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STUDY OF THE INDUSTRIAL SECTOR

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MOZAMBIQUE

Main report

Volume I*

Prepared for the Government of Mozambique
by the United Nations Industrial Development Organization
acting as executing agency for the United Nations Development Programme

United Nations Industrial Development Organization
Vienna

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INTRODUCTION

This study, financed by the United Nations Development Programme and the African Development Bank, was prepared at the request of the Ministry of Industry and Energy and of the State Secretariat of Light and Food Industry of the then Ministry of Domestic Trade (now Ministry of Trade) of the People's Republic of Mozambique - RPM - by the Regional and Country Studies branch of the United Nations Industrial Development Organization - UNIDO. The study is based on the work of a mission which visited the PRM from 10 February 1986 until 18 March 1986. The members of the mission were Marco Antonio Monteiro d'Oliveira, economist; Eugenio Borralho, industrial economist; Jose Antonio Munoz Miguez, industrial engineer; Victor Manuel da Silva Santos, econometrician; Luis Alves Monteiro, specialist in development banking and Oscar Gonzalez Hernandez, UNIDO staff member.

In addition a number of discussions between the mission and the Government of the PRM, the final draft of the study was discussed in Maputo by Messrs Monteiro de Oliveira, Borralho and Gonzalez Hernandez in November 1986.

The economic reform measures adopted by the government of the PRM in January 1987 were reflected in the final version of the study.

The objectives of this study can be summarized as follows:

- Annotated description of the present situation and recent developments in manufacturing industry - M.I. - in the PRM.
- Enumeration of the problems and prospects of M.I.
- Proposals for a programme of industrial rehabilitation and of institutional and economic reform to be applied to M.I.
- Recommendations regarding technical and financial assistance related to the aforementioned proposals.

The study comprises two volumes. The first volume, the contents of which are listed on pages iii to v, consists of the analytical study proper and of the main statistical tables. The second volume describes in greater detail some of the topics addressed in the first volume (energy, transport, training, price homologation, taxes and statistics) apart from analyzing 20 of the Mozambican economy's most important industrial subsectors. The study was prepared in Portuguese, the first volume having been translated into English.

Contents of Volume 1

LIST OF ABBREVIATIONS AND ACRONYMS

ACP	Africa, Caribbean and the Pacific (countries of)
ADB	African Development Bank
BIOFE	Balance of Factor and Foreign Income
B.M.	Bank of Mozambique
BPD	People's Development Bank
BSTM	Standard Totta Bank of Mozambique
CBH	Cahora Bassa Hydroelectric Power Station
conto	1,000 meticals or escudos (abbreviated to "cts")
DFI	Direct Foreign Investment
E.E.	State Enterprise
EEC	European Economic Community
FAO	Food and Agriculture Organization
GDP fp	Gross Domestic Product at factor prices
GDP mp	Gross Domestic Product at market prices
GFCF	Gross Fixed Capital Formation
GSP	Global Social Product
GVA	Gross Value Added
GVP	Gross Value of Production
IDA	International Development Association (World Bank)
IEC	Institute for Economic Co-operation (Portugal)
ILO	International Labour Organization
Inh	Inhabitants
MDT	Ministry of Domestic Trade
MFT	Ministry of Foreign Trade
M.I.	Manufacturing Industry
MIE	Ministry of Industry and Energy
MT	Metical
M.U.	Management Unit
n.a.	Not available
NCSP	National Commission on Salaries and Prices
NGO's	Non-governmental Organizations
NPC	National Planning Commission
NSO	National Statistical Office
PRM	People's Republic of Mozambique
RSA	Republic of South Africa
SCP	State Central Plan
SELIA	Secretary of State for Light and Food Industries
SETEP	Secretary of State for Industrial Training
SIDA	Swedish International Development Authority
S.S.	State Secretary or Secretariat
UNDP	United Nations Development Programme

EVOLUTION OF THE EXCHANGE RATE

Value in terms of the US dollar

(yearly average)

1973		24.55	Escudos
1975		27.24	Escudos
1977		32.22	Escudos
1979		32.71	Escudos
1980		32.40	Meticals
1981		35.35	Meticals
1982		37.77	Meticals
1983		40.18	Meticals
1984		42.44	Meticals
1985		43.18	Meticals
1986		40.43	Meticals
1987	(Feb.)	200.00	Meticals

I. SUMMARY AND MAIN CONCLUSIONS

1. Framework for Change

The People's Republic of Mozambique (PRM) has a land area of some 786,000 km²; its shores are washed by the Indian Ocean and its 4330 km long frontier borders on 6 countries.

