.12	
Current Liabilities	36.90	514.84	15.08	
Long Term Liabilities	431.68	465.32	506.49	
Banks	(429.13)	(460.31)	(501.49)	
State	-0-	(0.25)	(0.23)	
Shareholders	(2.55)	(4.76)	(4.76)	
Net Worth	(336.91)	(367.46)	(386.45)	

5. Prospects. Metal Box is part of a well-organized worldwide can-making group with financial, management, and technical resources to sustain and expand the Mozambican operation. The most significant problem is that Metal Box lacks access to foreign exchange to carry out the necessary rehabilitation and modernization program to make it competitive. Rehabilitation costs are estimated at about US$0.5 million, with annual requirements of about US$1.5 million for raw materials.

6. Environmental Impact. The environmental impact of the production process is through dust emission which would not have no permanent adverse effects. However, to control dust emissions for the work place and to protect workers, the enterprise would be required to institute measures to keep the dust levels below the threshold limit valves (TLV).

III. CAJU DE MOZAMBIQUE, Machava Industrial Area, Maputo

1. **Current Ownership Status**: Intervened.

   Government Supervision: Ministry of Agriculture. Secretariat of Caju.

   Previous Status: Six separate cashew processing plants located at Angoche (1): Beira (1): Inhambane (1): Manjacaze (1): and Maputo (2).

   Origin: The company was set up in 1979 to administer the abandoned assets of the six plants.

2. **Products**: Cashew nut kernel in 23 grades, and shell oil.

   Raw Materials: Raw cashew nuts, tin cans, and cardboard cartons.

   Suppliers: Authorized brokers buy from family farmers who gather nuts. Also some medium sized estates furnish nuts. CM makes some of its own tin cans and buys cartons from GARMOC.

   Markets: 20-25 international buyers and bilateral trade agreements.

3. **Operational Data and Background**: Capacity - 70-75,000 MT/year raw cashew.

   Employment: 6,500 (was 12,000 at peak): 5% - maintenance and 10% - administration.

   Because of the civil war disturbances and shortages of consumer goods, farmers started to give up cashew collection in favor of subsistence farming. The fall-off in the collection of nuts led CM to close two factories. It now transports the raw nuts by coastal vessels from those areas to Maputo. Most of the equipment is more than twenty years old, designed by the previous owners, and is labor intensive.

4. **Finance and Accounting**: CM showed a small operating profit in 1986. The accounting practice followed is not analytical but rather a simple totalling of incomes and expenses.

5. **Prospects**: CM can easily increase capacity utilization if supply of cashew nuts increases and foreign exchange is made available for rehabilitation and estate development. Assuming stable world prices for cashew, CM would earn about US$36 million by raising throughput to 7,600 tons of end product, about double current production levels. Direct investment necessary for the rehabilitation of existing equipment, purchase of selected new equipment, conduct of selected studies, and management assistance and training is estimated at US$6.3 million. Of the total, 50% would be for equipment repair and the balance for management support and technical assistance over a four year period. Most of the costs would be in foreign exchange, according to a study by Arthur D. Little.

6. Environmental Impact. The enterprise is not being considered under the project. Should it be, appropriate studies to determine its impact on the environment and measures to reduce pollution would be undertaken.

IV. MADEIRA DE CABO DELGADO E. E. (MCD), Pemba.

1. Current Status/Ownership: Public (State owned).

Government supervision is by Ministry of Agriculture.

Origin: The enterprise was formed in 1981 as a result of the MONAP-1 program (a collaboration program between Mozambique and Scandinavian countries). Total investments were US$2.3 million ($1.0 million for forest resources study: $0.3 million for acquisition of equipment and US$1.0 million for technical assistance). The sawmill started operations in 1983 and is able to process most tree species in the region except for ebony.

2. Products: Logs and sawn wood.

Raw Materials: Native forest.

Suppliers: Various for parts, fuel and lubricants.

Customers: Japan, W. Germany, South Africa, etc: and domestic buyers.

3. Operational Data and Background: Capacity: 1986, 5,000 cu m/year of sawmill capacity to produce lumber except ebony which requires special saws that are not yet fully installed.

Employment: 400 - 500.

Due to security problems in the southern part of the forest, activities were moved temporarily to the northern part. However, the northern area's 250 km distance from Pemba makes road transportation uneconomic, such that logs are transported by coastal freighter to the factory. This mode of transportation is limited because there is only one boat with a 70 ton capacity. The problem affecting the enterprise is lack of capacity (lack of tractors, cranes and boats) for surface and water transportation of logs and sawn wood.

4. Finance and Accounting: Accounting data was not available for review by the consultants. Summary report from the National Planning Commission showed a 1986 income of US$1.16 million against costs of $1.5 million.

5. Prospects: The enterprise seems to have good potential for generating foreign exchange for the country. Forest reserves are extensive and comprise a large proportion of mixed hardwoods. The possibility to increase production for export is good, and will not require an excessive investment given the results that can be obtained. It is estimated that an investment of about US$6.0 million would be required over a three year period to finance logging equipment and infrastructure improvements.

6. Impact on Environment. Current extraction rates are well below the natural replacement rate. However, the enterprise would be required to ensure that

extraction of the forestry products is accompanied by appropriate measures to replace extracted trees in order to protect and maintain forests.

V. CITRINOS DE MANICA S.E. (GM), Chimoio.

1. Current Status/Ownership: Public (state owned).

Government supervision: Ministry of Agriculture.

Origin: The enterprise resulted from the consolidation of four private farms abandoned by the Portuguese after independence. At first "intervened", the enterprise was converted to a state enterprise in 1978. The aim in joining the farms was to maximize their synergies in production and management policies related to citrus production for internal and export markets.

2. Products: Oranges, grapefruit, lemon and litchees. Raw materials: seedlings, water, fuel, fertilizer, packing boxes, agricultural tools, farm equipment and lorries.

Suppliers: Some are imported.

Markets/Customers: 60% is exported and 40% is distributed locally through wholesalers.

3. Operational Data and Background: Capacity: Total farm - 1,150 ha. (660 ha is cultivated). Estimated potential output from 660 ha - 21,000 tons. Actual output from 660 ha - 13,073 tons (8,218 tons of oranges; 4,184 tons of grapefruit; and 761 tons of lemons).

Employment: 750 permanent and 300 seasonal pickers/packers.

Agricultural activity has been severely affected by the security situation in Manica Province. Guerrilla activity has obstructed worker access to the farms and, therefore, restricted harvesting, and prevented effective maintenance of infrastructure, and generally prevented the orchards from receiving necessary care. Irrigation pumps and pipes (installed on 250 ha) face maintenance problems due to foreign exchange shortages. Out of a fleet of 35 tractors, only 17 are in working condition. 50% of the eight operational trucks are grounded due to foreign exchange shortages and lack of qualified personnel.

4. Finance and Accounting: The enterprise's cost accounting system needs to be strengthened. The company has shown profits for the past ten years despite the operational difficulties it faces.

Financial Highlights	1984	1985	1986
Operating Results		(Mt. million)	
Total Receipts	n.a.	n.a.	229.81
Total Expenses	n.a.	n.a.	179.12
Operating Profit (Loss)	n.a.	n.a.	50.69

Balance Sheet

Current Assets	241.74	342.27	429.35
Fixed Assets	166.94	166.94	166.94
Total Assets	408.68	509.21	596.29
Current Liabilities	16.43	n.a.	n.a.
L.T Liabilities	84.64	181.43	313.50
(Banks)	(58.61)	(58.61)	(155.40)
(Shareholders)	(26.03)	(26.03)	(26.03)
Net Worth	(307.67)	(327.78)	(282.79)

5. Prospects: Citrus production is an expanding business worldwide due to an increase in demand for citrus products. Mozambique is well positioned to take advantage of the expansion in demand. Western markets absorb the greater part of world fruit demand; however, Eastern Block countries as well are experiencing gradual demand expansion. With the strong prospect of expanding export markets for fresh fruit, Citrinos de Manica could become a major foreign exchange earner for Mozambique. The major risk to this potential is the security threat, however, because of its location on the Beira corridor, the problem is not as severe as it is for some companies outside the corridor.

6. Impact on Environment. Effluent from citrus processing are primarily a mixture of solid and liquid waste stream. Wastewaters from processing are: (a) common to the fruit processing industry; (b) made of biodegradabale organic matter; (c) unlikely to have a permanent adverse effect on the environment; and (d) amenable to biological treatment at the point of discharge. The enterprise will be required to maintain in-house procedures and house-keeping practices that are effective in reducing the waste load to be treated.

VI. INDUSTRIA MOCAMBICANA DE ACO S.A.R.L. (IMA), Matola, Maputo.

1. Current Ownership Structure: Joint Venture - Public/private GOM - 50% and the Agolfo Group in Portugal - 50%

   Supervising Ministry: Ministry of Industry and Energy.

   The company was founded in 1966 by Portuguese private sector interests. In 1975, the firm lost its skilled labor, cut back production and in 1979 was intervened by Government. In 1985, Government invited former owners back with promise of autonomy in management and the company was eventually registered as a mixed enterprise.

2. Products: (i) High pressure water pipes (galvanized); (ii) irrigation pipe; and (iii) galvanized roofing sheets. Raw materials are imported from South Africa (steel sheets, zinc, lead, antimony, acids, and flux). IMA sells to GOM for construction and irrigation projects and exports to USA.

3. Operations Data and Background:

   Annual Capacity: 23,000 tons of steel. Actual Production: 1975 (peak year) - 15,000 tons of steel; 1979 - 2,000 tons of steel; 1985 - 7,200 tons of steel.

Employment: 250

The firm operates two pipe manufacturing lines, which are 20 years old. The zinc galvanizing plant needs urgent rehabilitation. Similarly, the corrugated sheet production facility operates below rated capacity (about 31% of a total capacity of 23,000 tons of steel per annum) due to maintenance problems. The major problem has been shortage of foreign exchange for importation of equipment, spare parts and raw materials.

4. Finance and Accounting: The accounting system is being upgraded so that the internal management information systems and reports to Government can be more effective. Past debts of US$6.02 million are being consolidated with a 4 year grace period followed by a 10 year repayment schedule at the interest rate that was effective at the time of the loan.

5. Management: Part of the rehabilitation plan includes upgrading of management and the work force. Four former employees of ALGOLFO have been contracted for the positions of Director General, Director of Production, Director of Maintenance, and Director of Finance. Other employees of the Portuguese firm are called on for technical support and for specific consultations.

6. Rehabilitation Prospects: ADL's brief investigation concluded that IMA has plant and management adequate to produce according to international standards, and should be encouraged to maximize its productivity and foreign exchange earning potential. Three rehabilitation options are summarized in the following table.

   Option 1: Rebuild existing plant and continue to operate at one shift per day.

   Option 2: Expand to two shifts per day and install a line to produce irrigation pipe couplings which are currently purchased outside.

   Option 3: Expand capacity by installing a new production line for high pressure pipe, the installation of the irrigation pipe coupling line, and operate two shifts per day.

   Option 1 involves rebuilding the existing plant and continuing to operate at one shift per day. Options two and three require this basic rebuilding plus fixed investments. Expansion investments would take place in the second, third and fourth years of the project. Because the company has capable management and production supervisory staff, no technical assistance will be required beyond installation assistance which will accompany the purchase of new equipment.

7. Environmental Impact. The environmental impact of the production process is through dust emission which would not have no permanent adverse effects. However, to control dust emissions for the work place, the enterprise would be required to institute measures to keep the dust levels below the threshold limit valves (TLV), to protect the workers.