Total population was estimated at 13.8 million in 1985 and the rate of growth is high - 2.6% per year. Population density is 17 inhabitants/km², of which 46% are economically active and the literacy rate is 25% (7% at independence in July 1975).

It is essentially an agricultural country, with 84% of the active population engaged in the agrarian sector (only 3.6% in manufacturing industry), per capita income in 1980 was estimated at US$ 168, a figure which subsequently fell even further. Nevertheless, owing to a 1985 change in the basis of valuation of self-consumption, official statistics give 1985 per capita income as US$ 250. The overvaluation 1/ of the metical relative to the dollar, which is reflected in the figures shown, must be borne in mind. Even allowing for the fact that a part of self-consumption was not imputed 2/, there can be no doubt that this level of income places the country among the poorest in the world.

And yet the PRM is endowed with considerable natural resources, particularly minerals and energy (hydro-electric power, coal and natural gas), agriculture (cotton, sugar, tea, cashew nut, sisal, copra and some cereals), timber (native and exotic varieties) and fisheries (prawns and various varieties of fish). On the other hand given its geographical location, wedged between the Transvaal, Zimbabwe, Zambia and Malawi and the Indian Ocean, the ports and railways of Maputo, Beira and Nacala were constructed with the aim of providing an outlet for the products of those countries - but not for their distribution throughout Mozambique - and gave rise to a service sector of great importance to the country's economy and a major source of foreign exchange, particularly prior to independence. South Africa's boycotts and systematic sabotage by the armed bandits in recent years have reduced activity in this sector to almost insignificant levels compared to 1973, and even to 1980 (in 1985 transport income was only 40% of the 1980 figure). Nevertheless, the sector continues to be of importance to the country's economy, accounting for 50% of merchandise exports in 1985.

The dismantling of the colonial system and the creation of a new political and economic system following independence together with the abandonment of the country by its colonial masters, its specialists and by virtually the entire skilled workforce, created serious obstacles to progress in economic activity.

1/ In January 1987 the Government devalued the metical by around 500%.

2/ In the national accounts self-consumption is computed by extrapolation from a representative sample.

These difficulties were compounded by South Africa's boycotts and by the armed bandits, supported and organized from abroad, who cut communication lines and power cables, sabotage and destroy factories and farms, impede mineral extraction, of coal for example, thereby drastically reducing the exploitation of natural resources and traditional exports. Natural disasters (floods and prolonged droughts in 1980-83) adversely affected productive capacity and numbers of livestock. Lastly, the oil crisis and certain errors in economic policy, particularly as regards the setting of priorities and the use of resources contributed to this situation.

The country's post-independence economic development consists of three distinct periods:

- 1975-78, when the colonial managers and engineers departed, up until the beginning of economic sabotage and the establishment of the new State. During this time the economy declined at an average annual rate of -2.4% (measured in terms of GSP) or -0.3% (measured in terms of GDP) at constant prices;

- a period of recovery from 1978 to 1981 when, in spite of the negative impact of the above-mentioned endogenous and exogenous factors, there was average annual growth of 3.0% (GSP) or 2.7% (GDP) for the economy as a whole and of the order of 4.2% (in terms of social product and value added) for industry. This growth was however achieved only by virtually exhausting the country's foreign exchange resources;

- the post-1981 period, one of grave economic crisis resulting from an worsening of all negative influences, particularly the incursions of the armed bandits and the lack of foreign exchange. The following figures illustrate the situation:

  - in 1985 GDP at factor cost and constant prices was about 1/3 of the corresponding figure for 1983;