CAPITAL INVESTMENT
(All data in US$ 000)

1 = Option 1
2 = Option 2
3 = Option 3

		Foreign Currency			Local Currency		
		F.O.B.	Insurance	Freight	Duty	Other	TOTAL
	1						0
FIXED INVESTMENT	2	6,673	153	844		336	8,006
	3	12,772	294	1,615		616	15,297
	1	635	15	80		29	759
SPARE PARTS	2	635	15	80		29	759
	3	635	15	80		29	759
	1	7,500	173	948	2,586	345	11,552
RAW MATERIALS	2	13,030	300	1,641	4,491	791	20,253
per year	3	13,388	308	1,693	4,616	875	20,880
T O T A L Option	1	8,135	188	1,028	2,586	374	12,311
T O T A L Option	2	20,338	468	2,565	4,491	1,156	29,018
T O T A L Option	3	26,795	617	3,388	4,616	1,520	36,936

PROFIT & LOSS - WITH PLAN — INR 2 — (1988 $000)

		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
REVENUES	Local Market	3,542	26,434	26,078	25,524	17,794	16,690	16,335	15,855	15,125	14,645
	Export Market	446	3,744	4,046	5,018	7,961	9,264	9,567	10,312	10,950	11,695
	TOTAL	3,989	30,178	30,125	30,543	25,755	25,954	25,902	26,167	26,075	26,340
COST OF SALES	Labor	557	557	584	614	644	677	710	746	783	822
	Raw Materials	3,697	27,235	26,460	21,636	21,636	21,938	21,938	22,240	22,240	22,542
	Utilities	14	134	130	132	132	134	134	135	135	137
	Other	320	320	320	320	320	320	320	320	320	320
	TOTAL	4,588	28,246	27,494	22,701	22,732	23,068	23,101	23,441	23,478	23,821
GROSS MARGIN		(599)	1,932	2,630	7,842	3,023	2,887	2,800	2,726	2,597	2,519
		(0)	6.4%	8.7%	25.7%	11.7%	11.1%	10.8%	10.4%	10.0%	9.6%
OPERATING EXP	Admin & Technical	0	183	183	183	183	183	183	183	183	183
	Other Expenses	0	735	100	100	100	100	100	100	100	100
	Depreciation	28	88	155	771	742	713	686	659	634	609
	TOTAL	28	1,006	438	1,055	1,025	996	969	943	917	893
OPERATING MARGIN		(627)	925	2,192	6,787	1,998	1,890	1,831	1,784	1,680	1,627
OTHER EXPENSE: Interest		0	557	2,249	2,504	3,025	2,801	2,550	2,242	1,934	1,626
PRE-TAX PROFIT		(627)	368	(56)	4,283	(1,027)	(910)	(719)	(458)	(255)	1
INCOME TAX		0	184	0	2,142	0	0	0	0	0	0
NET PROFIT		(627)	184	(56)	2,142	(1,027)	(910)	(719)	(458)	(255)	0
		(0)	0.6%	-0.2%	7.0%	-4.0%	-3.5%	-2.8%	-1.8%	-1.0%	0.0%

DERIVATION OF ALL EQUITY CASH FLOW	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Net Income	(627)	184	(56)	2,142	(1,027)	(910)	(719)	(458)	(255)	0
Plus: Interest Expense (after tax savings)	0	278	2,249	1,252	3,025	2,801	2,550	2,242	1,934	1,104
Depreciation Expense	28	88	155	771	742	713	686	659	634	609
Residual Value (Year 10)										(12,681)
Less: Change in Working Capital	297	4,687	10	(1,094)	(813)	19	(8)	31	(14)	31
Capital Costs	0	640	760	7,000	0	0	0	0	0	0
NET PROJECT CASHFLOWS	(897)	(4,776)	1,577	(1,741)	3,532	2,584	2,524	2,412	2,328	(10,998)

Discount Rate 11%	Net Present Value		(1,332)	Internal Rate of Return			ERR	-	
Incremental All Equity Cash Flows	954	(2,889)	3,490	198	5,517	4,576	4,546	4,464	4,411	(8,880)

VII. ECOME: Machava Industrial Area, Maputo

1. Current Ownership: State; intervened.

   Supervising Ministry: Ministry of Industry and Energy.

   Origin: The company resulted from a merger of 8 privately-owned companies, which were intervened in 1978 and placed under an Administrative Commission. The Commission was subsequently replaced by one director general in 1987. The company is now being transformed into a state enterprise.

2. Products: The company consists of four production lines, each with the capability to produce a variety of metal products. Proprietary hoes, shovels, catanas, and sheet metal products made to order (water tanks, towers, truck bodies, safes, push carts, flame cut pieces, etc.).

   Raw Materials: Steel sheet and bars, welding rods, wooden handles.

   Suppliers: Direct import on price/delivery quotations.

   Customers: AGRICOM and DIMAC for agricultural tools. Custom work is sold directly to buyers.

3. Operations Data and Background.

   Capacity: Large Custom-made Items: 180/year: Agricultural tools: 180,000 items/year; Actual production: n.a.

   Employment: 505

5. Finance and Accounting: The national plan of accounts has been modified to accommodate the particular characteristics of this business. Accounts are for the most part current.

6. Prospects. In 1986, the company lost US$400,000 equivalent, largely due to shortages of raw materials in the fourth quarter. ECOME is in the service sub-sector which is vital for Mozambican industry. Two rehabilitation options exist. The first involves providing spare parts and raw materials. The second involves purchase of new equipment (metal cutting, metal bending, welding, lathes, presses, etc.) to upgrade existing production lines, improve production quality, and add new capabilities. The estimates below relate to the second option, which will require US$1.9 million in foreign currency.

7. Environmental Impact. The environmental impact of the production process is through dust emission which would not have no permanent adverse effects. However, to control dust emissions for the work place, the enterprise would be required to institute measures to keep the dust levels below the threshold limit valves (TLV), to protect the workers.

CAPITAL INVESTMENT
(All Data in US$ 000)

	Foreign Currency			Loan Currency		
	F.O.B	Insurance	Freight	Duty	Other	TOTAL
FIXED INVESTMENT	626	4	51	70		751
SPARE PARTS	128		10	22	40	200
RAW MATERIALS per year	776	4	42		106	928
TECHNICAL ASSISTANCE per year	230				30	260
TOTAL	1,760	8	103	92	176	2,139

ECOME: ANALYSIS OF OPTION 2

XV-A. PROFIT & LOSS - WITH PLAN

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
REVENUES										
Local Market	907	1,718	2,187	2,392	2,619	2,870	3,147	3,454	3,793	4,169
Export Market	0	0	0	0	0	0	0	0	0	0
TOTAL	907	1,718	2,187	2,392	2,619	2,870	3,147	3,454	3,793	4,169
COST OF SALES										
Labor	120	120	126	132	138	145	153	160	168	177
Raw materials	215	1,042	1,359	1,481	1,616	1,765	1,928	2,109	2,308	2,527
Utilities	36	121	151	166	182	201	221	244	270	298
Other	0	0	0	0	0	0	0	0	0	0
TOTAL	371	1,283	1,636	1,779	1,936	2,111	2,302	2,513	2,746	3,002
GROSS MARGIN	23	435	551	613	682	759	845	940	1,048	1,167
	0	25	25	26	26	26	27	27	28	28
OPERATING EXPENSES										
Admin & Technical	93	77	77	77	77	77	77	77	77	77
Other Expenses	30	240	140	140	30	30	30	30	30	30
Depreciation	8	61	116	112	108	103	99	96	92	88
TOTAL	130	378	333	329	215	210	206	203	199	195
OPERATING MARGIN	107	56	218	284	467	548	638	738	849	972
OTHER EXPENSE: Interest	0	45	71	108	101	90	79	68	57	46
PRE-TAX PROFIT	(107)	(12)	(147)	(176)	(366)	(458)	(559)	(670)	(792)	(926)
INCOME TAX	0	6	73	88	183	229	280	335	396	463
NET PROFIT	(107)	6	(65)	88	183	229	280	335	396	463

DERIVATION OF ALL EQUITY CASH FLOW	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Net Income	31	67	73	88	183	229	280	335	396	463
Plus: Interest Expense (after tax savings)	0	7	36	54	50	45	39	34	29	23
Depreciation Expense	8	69	116	112	108	103	99	96	92	88
Residual Value (Year 10)										4,859
Less: Change in Working Capital	181	266	207	78	84	93	103	114	126	140
Capital Costs	0	641	540	0	0	0	0	0	0	0
NET PROJECT CASHFLOWS	142	763	521	176	257	284	315	350	390	5,294

Discount Rate 11% Net Present Value: 2,144 Internal Rate of Return: 31

VIII. GRUPO MADAL, S.A.R.L., Maputo

Plant Locations: Maputo, Quelimane, Pebane, Beira.

1. Current Status/Ownership: Private. Norwegian Individuals and firms-85%: Bobone Family of Portugal - 15%. Government Supervision: Ministry of Agriculture and Association of Copra Producers.

Origin. The enterprise dates back to the turn of the century when a Portuguese group and various Norwegian individuals and corporations invested in the parent company. Although the Bobone family holds only a 15% interest in the company's stock, they control 50% of the voting rights. MADAL is reported to be the largest private agricultural firm in the country.

2. Products/Raw Materials & Suppliers/Customers: Madal is a vertically integrated company based on: copra production for export; cattle ranching; feed production; agency business for Ford tractors, Mobil oil and diesel fuel; shipping services; and the production of salt, and margarine for employees.

Copra. Two grades of copra are produced: 1) hot air dried for export; and 2) ambient air dried (termed "free merchandise"), which is purchased from private growers for domestic sale. Due to the current guerrilla war, production of hot air dried copra now averages only 4,000 to 6,000 tons per year down from 11,000 tons. Many of the copra stands are old (40-60 years), are declining in productivity, and need to be replaced. Two thirds of the coconut producing areas have been affected by the war.

Margarine. Madal has installed capacity to produce 7,000 tons per year at the plants in Beira and Maputo, which now operate at less than 50% capacity. Due to the war, the Beira plant has suffered from interruptions in the delivery of copra and shortages of foreign exchange to purchase hydrogenated oil.

Livestock and Fish. Cattle production is used to provide manure fertilizer for the plantations. Due to the war the herd has dropped from approximately 100,000 to 8,000. FEED. Mixing capacity is 12,000 ton/year, but in 1986 only 4,000 tons were produced. Tea. Due to the lack of security in Zambezia province since 1982, Madal's 700 ha tea farm is not in production, but is slowly being recuperated. In 1981, the hectarage produced 1,100 tons of tea. Salt. The salt beds in Quelimane have a production capacity of 2,000 tons/year, and were able to produce 1,100 tons in 1986. Spare parts for pumps and repairs to the beds are needed to maintain and increase production.

Raw Materials: Coconuts.

Suppliers: Company nucleus estates and other estates.

Customers: ENACOME, Madal group companies, and FASOL.

3. Operational Data and Background: Capacity: 10,000 - 12,000 tons of copra a year.

Employment: 5,500 contracted, and 500 permanent.

4. Finance and Accounting. The accounting system is not only fragmentary from a management point of view, but has fostered an added tax liability. The company has petitioned the authorities to resolve this so that profits can be reported on a consolidated basis.

Financial Highlights:	1984	1985	1986
Operating Results:		(Mt. Million)	
Total Receipts	29.70	18.49	63.32
Total Expenses	23.70	22.85	50.86
Operating Profit (Loss)	(6.01)	(4.36)	12.45
Balance Sheet:			
Current Assets	44.43	70.18	88.35
Fixed Assets	12.50	12.39	14.39
Total Assets	56.92	82.57	102.74
Current Liabilities	45.08	87.65	87.79
L-T Liabilities	0.05	0.05	29.51
(State)	(0.05)	(0.05)	(0.02)
(Shareholders)	-0-	-0-	(29.49)
Net Worth	11.79	(5.13)	(14.56)

5. Prospects: As an integrated company, Madal has the potential to be a profitable enterprise for processing local raw materials, even given the uncertainties of world copra prices. If other related product lines were added and economies of scale developed, additional profits could be generated to fuel growth and sustain employment. Crucial, however, is access to foreign exchange to maintain equipment and upgrade processing equipment. With some financial and management reorganization, the companies in the group could effectively function as separate profit centers, but within a corporate unit that could share resources such as accounting, training, transportation, communications, data processing, and banking services.