  - the average annual rate of change at constant prices 1981 - 1985 was negative and around -12.0% (GSP) or -7.6% (GDP) for the economy as a whole and -23.0% (social product) or -17.8% (value added) for industry;

  - industry's share of GDP, 22.3% in 1973, was only 12.8% in 1985;

  - from 1980-85 inflation averaged around 25% annually;

  - gross fixed capital formation at current prices in 1985 was 75% of the 1981 level;

  - import cover, which was 47% in 1985 and 35% in 1980, fell to 18% in 1984 and 1985;

  - the invisibles balance which in 1980 was positive at US$ 96.8 million was negative in 1985 with a deficit of about US$ 75.7 million;

- receipts from transit services, US$ 82 million in 1981, fell to US$ 39.4 in 1985;

- debt service, which in 1981 reached about 76% of visible and invisible exports (including migrant workers' remittances) rose to 216% in 1985.

The effects of the economic crisis were most strongly felt in manufacturing industry (M.I.) as can be deduced from the above mentioned rates of change in economic performance.

Immediately after the Lusaka agreements and while the transitional government was still in power, the State, invoking dishonest, unjustified and gravely negligent conduct in carrying on business affairs, aggravated by the abandonment pure and simple of firms by their owners, began to intervene 1/ in the affairs of commercial firms, and of industrial firms in particular. Subsequently, and especially after the III Frelimo Congress (February 1977), at which the decision to opt for the Socialist system of planned economy was taken, the number of "interventioned" firms increased and many of them were converted to State enterprises. Meanwhile private business activity was subjected to regulations and restrictions. At the same time supervisory bodies were created within the State administration to coordinate and assist the enterprises, and to subject them to the discipline of the central plan. The structure of commerce activity altered significantly, the State and "interventioned" sectors now representing some 45% of industrial enterprises of national importance accounting for 65% of total production in 1982 (as against 20% in 1977).

As regards location, there was a strong concentration of industrial enterprises in Maputo and Beira, with 70% of firms and 48% of employment (the sugar and cashew shelling industries, heavily labour intensive, are situated almost entirely outside these areas).

Employment in industries designated as being of national importance - which are supervised by 10 ministries and state secretariats - is estimated at 120,000; local industries supervised by the provincial governments employ an estimated 30,000 workers; employment in the informal sector including individual craftsmen and small-scale producers is estimated at some 50,000. The average workforce of industrial firms of national importance is about 200 and those of local importance approximately 30. The main branches of M.I. contributing 46% of its total value added and 34% of its total employment are: textiles, footwear and garments, flour milling, pasta and baking, ship repair, sugar, cashew nuts, wood, printing, beverages, metal fabrication and electrical engineering.

The country's industry is heavily independent on external inputs. Excluding cashew and wood, imported inputs represent between 60% and 70% of intermediate goods. Of imported industrial goods, which in 1985 totalled some US$425 million - only about 65% of the equivalent figure for 1980 owing to the shortage of foreign exchange - some 20% were raw materials, 16% petroleum products, 11% spare and replacement parts, 13% equipment and the remaining 40% consumer goods. Exports of industrial products, unlike imports which vary considerably as to type and origin, consist of only a few items (cashew nuts, cotton fibre, sugar, tea, coconut oil, molasses, cashew oil and petroleum

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1/ Such firms are referred to in the report as "interventioned."

products), and amounted to only about US$30 million in 1985 (as against about US$ 120 million in 1973). The refinery ceased operations in 1984 being commercially non-viable, so that exports of certain petroleum products are derived from imports (international bunkering).

Utilization of productive capacity is between 20% and 30%, apart from textiles, garments and footwear (around 70%). The main causes are: shortage of foreign exchange for the import of raw materials, spare parts and replacements; worn-out and obsolete machinery, a large part of which is out of service owing to lack of maintenance; frequent power cuts; acts of sabotage by the armed bandits; shortages in the supply of local raw materials owing to the destruction of farms and transport equipment.

The level of wages has been extremely low in the face of high inflation fuelled by an informal market which according to some estimates amounts to some 40% of the country's economy. In 1985 the average industrial wage was in the region of US$120 a month in 1985. By contrast the share of salaries in GVA is extremely high - between 80% and 90%. In some subsectors it exceeds 100%, for example in textiles, fabricated metal products and matches.

The loss-making situation in which most industrial enterprises find themselves is largely due to the previously mentioned low rate of utilization of productive capacity and to the low level of prices. These are fixed by the State or require the approval by the supervisory bodies of proposals prepared in accordance with rules which do not reflect all the costs of production but determine by administrative fiat the capacity utilization rates on which the proposals are to be based. Freedom to set prices is rare in industry. As a result of excessively low prices leading to continuing losses, the Government has adopted a practice of covering, through the Bank of Mozambique or the State budget, the deficits of public sector enterprises. In 1985 alone some 16% of the expenditure or 25% of the receipts of the State budget were used to finance the deficits of such enterprises. This has been the cause of an oversupply of money which, added to the cash resources of private households (resulting from the shortage of consumer goods) which the low interest rates on deposits fail to bring into the banking system, has caused inflationary pressures.

2. Recommendations for an Industrial Development Strategy

Any strategy for developing the country is inevitably linked to the internal security situation, since the safety and security of persons and production facilities is a sine qua non for industrial recovery. But it also depends on the agricultural and service sectors which, in addition to raw materials, must also generate the foreign exchange resources that M.I. needs but cannot obtain from its own exports. And yet the development of these sectors is even more dependent on the internal security situation than M.I.

Thus the process of industrial recovery will have to started in the urban centres (where most industry is found), subsequently spreading to the rural areas. Towards the end of 1986 the Government prepared an economic recovery and industrial rehabilitation plan for 1987-1990 which aims to return M.I. to 1980 capacity utilization levels, This would require an annual rate of

increase in industrial production of 13% and foreign exchange resources for the purchase of raw materials, spare parts and machinery estimated by the Government average US$180 million per year.

At the same time, in early 1987 the Government took a number of measures with respect to wages (which were at least doubled), exchange rates (the metical was devalued), prices (the number of controlled prices was reduced, while the number of regulated prices was increased and a set of guidelines were issued for approval purposes), taxes (a tax reform was introduced which mainly affects consumers but also treats public and private sector enterprises alike for tax purposes), tax incentives (for local and foreign investors), interest rates (interest rates on loans and deposits were increased to reflect, but not yet to fully compensate for inflation) and special attention was paid to the private sector, which is to be supported and encouraged - a policy that has been in force since the IV Frelimo Congress (April 1983).

This recovery programme and the measures now put forward are in line with the mission's recommendations, which fall into three categories: i) macro-economic measures to mitigate the most serious distortions in the PRM's economy; ii) institutional and industrial policy changes; iii) a recovery programme with a strong external funding component and supported by technical assistance.

The structural changes which constitute the macro-economic scenario proposed by the mission are as follows: a) an immediate and continuing modification of foreign exchange policy; b) a reduction in budget imbalances by ending support for loss-making commercial operations; c) a more flexible policy on prices to ensure that they cover all production costs; d) liberalization of wages policy; e) changes in interest rates paid or charged by the banks; and f) more autonomy for public sector enterprises so that they cease to be treated as an appendage of the State administration.

Following on from the package of macro-economic measures referred to above, the missions's recommendations for reviving industrial activity, the details of which and of the relevant technical and financial assistance are outlined below, can be summarized under six headings, which are to some extent interrelated:

a) Reform of the system of tutelage, with more autonomy for industrial firms. The merging of the State Secretariat for Light and Food Industries with the MIE is recommended, while leaving it with some autonomy in its sphere of activities which could be co-ordinated by a deputy minister; the energy sector, including the different forms of energy (electricity, petroleum, gas, coal and wood) would be supervised by a new autonomous division of the M.I.E.; the transfer of a number of industrial units presently supervised by other ministries to the tutelage of the M.I.E. is also proposed. Meanwhile, the Management Units would be gradually be disbanded, their functions and staff being transferred to departments of the M.I.E.,to consulting and service

enterprises yet to be set up, to the enterprises themselves and to new promotional bodies to be set up in the course of a reorganization of the public sector.