6. Environmental Impact. MADAL is a diversified operation which requires that each operation be looked at separately. The product lines that have an impact on the environment are: (a) copra (see Citrinos above); and (b) MARGARINE, for which the effluents are primarily all liquid (semi-processed raw material is imported). the effluents in Margarine result from detergents, lubricants, and wastages. The wastes are organic in nature. MADAL will be required to take measures to limit effluent emissions to permissible levels of biochemical oxygen demand through efficient waste monitoring systems.

MADAL

CAPITAL INVESTMENT
(All Data in US$ 000)

	Foreign Currency			Local Currency		
	F.O.B	Insurance	Freight	Duty a/	Other a/	TOTAL
FIXED INVESTMENT	3,877	21	300		1,798	5,996
SPARE PARTS	402	2	30		288	722
RAW MATERIALS per year	1,129	6	90	400	875	2,500
TECHNICAL ASSISTANCE per year	500				50	550
TOTAL	5,908	29	420	400	3,011	9,768

a/ To be paid in local currency.

IX. CARMOC

Plant Locations: Maputo and Beira.

1. Current Status/Ownership. Mixed (State/Private). Government of Mozambique - 50%: NAMPAK (Subsidiary of Barlow Rand, RSA) - 50%. Origin. CARMOC started as a private company, capitalized at Mt. 20 million. Shares were then held by NAMPAK (50%) and F. Dicca Ltd. (50%). The Government of Mozambique took over the Dicca shares from the former Portuguese owners who ceased to operate in Mozambique.

2. Products/Raw Materials/Suppliers/Customers: Products: Corrugated paperboard cartons, linerboards and suitcases. Raw Materials: Kraft paper in rolls and fluting in rolls. Suppliers: Barlow Rand, RSA, and Sweden. Customers: Many. CARMOC is the only producer of linerboard and the leading producer of cartons. Suitcases are sold to distributors F.O.B. factory.

3. Operational Data and Background. Capacity: Maputo - 24,000 tons; Beira - 10,000 tons (presently not utilized). Employment: Maputo - 185 : Beira-120. The biggest problem has been access to foreign exchange for raw material imports.

4. **Finance and Accounting**: Factory controls are based on standard cost. General and cost accounting procedures are manual. However, most of the accounting staff are technical school graduates.

Financial Highlights	1983	1984	1985
Operating Results:		(Mt. million)	
Total Receipts	146.60	117.66	99.92
Total Expenses	143.41	118.17	107.70
Operating Profit (Loss)	3.19	(0.51)	(7.83)
Balance Sheet			
Current Assets	166.19	127.19	117.25
Fixed Assets	72.24	61.00	243.81
Total Assets	238.44	188.21	161.06
Current Liabilities	152.38	110.03	86.74
L.T. Liabilities	n.a.	n.a.	n.a.
Net Worth	86.05	78.17	74.32

5. **Prospects**. CARMOC is a well run company in the service industry with good prospects for growth if it can gain access to foreign exchange for importation of raw materials.

6. **Impact on Environment**. Most effluents are likely to be organic in nature and CARMOC will be required to take measures to limit their emission and ensure effective disposal.

X. FASOL (Fabrica Associades de Oleos, S.A.R.L., Maputo.

Plant Location: Machava Industrial area, Maputo.

1. **Current Status/Ownership**: Intervened. Government Supervision: Oleaginous Products Directorate.

   Origin. FASOL resulted from a merger of several enterprises of the same kind in Maputo. Founded in 1964 as a stock company to produce oils and soaps, it was converted into a corporation in 1968 and consisted of two distinct enterprises: FASOL and SABOREL (Saboreiras Reunidas de Oleos, S.A.R.L.). The Government intervened in 1977.

2. **Products/Raw Material/Suppliers/Markets**. FASOL/SABOREL are two companies that produce refined and unrefined vegetable oils (and oil by-products) and soap by-products.

   Raw Materials consist of oilseeds and copra. PVC and polyethylene for containers. **Suppliers** are both local (AGRICOM) and foreign (Quimica E.P. , Portuguese, etc). **Customers** include Enacome and Interquimica, Maputo Supply Company, and Cogropa (Spence portuguesa) Dionisio e Almeida.

3. **Operations Data and Background**. **Capacity**: Crushing - 26,000 tons/year; Refining - 14.400 tons/year. **Employment**: 485

4. Finance and Accounting. FASOL operated, like many other companies in Mozambique, under a regime of price controls. Consequently, it accumulated large losses in the past few years, which were financed by overdrafts at the Bank of Mozambique. As of 1986, FASOL's debt to BM stood at about US$15 million, plus other debts of about US$2 million, resulting in a debt to equity ratio of 10/1.

Financial Highlights:	1983	1984	1985
Operating Results:	(Mt. millions)		
Total Receipts	140.79	49.75	190.53
Total Expenses	203.18	75.23	278.41
Operating Profit (Loss)	(62.39)	(25.48)	(87.87)
Balance Sheet:			
Current Assets	623.71	576.93	75.39
Fixed Assets	144.41	147.89	158.52
Total Assets	768.12	724.81	733.91
Current Liabilities	285.08	370.21	350.52
L.T Liabilities	474.22	475.63	616.74
(Banks)	(468.86)	(467.16)	(609.15)
(State)	(0.96)	(4.08)	(3.20)
(Shareholders)	(4.39)	(4.39)	(4.39)
Net Worth	-	(7.39)	(32.88)

5. Prospects: The future viability of FASOL will depend on resolution of the three major problems (obsolete equipment, lack of imported raw materials, and high debt) through: modernization of equipment, access to foreign exchange for raw material imports, and financial restructuring.

6. Environmental Impact. Wastes originating from oil processing operations are generally limited to solids and liquids. The solid materials from copra and other raw materials and are readily amenable to separation and disposal. Liquid wastes originate from the sterilizers and the oil clarification stages resulting in sludge. FASOL will be required to institute measures to limit effluent emission and institute appropriate pollution measurement parameters.

FASOL

A phased rehabilitation of FASOL is recommended. The first phase will be based on importing crude oil and rehabilitation of the mechanical pressing operation in the refinery and soap plants, upgrading the refinery plant, and recuperation of the soap plant and boiler house. A second phase would involve rehabilitation of the solvent extraction plant, and would bring the total project cost to US$27.6 million equivalent. Only phase one costs are included in the table below. Out of the total (US$21.3 million), US$16.3 million would be in foreign currency.

CAPITAL INVESTMENT
(All Data in US$ 000)

		Foreign Currency			Local Currency	
		F.O.B	Insurance	Freight	Duty a/	Other a/
TOTAL						
FIXED INVESTMENT	3,335	20	260		125	3,740
SPARE PARTS	1,288	7	105			1,400
RAW MATERIALS per year	10,000	50	900	900	4,000	15,850
TECHNICAL ASSISTANCE per year	300				50	350
TOTAL	14,923	77	1,265	900	4,175	21,340

a/ To be paid in full currency

XI. VAN LEER (EMBALAGENS VAN LEER MOZAMBIQUE) LTD., Maputo.

Plant Location: Matola Industrial Area, Maputo.

1. Current Status/Ownership. Nationalized Factory. Government Supervision: Metals and Mechanical Light Industry Directorate.

Origin. The enterprise was founded in 1960, as "Metal Containers Proprietary, Ltd" with 1% of shares held by Metal Containers of South Africa Ltd. and 99% by Antonio Mendoca. In 1962 its name changed to Embalagens Van Leer Mozambique Ltd. In 1975, Van Leer of South Africa (Proprietary) Ltd. transferred 1,750 of its shares to each of the Dutch companies: Valeyafa B.V., Van Leer Netherlands B.V., Iszerhander Van Der List or Joner B.V., Royal Packaging Industries, Van Leer B.V. e Emballage Fabrieeken Verna B.V. The remaining shares were retired by the company. From 1975 to the Government's intervention in 1975, direct management support was provided by Van Leer of South Africa.

2. Products/Raw Materials/Suppliers/Markets. Products. Steel drums and plastic sheeting. Raw Materials. Steel sheet. plastic granules, and

chemical products. Suppliers. Van Leer of South Africa. Markets. Petroleum refinery and paint factories.

3. Operations Data and Background. Capacity: 210 and 160 litres drums - 175,000/year; 20 litres drums - 740,000/year; Plastic Sheeting - 100,000 sq. m/year. Employment: 68. Machines are old and not well maintained, particularly due to shortages of spare parts and technicians. Until 1980, the enterprise had recourse to South African technicians to calibrate and adjust the machines but after 1980 the company did not have access to this resource due to lack of foreign exchange.

4. Finance and Accounting. The company has made significant losses in recent years which are eating into its capital base. Rehabilitation would have to include introduction of a cost accounting system to control expenses.

5. Prospects: Van Leer is a vital intermediate producer in Mozambique. Because of the antiquated equipment, the weak present management, and current market limitations, rehabilitation would be limited to provision of sufficient spare parts to rebuild existing equipment. With an adequate supply of raw materials, this would enable the company to return to a pre- independence production level of 30% of capacity, as compared to just over 10% at present. US$3.8 million equivalent in foreign currency would be required for the purchase of spares and raw material.

6. Environmental Impact. The environmental impact of the production process is through dust emission which would not have permanent adverse effects. However, the enterprise would be required to institute measures to keep the dust levels below the threshold limit valves (TLV) to protect workers.

CAPITAL INVESTMENT
(All Data in US$ 000)

		Foreign Currency			Local Currency		
		F.O.B	Insurance	Freight	Duty a/	Other a/	TOTAL
FIXED INVESTMENT	0						
SPARE PARTS		250	5	28	75	10	368
RAW MATERIALS per year		3,067	67	338	920	123	4,515
TOTAL		3,317	72	366	995	133	4,883

a/ To be paid in local currency.

IV-A. PROFIT & LOSS - WITH PLAN

==VANLEER== (1968 $000)

		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
REVENUES	Local Market	0	1,985	2,207	2,345	2,483	2,621	2,732	2,759	2,826	2,893
	Export Market	0	0	0	0	0	0	0	0	0	0
	TOTAL	0	1,985	2,207	2,345	2,483	2,621	2,732	2,759	2,826	2,893
COST OF SALES	Labor	0	37	39	41	43	46	48	50	53	55
	Raw Materials	261	1,466	1,471	1,563	1,655	1,747	1,822	1,839	1,883	1,926
	Utilities	29	100	97	103	109	115	119	121	126	131
	Other	0	0	0	0	0	0	0	0	0	0
	TOTAL	291	1,604	1,607	1,707	1,807	1,907	1,968	2,010	2,061	2,112
GROSS MARGIN		(291)	381	600	638	676	714	744	749	765	781
		ERR	19.2%	27.2%	27.2%	27.2%	27.2%	27.2%	27.1%	27.1%	27.0%
OPERATING EXP	Admin & Technical	12	12	12	12	12	12	12	12	12	12
	Other Expenses	0	275	0	0	0	0	0	0	0	0
	Depreciation	0	0	0	0	0	0	0	0	0	0
	TOTAL	12	287	12	12	12	12	12	12	12	12
OPERATING MARGIN		(303)	94	588	626	664	702	732	737	753	769
OTHER EXPENSE: Interest		0	35	140	140	136	122	108	94	80	66
PRE-TAX PROFIT		(303)	59	448	486	528	579	624	643	673	703
INCOME TAX		0	29	224	243	264	290	312	321	336	351
NET PROFIT		(303)	29	224	243	264	290	312	321	336	351
		ERR	1.5%	10.2%	10.4%	10.6%	11.1%	11.4%	11.6%	11.9%	12.1%

DERIVATION OF ALL EQUITY CASH FLOW	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Net Income	(303)	29	224	243	264	290	312	321	336	351
Plus: Interest Expense (after tax savings)	0	17	70	70	68	61	54	47	40	33
Depreciation Expense	0	0	0	0	0	0	0	0	0	0
Residual value (Year 10)										3,335
Less: Change in Working Capital	30	920	40	56	56	56	45	11	27	27
Capital Costs	0	0	0	0	0	0	0	0	0	0
NET PROJECT CASHFLOWS	(333)	(873)	254	257	276	295	321	358	350	3,694

Discount Rate 11% Net Present Value 2,114 Internal Rate of Return 40.3%

Incremental All Equity Cash Flows	(40)	(1,070)	102	(66)	227	247	(2)	421	416	3,763

XII. CIMENTOS DE MOZAMBIQUE, Maputo.

Plant Location: Beira (Dondo).