b) Management of the public sector enterprises and of the State's financial holdings. In view of the proposal to gradually disband the M.U.'s, and the need to carry out opportunity and feasibility studies (or to commission them), oversee the State's financial holdings, promote and participate in mixed enterprises, execute projects for the establishment and rehabilitation of State-owned enterprises, manage funds destined for industry in the framework of industrial co-operation projects, assist in industrial planning, etc. Two alternatives are proposed for the Government to choose from: the creation of an Institute for Industrial Rehabilitation and Promotion (IIRP) or converting viable State enterprises into bodies at the subsectoral level, with administrative and financial autonomy like the IIRP, which would ultimately fulfil the function of independent holding companies.

d) Strengthening of industrial promotion and services. In addition to the IIRP or the bodies proposed as an alternative, the introduction of a tax incentive scheme is recommended to foster new investments, whether by nationals or in the form of direct foreign investment. The establishment of a number of private or mixed private and public research, consulting and service firms is also recommended, e.g. a Documentation and Technological Information Centre, and a Centre for Industrial Standards and Quality Control to be created by way of technical centres, and also a national repair and maintenance service for industrial plant and machinery.

e) Improving statistical data bases. It is recommended that the NPC/NSO improve their computation of national accounts, their industrial and foreign trade statistics, publish an index of industrial production and likewise prepare input-output tables. Furthermore, in view of the need to process and utilize basic statistical data collected as part of the industrial planning process, it is recommended that ministries in general and the M.I.E. in particular should be enabled to process the information available, for which purpose some technical assistance will be required.

f) More flexibility with regard to labour, prices and wages. It is recommended that staff complement of enterprises be matched with their actual needs; prices should be set at levels which enable all production costs to be recouped, or should be subsidized - if a political decision to this effect is taken. At the same time the range of regulated prices should be extended, these being entirely de-restricted at a later stage. Only one pricing methodology should be used for calculating the prices of industrial goods subject to regulation, regardless of which ministry actually supervises them. This methodology should be prepared and promulgated by the Ministry of Finance and should allow for all costs of production, including depreciation, which must be calculated on the basis of the historical cost of the underlying assets, adjusted for inflation. Wages must in

turn be reviewed annually in the light of inflation. This is the only way to avoid, or reduce, the migration of specialists and skilled workers abroad or to the informal economy.

g) Vocational training. Apart from basic technical training which falls within the ambit of SETEP, it is proposed that training activities in the spheres of management and administration be carried out by the Department of Human Resources of the M.I.E. These would now undertaken by the Industrial Training Centre, now in formation, which will offer itis services to all industrial firms, regardless of whether they are under the tutelage of the M.I.E.

h) Reform of the system of industrial loans. Questions of technical, economic and financial viability must play a greater part in lending decisions than was hitherto the case. It is therefore proposed that the BH's loans department (and also that of the BFD) be strengthened, possibly with the help of technical assistance, through the addition of a project analysis and appraisal department, which could become the core of a future development bank.

3. The Proposed Industrial Rehabilitation Programme

The rehabilitation programme will have to establish three priorities, to be pursued in the short and medium term, the short term being the coming two years and the medium term being the coming five years. A breakdown of these priorities by industrial subsector is given in the table at the end of this summary.

Top priority must be given to satisfying the basic needs of the people as regards food, clothing and footwear, toilet articles, consumer goods and agricultural tools, packaging materials, and electrical services and equipment using simple technology which are already being produced in plants located mainly in and around the cities. At the same time, agro-industrial activities aimed at export markets and those such as tobacco and beverages which generate revenue for the central government and also activities which promote individual construction must also be in the forefront of this strategy.

These activities are the first priority and must commence in the near future - at a time when security problems of security will still be experienced. Rehabilitation will basically consist in the supply of raw materials and spare parts, but without excluding the possibility of some new machinery.

The second and third priorities must be tackled in the medium term, assuming that by then the security problem will have been largely solved, since the results of the first priority rehabilitation efforts that will emerge in the medium term will already be felt in the rural areas.