1. Current Status/Ownership: State. Government Supervision: Ministry of Construction and Water Development.

Origin. The enterprise was originally formed in 1970 as a joint venture operation by Cimentos Portugueses (90% shareholder) and the Bank of Mozambique (10% shareholder). By 1979, the company had run up a debt of US$30.5 million with the Bank of Mozambique and other creditors. The Government intervened in the management in 1979. In 1983. the Bank of Mozambique in essence foreclosed on the company's assets and assumed operating control. As part of this process, the company's debt was transferred to the books of the central government. Until now, the Government has not been able to reach agreement on settlement of these debts with the former majority shareholders and the creditors.

In 1980, a year after intervention, the company commissioned a feasibility study by a Cuban consulting company, ACEMAT. The study included an extensive analysis of the problems of domestic cement distribution. Despite this study, and conversion of the company into a state enterprise, management problems have been not yet been successfully resolved.

2. Products/Raw Materials/Suppliers/Markets: Products. Bulk and sacked cement. Raw Materials. Limestone. Suppliers. Normally self sufficient in limestone but now importing clinker. Markets. Government of Mozambique and private domestic construction industry.

3. Operations Data and Background. Capacity: 177,000 (represents 14% of total cement production capacity in the country). Employment: not broken down by factory, but all 4 factories together employ 1,049 workers. The Dondo plant is a wet process installation. It began operations in 1973. Clinker was originally to have been supplied by the Matola plant, but is currently imported. Rehabilitation plans on the plant were shelved in the past due to the security situation in the country. Operations at the Dondo plant have virtually stopped.

4. Finance and Accounting. Not separated out by plant. The consolidated statements show operating losses of over US$30 million between 1976 and 1979. Both the accounting systems and the organization of the people who operate it are inadequate to support the management of an industrial complex of this magnitude.

5. Prospects. Consultants have been appointed to review the viability of the Dondo plant. Rehabilitation costs for the entire complex (the four plants) are estimated at US$15.2 million.

6. Environmental Impact. Cement manufacturing plants vary widely in volume and composition of pollutants discharged. Differences arise from process variations, inplant practices, housekeeping, etc. three basic steps are normally utilized in cement manufacture: (i) raw material grinding and blending; (2) clinker production; and (c) finish grinding: Cementos is potentially able to have all these process stages, but at the moment only

has the latter due to the security situation in the country thus forcing the importation of clinker. Cement manufacture can result in pollution of air (dust), water (dust) and land (dust, raw materials, clinker, coal, etc.). Cementos would be required to take measures to limit the emission of these pollutants within permissible levels.

DONDO

Government's intention is to rehabilitate the Dondo Cement Plant to supply the central region with sufficient low-cost, high quality cement. Three options are currently under consideration. Option 1: Shut down plant and service the region with imports and/or production from Nacala and Matola. Option 2: Rehabilitate the plant's cement grinding capability, enabling the plant to produce cement with clinker which would be initially imported and eventually produced by the Matola plant. Option 3: Full rehabilitation, including clinker production capability. Option 3 is not considered feasible and can not be considered until 1994 due to Cimentos' agreements with EIB. Costs in the table below are for Option 2 and include a requirement of US$40 million equivalent in foreign currency.

CAPITAL INVESTMENT
(All Data in US$ 000)

	Foreign Currency			Local Currency		
	F.O.B	Insurance	Freight	Duty	Other	TOTAL
FIXED INVESTMENT (with engineering)	2,000	200	200	200	200	2,800
SPARE PARTS	300	30	30	30		390
RAW MATERIALS per year			800	80	96	976
TECHNICAL ASSISTANCE per year	380					380
TOTAL	2,680	230	1,030	310	296	4,546

XIII. FABRICA CONTINENTAL DE BORRACHA, S.A.R.L. (FACOBOL)

A. FACOBOL. Maputo, Mozambique.

1. Current Status/Ownership: Private. Ownership: Fabrica Portuguesa de Borracha - 50%; Various Portuguese Families - 40%; Costa and Cordeiro - 10%. Government Supervision: SEILA. Origin: FACOBOL was founded in 1942 with local capital and the same shareholders have continued to own the firm. The firm was never intervened.

2. Products/Raw Materials/Suppliers/Markets: Products. Canvas/rubber shoes, leather shoes, bicycle tires, tubes, various rubber rings and gaskets. Materials. Natural and synthetic rubber, canvas cloth, leather. Suppliers.

Raw materials are imported from Europe, Malaysia and Brazil. Domestic supplies are by Textafrica. Markets. ENCATEX of the Ministry of Commerce.

3. Operations Data and Background: Capacity: 1,500 tons of rubber/year made into various products.

Employment: 400.

The equipment operated by the company is antiquated: the last new installations occurred in 1973, and some shoe molding machines date from 1930. The biggest problem facing the company is shortages of raw materials and spare parts.

4. Finance and Accounting. The firm has up-to-date financial statements. However, accounting methods do not accurately reflect account balances or unit operational costs.

5. Prospects. FACOBOL, even with its old equipment line, is capable of increasing production and gross income. However, because of shortage of raw material inputs, along with low production rates, it is unlikely that profit margins can be significantly increased. Profitability can be achieved through rehabilitation, ready access to raw materials, and a significant reduction in labor costs. Upgrading of mid-level supervision, accounting, and maintenance personnel should accompany any capital injection.

Rehabilitation would upgrade production capabilities in all three production areas (canvas shoes, bicycle tires and tubes, technical articles). The shoe production line would be upgraded and expanded with the installation of new PVG injection and compression molding equipment, a turntable mold, and new lasts. Also, a delivery vehicle will be purchased. Tire production would be upgraded and expanded with the purchase of automated equipment for producing cord, new tire fabrication machines for BMX and moped tires, and new vulcanizing molds. The inner-tube line will be entirely replaced with new extruding, cooling and rubber welding equipment as well as new inner-tube molds. Technical articles production will be upgraded with the purchase of spares for presses, extruders and mixers. A new extruder, a cooling and cleaning bath, laboratory equipment, transport vehicles and a forklift will be purchased. Total sub-project costs would be US$5.2 million, with a US$4.2 million foreign currency component.

6. Impact on Environment. Most effluents are likely to be organic in nature and FACOBOL will be required to take measures to limit their emission and ensure effective disposal.

FACOBOL SHOES

CAPITAL INVESTMENT
(All Data in US$ 000)

	Foreign Currency	Local Currency		
	F.O.B Insurance Freight	CIF	Duty	Other	TOTAL
FIXED INVESTMENT	1,255	188	126	1,569
SPARE PARTS	40	6	4	50
RAW MATERIALS per year	800	240		1,040
TECHNICAL ASSISTANCE for 2 yrs.	100		20	120
TOTAL	1,195	434	150	2,779

FACOBOL - TIRE & TUBE

CAPITAL INVESTMENT
(All Data in US$ 000)

	Foreign Currency	Local Currency		
	F.O.B Insurance Freight	CIF Duty	Other	TOTAL
FIXED INVESTMENT	620	93	62	775
SPARES	30	5		35
RAW MATERIALS per year	300	90		390
TECHNICAL ASSISTANCE per year				
TOTAL	950	188	62	1,200

FACOBOL - TECHNICAL ARTICLES

CAPITAL INVESTMENT
(All Data in US$ 000)

	Foreign Currency	Local Currency		
	F.O.B Insurance Freight	CIF Duty	Other	TOTAL
FIXED INVESTMENT	780	117	78	975
SPARES	30	5		35
RAW MATERIALS per year	200	60		260
TECHNICAL ASSISTANCE per year				
TOTAL	1,010	182	78	1,270

FACOBOL - TOTAL

CAPITAL INVESTMENT
(All Data in US$ 000)

	Foreign Currency	Local Currency			
	F.O.B Insurance Freight	CIF	Duty	Other	TOTAL
FIXED INVESTMENT		2,655	398	266	3,319
SPARES		100	15	4	119
RAW MATERIALS per year		1,300	390	0	1,690
TECHNICAL ASSISTANCE per year		100	0	20	120
TOTAL		4,155	803	290	5,248

XIV. PROTURA DE MATERIAIS DE CONSTRUCAO. E.E. (PROSUL). Maputo.

Plant Locations: Umpala, Icbul, Cimoc, Machava, Julio G. Ferreira, Xinavane.

1. Current Status/Ownership. State owned. Government Supervision: Ministry of Construction and Water.

Origin: PROSUL was formed by the State in 1979 by merging 24 abandoned small-to-medium scale enterprises. By 1986, PROSUL had run up a debt of Mt. 750 million because of controlled prices for construction materials (not adjusted since 1974). In 1986, PROSUL reorganized its operations so that 16 divisions (2 quarries, 2 tile factories, 5 stone dressing operations, a machine shop, an auto repair shop, a furniture factory and 4 pre-cast concrete installations) were retained. The assets of 4 divisions have been rented out to private operators on a 50/50 net profit sharing basis (no share in operating losses), 2 other divisions were placed (one each) in 2 construction consortiums as PROSUL's joint venture contribution. The remaining 2 were returned to their former owners.

2. Products/Raw Materials/Suppliers/Markets: Products: crushed stone, roof tiles, cut marble, pipes and sheets of cement and furniture. Materials include: wood, stone, clay and cement. Most of the raw material is sourced locally. PROSUL sells directly to construction contractors, wholesalers and individuals.

3. Operations Data and Background: Capacity: 14.9 million pieces of products. Employment: 1,306 (administration: 52, skilled: 21, qualified technicians: 5, and unskilled: 1228).

Most of the equipment is old (more than 20 years) and in need of replacement. The company operates at 25% to 30% of capacity, due primarily to: lack of raw materials, lack of spare parts, old and worn out equipment,

inadequate maintenance of machinery, difficulties associated with transportation and inadequate planning capability.

4. **Finance and Accounting**: PROSUL's books follow the national plan of accounts. They are not up to date and the company has not developed analytical costing, because it has been unable to gain control over its inventories which are spread over widely scattered areas. They receive inventory movement reports from each warehouse weekly, but their warehousemen are not well trained.

5. **Prospects**: PROSUL performs an important function of supplying construction materials to the economy and could be profitable if it were rehabilitated and restructured.

PROSUL - QUARRY

CAPITAL INVESTMENT
(All Data in US$ 000)

	Foreign Currency			Local Currency		
	F.O.B	Insurance	Freight	Duty	Other	TOTAL
FIXED INVESTMENT	1,400	140	168	140	84	1,932
SPARES	600	60	72	60		792
RAW MATERIALS per year						
TOTAL	2,000	200	240	200	84	2,724

PROSUL - BRICKWORKS

CAPITAL INVESTMENT
(All Data in US$ 000)

	Foreign Currency			Local Currency		
	F.O.B	Insurance	Freight	CIF Duty	Other	TOTAL
FIXED INVESTMENT			1,090	109	67	1,266
SPARES			300	30		330
RAW MATERIALS per year						
TOTAL			1,390	139	67	1,596

PROSUL - TOTAL

CAPITAL INVESTMENT
(All Data in US$ 000)

	Foreign Currency	Local Currency				
	F.O.B	Insurance	Freight	Duty	Other	TOTAL
FIXED INVESTMENT	1,400	140	1,258	249	151	3,198
SPARES	600	60	372	90		1,122
RAW MATERIALS per year						
TOTAL	2,000	200	1,630	339	151	4,320

PROFIT & LOSS - WITH PLAN == PROSUL == (1988 $000)

		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
REVENUES	Local Market	1,519	1,823	2,838	2,645	2,850	3,097	3,503	3,548	3,611	3,611
	Export Market	127	160	232	201	216	233	260	265	272	272
	TOTAL	1,646	1,983	3,070	2,847	3,066	3,330	3,763	3,813	3,883	3,883
COST OF SALES	Labor	347	344	512	537	564	593	622	653	686	720
	Raw Materials	126	175	206	183	193	206	213	217	222	222
	Utilities	13	18	23	18	19	20	22	22	23	23
	Other	241	241	241	241	241	241	241	241	241	241
	TOTAL	727	798	981	979	1,017	1,059	1,098	1,133	1,172	1,206
GROSS MARGIN		919	1,185	2,089	1,868	2,050	2,270	2,665	2,680	2,711	2,677
		55.8%	59.8%	68.0%	65.6%	66.8%	68.2%	70.8%	70.3%	69.8%	68.9%
OPERATING EXP	Admin & Technical	28	28	28	28	28	28	28	28	28	28
	Maintenance & Other	367	367	367	367	367	367	367	367	367	367
	Depreciation	406	577	735	707	413	397	382	367	353	339
	TOTAL	802	973	1,130	1,102	808	792	777	762	748	735
OPERATING MARGIN		117	212	958	766	1,241	1,478	1,888	1,918	1,963	1,942
OTHER EXPENSE: Interest		363	374	466	516	425	327	248	214	180	145
PRE-TAX PROFIT		(246)	(162)	492	250	816	1,151	1,640	1,704	1,783	1,797
INCOME TAX		0	0	246	125	408	575	820	852	892	898
NET PROFIT		(246)	(162)	246	125	408	575	820	852	892	898
		-14.9%	-8.2%	8.0%	4.4%	13.3%	17.3%	21.8%	22.3%	23.0%	23.1%

DERIVATION OF ALL EQUITY CASH FLOW	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Net Income	(246)	(162)	246	125	408	575	820	852	892	898
Plus: Interest Expense (after tax savings)	363	374	233	258	213	164	124	107	90	73
Depreciation Expense	406	577	735	707	413	397	382	367	353	339
Residual Value (Yr 10)										9,712
Less: Change in Working Capital	78	57	193	(37)	38	46	75	10	14	2
Capital Costs	0	1,944	1,944	0	0	0	0	0	0	0
NET PROJECT CASHFLOWS	445	(1,212)	(923)	1,126	995	1,090	1,250	1,316	1,321	11,020

Discount Rate 11% Net Present Value 7,180 Internal Rate of Return 49.4%

XV. COMPANHIA INDUSTRIAL DA MATOLA (CIM), Matola, Maputo.

1.CIM is a large integrated company that produces basic foodstuffs such as wheat flour, pastas, bread, animal feed, candies and chocolates.

2.Prospects: The rehabilitation strategy includes rebuilding the wheat and flour mills in two stages. building silos to store incoming grains, construction of new pasta plants in Maputo and Nacala, erection of a feed plant, installing new material handling equipment and vehicles, and installing fire prevention equipment.

NOTE: It is assumed that, in the interim, CIM will continue to purchase its raw materials from the Government through donor supported import programs. This reduces the total foreign currency requirement to about US$22.4 million equivalent out of total project costs of US$41.3 million. A small component of technical assistance will be required for those production facilities in which new equipment has been installed.

MOZAMBIQUE
STAFF APPRAISAL REPORT

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT
ENTERPRISE RESTRUCTURING TECHNICAL UNIT (ERTU)

GUIDELINES FOR ERTU OPERATIONS, SUBPROJECT ELIGIBILITY CRITERIA, AND SUBLOAN ADMINISTRATION

1. This statement lays down the policies and procedures that the Ministry of Finance, as executing agency, and the Bank of Mozambique, as the financial intermediary, will carry out through the Enterprise Restructuring Technical Unit (ERTU) in discharging their responsibilities under the proposed Industrial Enterprise Restructuring Project (the Project) which is to be financed in part by a Credit (the IDA Credit) to the People's Republic of Mozambique by the International Development Association (IDA).

I. ERTU ORGANIZATION STRUCTURE AND OPERATING GUIDELINES

(a) As part of its broader responsibilities, the ERTU will review (see IV (a) below) proposed investment projects (the subprojects) in order to ensure they are eligible for financing out of the proceeds of the IDA Credit. Based upon this review, the ERTU will recommend either approval or rejections to the Minister of Finance (hereafter referred to as the Minister). Subprojects approved by the Minister will (in consultation with the BM and other Ministers under whose responsibility beneficiary enterprises fall) be submitted to IDA for review and approval for financing under the Credit. However, if the Minister determines that a subproject involves issues which require approval at the Government level, then the subproject shall first be submitted to the Committee on External Economic Relations (CREE) for resolution of outstanding issues and approval. Subsequent to the approvals by the Minister or CREE and IDA, the Bank of Mozambique (BM) will finalize subloan arrangements based on its normal banking criteria and the subloan conditions in Sections III and VI below.

(b) The ERTU staff will consist of a Project Director and a number of professionals, some of whom will be working full time on the Project while others (including staff from other Government Ministries and agencies) will be seconded temporarily for specific tasks. The Project Director will report to the Minister of Finance and will be responsible for the management of the ERTU and overall coordination, supervision and implementation of the Project. The current National Director of Treasury for Economic and Price Analysis

in the Ministry of Finance has been appointed Project Director. It is expected that he will devote most of his time (not less than 70%) to project implementation activities. In addition to the Project Director, at least four other professionals (Project Advisor, Economist, Engineer and Procurement Advisor) will work full time in ERTU (ERTU TOR are provided elsewhere). The Project Advisor will work closely with the Project Director and act as Program Coordinator for the Project. The economist will be seconded to the Unit by the Ministry of Finance. The ERTU would have access to legal expertise (possibly on a retainer basis) equivalent to an actual full-time lawyer. This arrangement would provide the flexibility required to handle all the different legal aspects of restructuring or privatization, which could exceed the expertise of any individual lawyer. The ERTU will also have access to consultancy services or staff seconded from other Government agencies for short periods to carry out specific assignments.

(c) The ERTU will take all the steps necessary to ensure that its staffing remains both capable and sufficient in numbers to discharge the responsibilities associated with the IDA Credit. Both its consultant managerial and technical staff, will be hired in accordance with the Bank's guidelines for hiring consultants.

(d) In carrying out its task, the ERTU, will collaborate with other Ministries, especially the concerned technical ministries, the BM and the Ministries of Industry and Energy, Commerce and Labor, which are directly responsible for supervising the performance of enterprises as well as management of some of the beneficiary enterprises. Coordination with these parties will be facilitated through the Interministerial Working Group (IWG). The purpose of the IWG is to ensure that relevant line Ministries, BM and enterprise management have the opportunity to provide inputs in the development of enterprise rehabilitation proposals, and that agreement is reached on issues, before the proposals are submitted to the Minister.

II. Utilization of Funds

(a) The IDA Credit funds will be managed and disbursed by BM.

(b) The proceeds of the IDA Credit shall be used, in accordance with the terms of the Development Credit Agreement entered into between the People's Republic of Mozambique and IDA (the DCA), to finance the procurement of capital and intermediate goods, raw materials, spare parts and services needed for the restoration and normal operation of enterprises that are currently in need of rehabilitation or in financial distress

and which undergo financial restructuring under the Credit that transforms them into fully viable enterprises.

(c) The beneficiary enterprises that may receive financial assistance shall be manufacturing and agroindustrial enterprises.

(d) The proceeds of the IDA Credit will be used to finance only specific projects that are technically, legally, financially and economically eligible. Financing out of the proceeds of the Credit will be provided only for the purposes, and to cover the types of expenditures, stated in the DCA. No funds from the IDA Credit will be used for repayment of existing obligations of the enterprise.

III. Subloans Terms and Conditions

(a) Subloans will finance fixed investments for fixed assets and spare parts (including investments carried out in order to restore production or improve the beneficiary's technical capabilities) and increases in permanent working capital. Such subloans financing fixed investments and the working capital associated with these investments, will have maturities of up to 15 years, including grace periods of up to 5 years. Subloans for the preparation of rehabilitation plans will have maturities of up to 5 years, including grace periods of up to 2 years, and could be refinanced when fixed investment subloans are approved. However, no subloan will mature after the IDA Credit's closing date.

(b) Subloans will be denominated in Meticais. Each subloan will be intermediated by the BM which will make a commitment to provide any supplementary domestic financing needs to complete the investment project.

(c) Interest rates for subloans will be variable and in accordance with the interest rate structure which prevails in Mozambique. The current interest rate structure has been established in consultation with the IMF, and it has been agreed that the level of interest rates will be adjusted so that they become positive in real terms by 1990. Thereafter, BM and IDA shall consult and agree on both the structure and level of interest rates to ensure they remain positive in real terms.

IV. Subloan Appraisal and Supervision

2. Role of the ERTU will be, inter alia, to assist enterprises prepare rehabilitation plans and financial restructuring proposals. For the purposes of the IDA Credit, the ERTU will appraise the proposals for rehabilitation and/or restructuring presented by potential beneficiaries to ensure that they meet the subproject eligibility requirements and will recommend subprojects

to the Minister for approval or disapproval on the basis of the appraisal. Technical assistance needed to prepare the rehabilitation plans would be eligible for financing under the Project.

(a) Rehabilitation Plan. Each rehabilitation proposal would include the following basic elements: (i) a marketing plan, aimed at increasing the enterprise's revenues, through emphasis upon the more profitable products and customers, product redesign, quality improvements, and expanded geographic coverage; (ii) a production rehabilitation plan, devised to restore production, fill the needs identified under the marketing plan. The rehabilitation plan could include measures to downsize productive capacity, achieve a fuller utilization of existing capacity, or, where necessary, expand existing capacity; (iii) a management plan reviewing existing management capacity and recommending measures to streamline management and the organization structure. The need for specialized staff and training would also be identified; (iv) a financial restructuring plan to restore financial soundness and to assist enterprises regain competitiveness if they have excessive debt on their balance sheets; and (v) a financing plan prepared outlining how to implement the preceding marketing, production, management plans, restructuring plans, the elements of which are briefly discussed below. Financing arrangements under the ERC would take two forms: (a) subloans contracted through subloan agreements would finance rehabilitation of enterprise fixed assets, spare parts, working capital and technical assistance; while (b) financing for restructuring purposes would be contracted through an investment agreement. The restructuring proposal, would typically include: (a) the sale of unnecessary assets; (b) a reduction in the enterprise's financial burden, accomplished through the use of any of the instruments suitable for restructuring, or a combination of several of them. The restructuring program will include, a review of the current ownership of the enterprise and justifiable proposals on whether the enterprise should remain a public enterprise, or be divested to operate as a joint venture with the private sector (involving both local and foreign investors); (c) other measures to improve the firm's financial situation (extended maturities, for instance); (d) an issue of new shares to mobilize fresh capital, whenever possible, (e) a request for a subloan that could include financing for free-standing permanent working capital, fixed investment, or a combination of both; and (f) financial projections showing the expected results of all these planned measures. Subloan requests should also include an independent legal opinion, on terms satisfactory to ERTU, confirming that the beneficiary enterprise is a legal entity, that no further claims can be leveled against the firm in connection with its previous ownership or liabilities at the moment of restructuring, and

that the ownership of the enterprises's controlling interest is clearly defined (or it will be so as a result of the restructuring). Enterprises may request ERTU to provide technical assistance and finance for preparing the rehabilitation plans and corporate workout.