The 2nd level of priority concerns the production facilities rehabilitated during the phase of first priority. Here the aim will be diversification, including that of export products, and also the development, improvement or introduction of new types of production, particularly of the most important intermediate inputs.

The 3rd priority is the need for some degree of specialization in products capable of competing, particularly within SADCC but also in European countries through the Lome III agreement. This wil require the introduction of international standards, while the network of intersectoral linkages must be strengthened by new products, particularly those which suit the expected improvement in national project preparation capacity and technology.

In the long term, i.e. during the next five to ten years the remaining industries will be developed, with a preference for those of medium size and which fit national project implementation capacities, which will not require large-scale investment and are preferably labour-intensive and/or designed for the utilization of natural resources. Export industries must also be considered, including those depending mainly on imported inputs, provided they yield high value added. Large-scale high technology projects aiming at natural resource utilization will also be implemented in the long term, provided that their economic viability and financing are ensured: extraction of iron ore and coal, exploitation of natural gas and fertilizers, aluminium and steel, paper pulp, etc.

Fig. I.1. shows in diagrammatic form the activities whose rehabilitation is proposed by the mission, without however setting priorities for implementation. Thus, as stated, additional studies will be needed to identify by means of objective selection criteria the individual industrial units to be rehabilitated and the activities to be given priority.

4. Recommended Technical and Financial Assistance

Implementation of the rehabilitation programme requires substantial financial resources, mainly in foreign currencies, which far exceed the RPM's resources and could only be obtained through international co-operation.

It is the mission's opinion that the recommended programme has the minimum internal consistency to merit support. As the activities envisaged by the above mentioned detailed study on the rehabilitation programme for existing industry are undertaken, needs for further assistance will be duly identified so that external support can be mobilized.

In addition to this financial support, a number of technical assistance operations will have to be mounted as detailed below:

a) Specialized technical consulting to support a team of Mozambican engineers and economits who would work out the details of the rehabilitation programme by identifying technically and economically viable industrial plants and/or subsectors for rehabilitation applying objective evaluation criteria and allowing for the need to identify opportunities for new investments to expand the existing industrial linkages by a study of the main types of production.

b) Technical assistance to the Institute for Small Industry Development with the aim of encouraging, resuscitating and establishing small industries which utilize local resources. Possible assistance to the BPD as regards the preparation of projects and their financial and

economic appraisal. There is a need of financial support to implement small-scale industry projects.

c) Technical support to strengthen the capability to process statistical data.

d) Technical and financial assistance to implement the programme of Integrated Metalworking Units.

e) Technical assistance in establishing the technical centres.

f) Technical assistance in setting up the Institute of Industrial Rehabilitation and Promotion or, alternatively, of the holding company type of body which will be created to supersede the Management Units.