(b) In reviewing subloan requests, ERTU should receive from the applicant enterprises a complete disclosure of all the information relevant for the appraisal of the subproject, including information about the identity and history of the company's owners. To proceed with the appraisal of an application, financial statements satisfactory to ERTU, will be requested, and beneficiary enterprises will be contractually obliged to appoint external auditors satisfactory to ERTU as a condition of individual enterprise subloans.

(c) A precondition for restructuring enterprises will be that the banks, Government, and enterprise management agree on a base balance sheet that reflects the real net worth of an enterprise, taking into account an adequate revaluation of assets and confirmed outstanding liabilities. Creditors to the enterprise should commit themselves, in principle, to consider reducing their claims on the enterprise's cashflow by foregoing all outstanding penalty charges and fees relating to the debt in default, and converting part of the unserviceable debt into equity or quasi-equity.

(d) In appraising a subproject, ERTU and BM will ensure that:

(i) The owners are bona-fide entrepreneurs, committed to the success of the enterprise. If the enterprise's ownership is controlled by local banks or Government, or the status of ownership is uncertain, provide justifiable proposal on how to restructure the enterprise and resolve the ownership question within a specified time period (generally about six years). For intervened enterprises, the proposal will provide for the review and regularization or reorganization of their legal status as a condition of the subloan.

(ii) The managerial abilities of the enterprise's executives are sufficient to undertake the tasks required by the plans included in the rehabilitation plan.

(iii) The administration and organizational setup of the enterprise are adequate to carry out the proposed rehabilitation plan and salaries and wages are

reasonable in accordance with pre-existing labor practices in Mozambique.

(iv) The enterprise has either already sold, or has designed a plan satisfactory to IDA, or is planning to divest itself of all assets not essential for its industrial activities as spelled out in the corresponding rehabilitation plan.

(v) All expenditures proposed to be financed with the proceeds of the IDA Credit are eligible in accordance with the DCA.

(vi) the enterprises's Financial Rate of Return (FRR) and Economic Rate of Return (ERR) both are equal to, or exceed, 12% in real terms, after taking into account the proposed investment subproject. The ERR will be estimated using border prices.

(vii) The projected debt-service-coverage ratio (cash generation divided by financial charges plus principal repayments), of a restructured enterprise is no less than 1.0 in each and every year of the life of the project, and averages not less than 1.5 during the period.

(ix) The projected current ratio (current assets divided by short-term liabilities) is not lower, at any time, than 1.2, unless IDA agrees otherwise.

(x) As a guideline for determining the amount of debt to be serviced by the enterprise, a determination will be made of the principal amount outstanding which can be serviced over 10-12 years, taking into account the projected cashflow of the enterprise. Prior to defining the debt, the banks, Government and the enterprise must agree on the treatment to be given to depreciation, a dividend policy, and the amount of funds the firm would retain to increase working capital and asset replacements. The target should be to achieve a long-term debt-to-equity ratio not to exceed 3:1. Provisions for the repayment of the debt would be included.

(xi) The enterprise has considered in its financial plans the contingent liabilities that could arise from the restructuring process. In particular, if subordinated convertible instruments were used to restructure the enterprise's debt, a sinking fund should be established in order to cover the cash

outlays that would take place if the holders of these instruments decided not to convert at maturity.

(xii) For the purposes of estimating the current and long-term-debt-to-equity ratios, the term "debt" will include all outstanding and contingent liabilities of the enterprise with respect to persons or entities other than its shareholders, excepting only those that are subordinated in both service and repayment of principal. The term "subordinated" will be used to identify those debts that are senior only with respect to the claims of the shareholders. A debt will be "subordinated in the service of debts" when it is serviced only after all normal debts have been serviced, and then, only if the liquidity of the enterprise is enough to service it while keeping it within the limits agreed on in the Subloan or Investment Agreement. A debt will be "subordinated in repayment of principal" when, in case of failure of the enterprise, repayment of its principal is effected only after all normal debts have been fully repaid. The term "capital" will include all net claims of the enterprise's shareholders, plus those of the holders of subordinated debts.

(e) ERTU will also make sure that the Subloan and Investment Agreements are in accordance with the provisions of the IDA Credit and DCA.

V. Conditions of Disbursement

(a) All relevant agreements should have been entered into by the competent authorities and be binding upon them, including, inter alia, existing debt restructuring agreement, shareholders agreements whereby shareholders agree to offer the necessary pre-emptive rights needed to implement possible conversions, new equity issuance, etc., as well as possible security agreements and shareholder undertakings regarding actual or contingent commitments to provide financial support.

(b) All other disbursement conditions established in the Subloan Agreement should have been complied with.

VI. General Subloan Conditions

BM and ERTU will ensure that:

(a) Beneficiaries will present to ERTU quarterly financial statements and annual financial statements audited by independent auditors.

(b) All transactions effected by the beneficiary enterprise with any individual or enterprise related to it through ownership should be clearly explained.

(c) All or any revenue-sharing arrangements entered into by the beneficiary should be subordinated to payments to senior creditors.

(d) The beneficiary enterprise will not declare nor pay dividends if such payment is likely to impair its liquidity or ability to meet its debt service obligations.

(e) Limits will be imposed upon investments and indebtedness not included in the rehabilitation plans and as determined by BM according to prudent commercial banking practices.

(f) No prepayments of long-term debt will be effected unless proportionate payment is also made to the subloan.

(g) No change in the beneficiary's by-laws will be authorized during the age of the subloan without BM approval.

(h) All other conditions contained in the DCA.

VII. Supervision

3. ERTU will be responsible for overseeing the disbursements of subloans. To this end, ERTU will review the documentation for disbursement before it is submitted to BM for disbursement and together with BM will pay periodic visits to the beneficiary's facilities to confirm that the rehabilitation plan is being implemented in accordance with the Subloan or Investment Agreement. During the period of disbursement, these visits will be realized quarterly, and, after disbursement, once every year. ERTU and BM will carry out at least one major formal review of each subproject per year, and will send a copy of its results to IDA. BM will be required to maintain adequate records reflecting the operations financed out of the proceeds of the Credit, and to submit to IDA (with a copy to the ERTU), quarterly reports on the performance of the portfolio financed out of the IDA Credit.

VIII. Procurement

4. ERTU will monitor closely the procurement of items to be financed under the Credit, in order to make sure that the items are reasonably priced

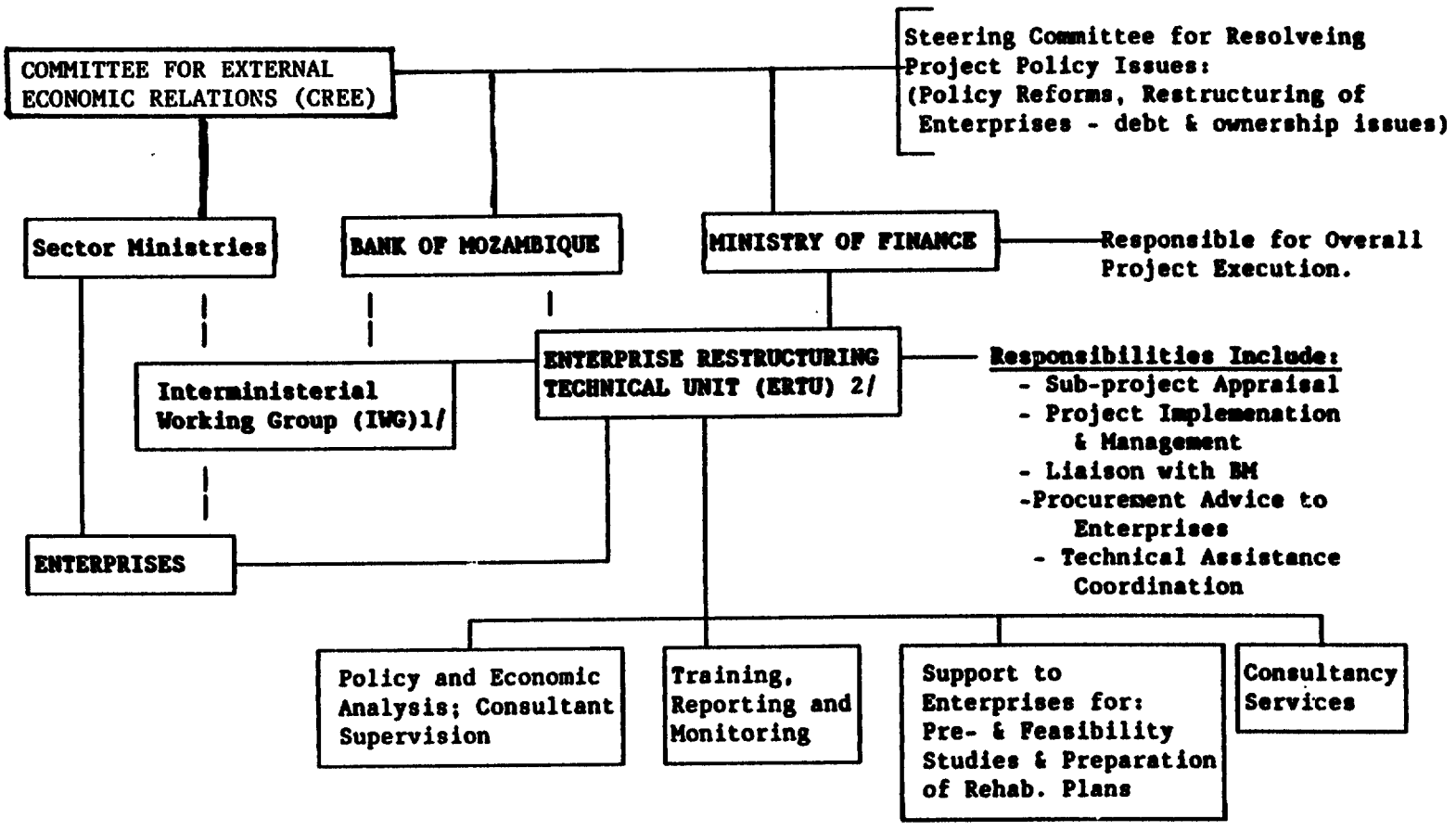
and appropriate for their intended use. Particularly, ERTU will ensure that enterprises receive quotations according to the procedures and conditions set out in the DCA.

IX. Amendments and Clarifications

5. Amendments to this policy statement may be made upon agreement between the authorized representatives of the People's Republic of Mozambique and IDA. In addition, the procedures to be used by BM or ERTU in dealing with any subloans or investments of a type not previously subject to agreements between the IDA and Government would be clarified through an exchange of letters.

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

PROPOSED PROJECT IMPLEMENTATION ORGANIZATION CHART



1/ IWG comprises representatives of:

-Ministry of Finance (ERTU)
-Bank of Mozambique
-Ministry of Industry and Energy
-Ministry of Construction and Water
-Ministry of Agriculture
-Ministry of Transport and Communications
-BEs (co-opted when necessary)

2/ Staff Composition:

Internationally Recruited:

- Lead Industrial Advisor (PARTEX)
- Economist (PARTEX)
- Engineer (PARTEX)
- Procurement Advisor
- Short-term Consultants

Local Staff

- Project Director
- Economist
- Accountant
- Seconded or Assigned Staff

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

Bank of Mozambique - Summary Accounts, 1980-87

(In Millions of Meticais)

	1984	1985	1986	1987	1988 March	1988 June	1988 Sept.	1988 Dec.	1989 March	1989 June
Foreign assets	3962	2821	3440	61005	73898	80926	105131	128949		
Claims on Government	72075	74382	53089	89569	102110	109903	119998	129871		
Claims on the economy	78734	91905	108301	136424	145531	154569	166053	183537		
Claims on the banks	1766	1500	873	873	873	873	2679	2679		
Unclassified assets	77426	74351	77519	1765708	2057390	2142015	...	2932656		
Fixed and stocks	213	211	201	276	287	400	...	692		
Adjustment accounts	334	--	--	1274	1460	1439	...	5544		
Transitory accounts	76881	74140	74474	630771	719375	733737	...	1010737		
Other assets	-2	--	2844	1133385	1336268	1406439	...	1915683		
Assets = Liabilities	233963	244959	243222	2053579	2379802	2488286		3377692		
Reserve money	62863	73843	86167	133037	145060	157555	...	202468		
Currency issued	28751	31157	33904	38640	39382	45365	47153	64599		
Bankers' deposits	6064	12698	16001	25544	31287	31737	...	41529		
Demand deposits	28048	29988	36262	68853	74391	80453	...	96340		
Time and foreign currency deposits	...	...	437	7099	13708	13040	...	18395		
Medium- and long-term foreign liabilities	27227	34248	36791	413880	434448	435152	555437	612047		
Short-term foreign liabilities	3030	2264	3139	44169	57806	57370	61557	62550		
of which: SAF	--	--	--	6029	19666	19230	23417	24410		
Government deposits	49540	47789	20576	38075	41432	50112	54317	62607		
Capital accounts	9472	10485	12374	25861	27577	28900	30744	26036		
Unclassified liabilities	81831	76330	83738	1391458	1659771	1746157	...	2393589		
Restricted deposits	2000	2000	2000	2000	2000	2000	2000	2000		
Adjustment accounts	--	1015	1485	12514	8515	9244	...	40096		
Transitory accounts	78196	71541	71795	220494	262945	266867	...	347629		
Cashier's checks	1635	1774	2664	7499	9272	10522	...	13843		
Contingent liabilities (net)	--	--	--	--	--	--	...	--		
Other liabilities	--	--	5794	1140951	1377039	1457524	...	1990021		

Source: Data provided by the Bank of Mozambique.

Annex 5-3

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

Monetary and Credit Developments, 1980-87 1/

(In Millions of Meticais)

CATEGORY	1980	1981	1982	1983	Dec 1984	Dec 1985	Dec 1986	Dec. 1987	Dec. 1988
Net Foreign Assets 2/	8,173	6,484	1,441	(1,662)	987	615	360	21,941	63,432
Assets	8,897	7,407	2,759	2,478	4,017	2,880	3,500	61,090	122,583
Liabilities	(724)	(923)	(1,318)	(4,140)	(3,030)	(2,265)	(3,140)	(39,149)	(59,151)
Domestic credit	49,599	62,318	72,988	102,915	124,243	144,190	168,912	217,493	290,642
Claims on Government, Net	1,676	6,339	3,853	13,571	22,266	27,028	32,948	47,252	52,907
Claims on Government	25,954	37,498	50,823	65,763	80,006	82,817	61,524	98,565	142,154
Government Deposits	24,278	31,159	46,965	52,192	57,740	55,789	28,576	51,313	89,247
Claims on the Economy	47,923	55,979	69,130	59,344	101,977	117,162	135,964	170,241	237,735
Money and Quasi-money	35,317	45,660	59,481	72,191	83,622	96,527	111,407	170,356	236,391
Currency outside banks	9,137	12,227	17,811	23,532	27,027	29,791	32,216	36,572	57,076
Demand Deposits	23,525	30,354	38,454	45,028	53,818	62,827	75,142	123,951	169,368
Time Deposits	2,655	3,079	3,216	3,931	2,777	3,909	4,049	9,833	9,947
Foreign Borrowing 3/	6,627	5,995	10,425	25,725	27,227	34,248	36,791	419,909	621,780
Other Items, net	15,828	17,147	4,523	3,037	14,381	14,030	21,074	(351,831)	n.a
Capital Accounts	11,225	11,369	11,028	10,496	11,589	12,745	14,718	28,631	28,631
Interbank Claims, net	...	...	...	...	(1,350)	(821)	(878)	8,877	n.a
Unclassified Items, net	4,603	5,778	(6,505)	(7,459)	4,142	2,106	7,234	(389,339)	n.a
Memorandum Item:									
Net Domestic Credit 4/	27,144	39,176	58,040	74,153	82,635	95,912	111,047	149,415	n.a

Sources: Bank of Mozambique

1/ Data for 1980-83 are not strictly comparable with those for following years.
2/ Includes foreign currency demand deposits at Bank of Mozambique.
3/ Bank of Mozambique medium- and long-term foreign liabilities (est. & approx through Sept. 1985).
4/ Domestic Credit less foreign borrowing and other items, net.

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

ENTERPRISE RESTRUCTURING TECHNICAL UNIT
TERMS OF REFERENCE

Date of Establishment: February 19, 1988

Location and Funding:

As a follow-up to the Arthur D. Little Study of 40 industrial enterprises, Government, with support from the World Bank, established an Enterprise Restructuring Technical Unit (ERTU) located in the Ministry of Finance, to act as a catalyst in the enterprise rehabilitation program and to invigorate the industrial sector. The cost of setting up the ERTU and costs of consultancies would ultimately be financed from the Industrial Enterprise Restructuring Credit, but to expedite the industrial rehabilitation process, Government received an IDA Project Preparation Facility (PPF) to finance the start-up of the ERTU and relevant studies.

COMPOSITION

The ERTU is headed by a Project Director, who is currently the National Director of Treasury in the Ministry of Finance and is staffed as follows:

(a) Internationally Recruited Staff:

(i) One Project Advisor;

(ii) One Economist/Financial Analyst;

(iii) One Engineer;

(iv) One Procurement Advisor (vacant).

(b) Local Staff will be supplied, as needed, to undertake specific assignments, by the Prices and Economic Analysis Department (PEAD) of the Ministry of Finance. The core local staff will consist of:

(i) Project Director -National Director of Treasury Head of PEAD;

(ii) Economist (currently occupied by an economist from PEAD); and

(iii) Accountant (Vacant).

(c) Additional local staff would be temporarily seconded or assigned to the Unit from other Government departments as needed, to work on particular projects or enterprise plans which come within their responsibilities or expertise;

(d) Foreign consultancy staff will be recruited as needed for specific assignments.

ERTU is expected to be entrepreneurial and to play an important role by providing guidance for the timely implementation of the rehabilitation program and the IERP.

RESPONSIBILITIES

General: The main task of the ERTU will be the preparation and implementation of the enterprise rehabilitation program. On behalf of the Ministry of Finance, the ERTU, shall be responsible for the overall coordination, management and supervision of implementation of the IERP. This will include collaboration with and supervision of consultants appointed to carry out Phase II of the enterprise review. In carrying out this responsibility, the ERTU will liaise closely with and help coordinate other Government agencies' involved in the Project. It will develop capability to provide operational support to enterprises under rehabilitation. The ERTU will also undertake ad hoc tasks, including sector and sub-sector studies, as may be assigned to it by Government through the Ministry of Finance. Due to the general shortage of qualified staff, the ERTU will initially depend on external consultants to carry out its responsibilities. However, with time, it is expected that the Unit would strengthen its own capabilities and, where available, recruit local consultant expertise under this program.

Specific

The immediate task of the ERTU will be to:

(i) Select, with the assistance of the consultants undertaking the review, enterprises for in-depth study using criteria agreed to in the terms of reference for the enterprise reviews; and

(ii) Supervise the work of the consultants undertaking the enterprise reviews. The ERTU will coordinate other Government departments' actions in relation to the rehabilitation program, and backup the efficient implementation of agreed reforms. Implementation support includes refinement of the studies, identification of technical partners, sources of knowhow and sources of finance both within and outside the country, and agreeing on a timetable for the rehabilitation program;

Responsibilities under the IERP

In the context of the IERP, the ERTU shall:

(i) assist beneficiary enterprises (BEs) to identify and select consultants to carry out prefeasibility, feasibility and design studies in accordance with World Bank guidelines for the use of consultants;

(ii) assist BEs in the design and implementation of the Rehabilitation Plans;

(iii) in collaboration with the Bank of Mozambique, carry out appraisals of subprojects to be financed under the Project;

(iv) jointly with the BEs, develop and irplement co-financing plans; and

(v) strengthen the capacity of local project institutions through training, especially in project appraisal and enterprise restructuring;

(vi) provide policy advice to Government through analysis of the impact of specific policies on the performance of enterprises, inter alia taxation, pricing and price controls, production quotas, credit and foreign exchange allocation, industrial licensing, trade (import, export and domestic) policies and policies relating to asset revaluation;

(vii) ensure completion of sub-sector studies according to the timetable set in the terms of reference; and

(viii) ensure effective implementation of the IERP.

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

ENTERPRISE RESTRUCTURING TECHNICAL UNIT

JOB DESCRIPTIONS

The Enterprise Restructuring Technical Unit (ERTU) was set up in the Ministry of Finance to facilitate the preparation and timely implementation of the Government's enterprise rehabilitation program. On behalf of the Ministry of Finance, the ERTU is also charged with the responsibility for the overall coordination, management and supervision of the implementation of the IERP. The Unit will initially consist of a core team of five (two local and three internationally-recruited staff) and be supported by external consultants and, additional temporary, local staff seconded when needed from other Government agencies. The ERTU will liaise closely with other Government agencies and supervise consultants appointed to carry out work relating to enterprise rehabilitation or restructuring. The setting up of this unit has created the need for the following positions.

1. Project Director

The ERTU shall be headed by a Project Director (currently National Director of Treasury responsible for Economic and Price Analysis Department in the Ministry of Finance), who shall report directly to the Minister of Finance. He will be responsible inter alia for:

(i) overall efficient coordination, management and supervision of Project implementation, including providing the link with Government agencies and other institutions;

(ii) the Project Director will be responsible for the day-to-day management and supervision of the ERTU in accordance with the provisions of the Development Credit Agreement (paragraph 2 of Schedule 6); and

(iii) serve as chairman of the Interministerial Working Group (IWG).

In his capacity as Project Director, he will also ensure that the ERTU collaborates closely with other Government agencies and the enterprises involved in project implementation.

Project Advisor

2. Reporting to the Project Director for the proposed Industrial Enterprise Restructuring Project (IERP).

Annex 5-3

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

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Sources: Bank of Mozambique

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2/ Includes foreign currency demand deposits at Bank of Mozambique.
3/ Bank of Mozambique medium- and long-term foreign liabilities (est. & approx through Sept. 1985).
4/ Domestic Credit less foreign borrowing and other items, net.

Additional Duties will be:

(i) assisting the Project Director with the recruitment of staff for the Unit and training local professional staff;

(ii) reviewing and proposing to the Project Director a detailed work program, priorities, and budget for the efficient performance of the ERTU;

(iii) coordinating and supervising policy or sectoral studies undertaken by the Unit on behalf of Government;

(iv) advising on the regulatory framework as it affects enterprises under the Project; and

(v) undertaking any other duties, relevant to the operations of the ERTU, as may be assigned to him from time to time by the Project Director.