SUMMARY OF THE RECOVERY PROGRAMME

Objectives / Subsector	Short and medium term			Long term
	1st Priority	2nd Priority	3rd Priority	
	- Satisfying food, clothing, footwear and personal hygiene needs. - Production of products for barter in rural areas. - Production of goods for export - Production of building materials for maintenance of works. - Production of packaging materials. - Production of simple medicines. - Production of goods generating tax receipts (cigarettes and beer).	- Diversification of industrial production. - Improvement in industrial quality. - Strengthening local industries. - Expansion and diversification of the construction materials industry.	- Specialisation in goods capable of competing in the regional (SADEC) and some European markets. - Development of national project and technological capabilities - Production of commercially viable intermediate goods.	- Development of large-scale high technology projects for the exploitation of natural resources. - Mining of coal and iron ore. - Use of natural gas and production of fertilisers. - Soda and chlorine products from sea salt. - Steel and aluminium projects. - Production and assembly of electrical appliances for household use.
Food Industries	- Rehabilitation of industrial refrigeration units. - Fish drying and canning. - Beer and soft drinks factory. - Flour, noodles, bakery products and biscuits. - Re-equipping saltworks. - Pilot plant for manioc flour.	- Rehabilitation of yeast factory. - Centre for Food Industry Technology. - Salt-washing units. - Improving the quality of food products. - Expanding the network of commercial and industrial refrigeration facilities. - Beer and soft drinks units. - Manufacture of sausages and other preserved meat products.	- Mechanization of the salt-works north of Maputo for domestic consumption, export and future supply of soda and chlorine products. - Completion of the national refrigeration network. - International quality standards. - Rehabilitation of margarine factories. - Manufacture of dairy products. - Establishment of a network of slaughter-houses.	- Development of the dairy industry by expanding numbers of cattle. - Establishment of a baby-food factory. - Manufacture of chocolates. - Increasing the variety and quality of food products.
Agro-Industries	- Rehabilitation of sugar, cashew, tea, cotton and sisal industries. - Fruit and vegetable canning. - Tobacco processing facilities.	- Continuing the rehabilitation of sugar, cashew, tea, cotton and sisal industries. - Facilities for fruit and vegetable canning.	- Tobacco processing facilities; promoting tobacco cultivation.	- Improving the quality and packaging of certain export products, such as refined sugar, cashew, tea etc. - Canning of tropical fruit for export.
Textiles, Garments and Footwear	- Rehabilitation of spinning mills. - Conversion of knitwear industry to use more cotton. - Blankets and covers. - Tanneries. - Lace and braid trimmings. - Components for the footwear and garments industries and supplying them with needed inputs. - Items of footwear (of canvas, plastic and rubber). - Re-equipping the clothing industry.	- Rehabilitating the main spinning, textile and knitwear plants. - Technical assistance for dyeing, fabric design and patterns and models for ready-to-wear garments. - Leather footwear. - Components for the garment and footwear industries.	- Textile mill for mixed fabrics. - Improving sewing yarn quality. - Centre for Footwear and Leather Technology. - Completion of the Maputo facility. - New facilities for production of braid and trimmings.	- Manufacture of footwear and leather articles of international standard. - Expansion of the tanning industry. - Ensuring that imports of man-made fibres are available for inclusion in cotton fabrics.

(Continuation)	Short and Medium-Term			Long term
	1st Priority	2nd Priority	3rd Priority	
Wood and Furniture Industries	- Sawmills and furniture plants in safe areas. - Particle board, veneers and plywood. - Hard crafted mahogany and rosewood furniture for export.	- Improving techniques of cabinet-making. - Commencement of mass production. - Rehabilitation and expansion of sawmills and furniture plants.	- Expansion of particle board production (Ifloma phase II) - Installation of a wood-drying oven.	- Construction of a new sawmill for exotic woods and a factory for pre-fabricated dwellings (Ifloma phases II and III). - Construction of modern furniture factories.
Paper and Paperboard Industries	- Line IV of the paper mill. - Overhauling and improving the quality of paper and paperboard production.	- Rehabilitation of production units for paper and cartons.	- Centre for Paper Technology.	- Start-up of paper pulp mill (Ifloma phase III). - Expanding production of paper, paperboard and corrugated paper. - Diversification of production of paper and paperboard items.
Non-metallic Mineral Products	- Production units for slaked lime. - Simple ceramics for building. - Recuperation of the national cement factory and rehabilitation of the Nacala plant. - Fibro cement production unit.	- Diverse cement products: pre-stressed, fibro cement, etc. - Sanitary and domestic chinaware.	- Rehabilitation of the Matola and Dondo plants and of their respective quarries. - Ceramic paste from local raw materials for the manufacture of porcelain and china. - Refractories. - Abrasives.	- Expansion and diversification of the cement industry. - Manufacture of porcelain ware.
Basic Metal Industries	- Rolling of steel billets (imported) for the production of rods, wire and some of the most common types of structural steel. - Smelting of iron and steel (phase I of the project for rolled steel from pig-iron). - Small foundries for ferrous and non-ferrous metals. - Manufacture of wire netting, nails and screws.	- Diversification of foundries. - Irrigation pipes and galvanized metal sheets. - Expansion of steel rolling and wire drawing and of the product range.	- Production of rolling billets from steel scrap (phase II of the pig-iron casting project). - Increasing the range and quality of washers, screws, nails and rivets.	- Construction of an integrated steelworks. - Plant for metal fittings, forged or cast and machined, and various types of metal tubing. - Implementation of the aluminium project to use the excess capacity of Cahora Bassa.
Electrical Engineering Industries	- Repair and maintenance workshops for transport equipment and industrial machinery. - Agricultural tools and implements (continuation of the SIDA programme). - Radiators, exhaust pipes and breaks. - Assembly of bicycles and motorcycles. - Metal containers. - MIU's programme. - Metal domestic utensils.	- Electrical parts and components. - Establishment of the Production and Development Centre for the Engineering Industry and continuation of the MIU's programme. - Agricultural machinery and vehicles without engines - Assembly of industrial / commercial refrigeration units. - Manufacture of panels for industrial refrigeration units. - Low technology intermediates. - Chassis and trailers.	- Electrical appliances using simple technology. - Assembly of television sets, hi-fi equipment, air conditioners, refrigerators and freezers. - Hand tools. - Rolling stock and hoisting and pumping machinery for export. - Components for the automobile industry. - Parts for the textile industry. - Moulds for the plastics industry.	- Manufacture of certain types of machine tools. - Aluminium anodizing unit. - Diversification of production, particularly of intermediate products. - Assembly of lorries and buses.