QUALIFICATIONS

Higher level degree(s), MBA/CPA or Finance or Economics. A solid understanding and clear record of management level accomplishments in industry, especially in finance, strategic planning and information systems. A key is the ability to monitor a wide range of diverse activities and enterprises and ensure that timely rehabilitation or corrective action is taken to attain desired results. Since the position will have an unusually wide span of responsibility over such areas as investment decisions, foreign participation, enterprise financial restructuring, economic policy, and possibly divestitures, a highly flexible professional is sought who functions effectively in a delicate leadership role without close supervision. He will be expected to work within tight schedules, thus, timeliness and quality work are of essence in this assignment.

LANGUAGE

Fluency in English and Portuguese/Spanish essential.

Engineer

3. Will work under the supervision of the Project Advisor.

He will ensure that all the technical aspects of Project implementation are well integrated into the general work of the ERTU.

The Engineer shall be responsible inter alia for:

(a) coordinating ERTU's technical activities, reviewing rehabilitation and restructuring plans for soundness of their

technical designs. During project implementation, assisting the beneficiary enterprises to ensure that implementation schedules are adhered to and, when necessary, identify any technical or production bottlenecks and suggest appropriate solutions;

(b) evaluating rehabilitation needs and corresponding design activities, and assessing the technical and production implications of capital expenditures to determine their consistency with project objectives and eligibility criteria;

(c) reviewing and assisting the BEs in establishing technical specifications for design, construction, and equipment procurement to be undertaken under respective enterprises' rehabilitation plans;

(d) reviewing technical proposals and recommending eligible suppliers for contracts to be awarded under the Project; and

(e) undertaking any other duties as may be assigned by the Project Advisor.

Qualifications and Experience

Postgraduate training in engineering (industrial, mechanical, electrical, or chemical). Extensive relevant work experience in industry, part of which should have been in a position not below that of chief engineer, technical director, factory manager, or the equivalent. In addition, an economics background or experience in general management, and project appraisal will be an added advantage.

Economist

4. Will work under the supervision of the Project Advisor.

He will be responsible for developing the ERTU's capacity in economic and financial analysis, project appraisal, debt restructuring, etc. These responsibilities will include inter alia:

(i) Planning, coordinating and supervising the economic activities of the ERTU; undertaking subproject appraisals to determine their financial and economic viability; restructuring and divestitures; reviewing the economic and financial aspects of enterprise rehabilitation plans;

(b) He shall be responsible for providing training to local counterparts in the economic and financial aspects of project appraisal and enterprise restructuring; and

(c) the Economist shall undertake any other financial and economic activities that may be assigned to him by the Project Advisor.

Qualifications and Experience

A professional accounting certificate plus an advanced economic degree. Extensive experience in industry, consulting, accounting and project appraisal.

The four staff listed above would be supported by other staff appointed to the ERTU or staff from other Government Ministries that would be seconded on a temporary basis as needed to work on particular assignments which come within their areas of responsibility or expertise.

Accountant

5. The Accountant shall work under the supervision of the Project Advisor. The Accountant shall be responsible inter alia for keeping financial records and accounts for all project components; preparing withdrawal applications for signature by the authorized representative of the BM; reconciliation of the Special Account in coordination with BM and in accordance with the Association's disbursement procedures and annual financial plans and budgets; and preparing Project accounts for audit. The Accountant shall also be responsible for providing training to local staff in basic accounting, sufficient to efficiently carry out their duties.

Procurement Advisor

6. The Procurement Advisor shall be responsible inter alia for:

(a) providing training, monitoring and supervising all relevant procurement procedures for the acquisition of equipment vehicles, supplies and services, including the preparation of tender documents; and

(b) reviewing bids and contract awards in accordance with the Association's guidelines and guidelines of other parallel co-financing agencies.

Other Technical Staff

7. To complement its full-time staff, the ERTU shall employ, in accordance with the World Bank guidelines for the use of consultants, consultants to provide technical assistance to BEs and the Government.

Interministerial Working Group (IWG)

8. (a) in discharging his responsibilities, the Project Director shall seek the advice of an interministerial working group composed of senior-level officials representing, inter alia: the Ministry of Industry and Energy; the Ministry of Construction and Water; the Ministry of Agriculture; the

Ministry of Transport and Communications; and the Bank of Mozambique;

(b) the IWG may, at its discretion, request the participation of representatives of the BEs involved in Project implementation to discuss issues relevant to the respective BEs; and

(c) the IWG shall ensure that: (i) the relevant sector ministries, BM and the BEs have an opportunity to participate in the design and implementation of the Rehabilitation Plans; and (ii) interministerial agreement is reached with reference to policy issues before subloan and investment proposals are submitted to the Minister of Finance for approval.

Annex 5-6

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

Estimated Disbursement Schedule for the IDA Credit

IDA Fiscal Year	Africa-Region Disbursement Profile Profile for Industrial Projects. (Cumulative % Disbursements) a/	Estimated Disbursement Schedule: Disbursements during the Period (US$ million)	Estimated Disbursement Schedule: Cumulative Disbursements (US$ million)
FY90 - 12/31/89	0%	0.0	0.0
- 06/30/90	3%	1.5	1.5
FY91 - 12/31/90	10%	2.9	4.4
- 06/30/91	17%	3.1	7.5
FY92 - 12/31/91	27%	4.4	11.9
- 06/30/92	40%	5.7	17.6
FY93 - 12/31/92	50%	4.4	22.0
- 06/30/93	71%	9.2	31.2
FY94 - 12/31/93	81%	4.4	35.6
- 06/30/94	87%	2.6	38.3
FY95 - 12/31/94	92%	2.2	40.5
- 06/30/95	95%	1.3	41.8
FY96 - 12/31/95	99%	1.8	43.6
- 06/30/96	100%	0.4	44.0

a/ Estimates based on recent disbursement experience on IDA projects in Mozambique

AF6IE
June 1989

MOZAMBIQUE
INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT (IERP)

PROJECT COMPLETION REPORT (PCR)

PREPARATION ARRANGEMENT

A. Introduction

1. Project Completion Reports (PCRs), which provide a retroactive assessment of the project, are prepared for all investment and adjustment lending operations financed by the World Bank (IBRD/IDA), within six months of the Loan/Credit Closing Date. The content of the PCR and allocation of responsibility between the Bank and the Borrower under an IDA Credit for the proposed Industrial Enterprise Restructuring Project (IERP) are briefly outlined below.

B. Scope and Content of PCRs

2. The PCR will provide a comprehensive but focussed account of the project's objectives, design, implementation, and impact. These objectives are in Parts I through III, as outlined below.

PART I

(a) A brief description of the implementation record of the operation and analysis of key issues (to be prepared by the Bank within three months of the Credit Closing Date).

PART II

(b) There should be an analytical review of the project from the Borrower's perspective and should be prepared within three months of the Credit Closing Date. The Project Director would, on behalf of the Borrower, be responsible for preparing Part II of the PCR. A format to meet the reporting requirements would be prepared by IDA in advance of the first supervision mission for the Project. Essentially, the Borrower would prepare this section with the purpose of:

(i) evaluating IDA's performance during the evolution and implementation of the project, with special emphasis on lessons learned that may be relevant for the future;

(ii) evaluating the Borrower's own performance during the evolution and implementation of the project;

(iii) assess the effectiveness of the relationship between IDA and the Borrower during the evolution and implementation of the project; and

(iv) confirm the adequacy and accuracy of the information contained in Parts I and III of the PCR (if these have been sent to the Borrower by IDA).

PART III

3. The ERTU will be required to prepare and furnish to IDA supervision missions statistical data and background information necessary to prepare Part III of the PCR. The information would include the following:

(a) Project Implementation. Basic documents for this purpose would consist of annual Project work programs, budgets, and progress reports prepared by the ERTU, approved by the Ministry of Finance, to be submitted to IDA and reviewed during supervision missions. The work programs and budgets will include monitorable targets on Credit approvals, commitments, disbursements, and implementation schedules to be compared against the targets set at appraisal. This would include information on the Enterprise Restructuring Component, and Technical Assistance Component. Before each supervision mission, IDA would submit a set questionnaire for collecting additional information that may be necessary.

(b) Reporting Requirements

Project Costs. The information will be derived from: the rehabilitation plans prepared for each enterprise; ERTU's supervision reports on each enterprise which would indicate actual costs incurred during implementation; and enterprise annual reports. All of these reports will be made available to IDA in accordance with the reporting requirements described in the SAR. Basic information will be presented as follows:

(i) type of sub-project: rehabilitation, expansion, working capital, or financial restructuring;

(ii) enterprise size by assets, production capacity, sales and employment;

(iii) sector/sub-sectors;

(iv) location of sub-project;

(v) financial intermediary;

(vi) investment costs with breakdown of foreign and local costs;

(vii) amount of sub-loan committed with breakdown of the IDA credit, equity contributions from enterprise's own sources, or by Government;

(viii) total investment for each sub-project, classified by investment item (machinery and equipment, civil works, technical assistance, consultancy, training, etc.)

B. Project Financing. Information will be derived from the rehabilitation plans; sub-loan agreements; and from ERTU's enterprise supervision reports.

4. In both (A) and (B), the actual results would be compared against the appraisal estimates.

5. Project Results. The information on each enterprise and on the Project in general, will include data on:

A. Direct Benefits:

(i) employment;

(ii) exports and consequent imports (market development and performance);

(iii) manpower development;

(iv) structure of ownership;

(v) percent use of local inputs, and value added; and

(vi) capital labor and capital/output ratios.

B. Economic Benefits:

(i) economic rate of return;

(ii) economic benefits and spin-offs;

(iii) environmental effects; and

(iv) overall economic justification (at sub-project appraisal vs. actual results)

C. Financial Impact:

(i) financial rate of return

(ii) financial results (including working capital analysis)

(iii) financial covenants and targets (including results of financial restructuring); and

(iv) financial and structural ratios.

D. Studies:

Assess purpose as defined at appraisal, status during implementation, and impact of the studies.

6. Status of compliance or non-compliance with the covenants. These will be reviewed for compliance during IDA supervision missions.

7. The basic data sheet overleaf will be prepared for each enterprise rehabilitation financed under the Project.

BASIC DATA SHEET
Key Project Data

ITEM	Original Estimate	Current/Actual Estimate
Total Sub-project Cost (US$ Million)		
Overrun or Underrun (%)		
Cost of Fixed Assets (US$ Million)		
Working Capital (US$ Million)		
Financing (US$ Million)		
Internal Cash Generation		
External Aid Agencies (specify)		
Other Sources		
Sub-loan Amount (US$ Million)		
Disbursed		
Cancelled		
Repaid to		
Outstanding to		
Completion of Physical Components (date)		
Start-up of Operations (date)		
Achievement of Full Production (Date)		
Full Production Level (Units)		
By Product (Units)		
Financial rate of Return (%)		
Economic Rate of return (%)		

Annex 6-1

MOZAMBIQUE

INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT

SELECTED DOCUMENTS AND DATA AVAILABLE ON PROJECT FILE

A. Phase I Reports prepared by consultants for the Ministry of Finance (MF) "Review of Agricultural and Industrial Enterprises" in Seven Volumes, May 1988: Vol. 1 - "Factual Summaries of 40 Industrial and Agroindustrial Companies in Mozambique"; Vol. 2 - Analysis of Issues; Vols. 3-7 - Prefeasibility Studies on Five Enterprises.

B. Phase II Pre-feasibility Studies on Ten Enterprises prepared by consultants for MF, "Industrial and Agricultural Enterprise Review" in 10 volumes, July 1989. - CIM, IMA, MADAL, CARMOC, PROSUL, FACOBOL, VAN LEER, FASOL/SABOREL, ECOME and CIMENTOS.

C. Contact and Terms of Reference for above studies.

D. Contract and Terms of Reference between GOM and PARTEX to provide Technical Assistance to the ERTU.

E. Legislation Relating to Depreciation and Amortization, of January 27, 1968.

F. DECREE No. 13/88 of November 11, 1988, relating to Asset Revaluation.