(Continuation)	Short and Medium-Term			Long term
	1st Priority	2nd Priority	3rd Priority	
Chemical Industries	- Recuperation of oil and soap units. - Glass containers and domestic articles. - Plastic articles (containers, buttons, domestic utensils). - Construction of physiological serum and galenical pharmacology units in Maputo. - Tyres, inner tubes and retreading, aiming at exports. - Improving the quality of paints. - Industrial gases and welding electrodes. - Wet and dry batteries. - Agro-chemical specialty products from imported inputs.	- Formulas for paints, varnishes glues. - Paint factory for the building trade using local pigments and fillers. - Galenical pharmacology units in all provincial hospitals. - Organic and chemo-organic fertilizers.	- Plastic articles weighing more than 500 grams. - Fibre and polyurethane articles for marine use. - Manufacture of cleaning materials and other consumer chemicals.	- Manufacture of plate glass. - Manufacture of soda and chlorated products from sea-salt. - Manufacture of ammonium and nitrogenous fertilizers from Pande natural gas. - Fertilizers from phosphates and compost. - Manufacture of selected pharmaceuticals and related products (insecticides, fungicides and pesticides) for export. - "Revamping" the Maputo refinery.
Ship Building and Repair	- Master plan for the sector. - Overhaul of the equipment in worst condition. - Technical training. - Anchoring the Maputo floating dock.	- Rehabilitation of the shipyards in Maputo and Beira. - Construction of a shipyard for Navipesca in Beira.	- Centre for Shipbuilding Technology. - Construction of small shipyards for the repair of individually owned fishing vessels.	- Building steel fishing boats. - Repair of large vessels on internationally competitive terms.

II. MACROECONOMIC FRAMEWORK

A. Position and Economic Sectors

1. Geography

Mozambique is located in southern Africa, stretching for 2,500 km along the coast of the Indian Ocean. Its surface area is 780,000 km² and the average width of its territory 320 km. It narrows to the South in the province of Maputo, where only 65 km separate the capital on the sea-coast from the inland frontier. In central Mozambique the frontier reaches much further into the interior, scooping out a large part of the Zambezi basin. The frontier village of Zumbo is 1,000 km from the sea. It is the north of the country which is of most regular shape, the Rovuma river and Lake Niassa forming a natural boundary. In their general configuration, Mozambique's frontiers, like those of most African countries, are a legacy of the colonial era and were drawn at the Berlin Congress at the end of the last century. However, in this particular case the process took longer and the present frontiers were finally determined only at the end of World War I.

The original channels of communication, - the great rivers flowing to the Indian Ocean which brought the coastal trade to the markets of Monotapa's realm, have now been supplemented by roads and railways and, in the Beira corridor, by the Umtali oil pipeline. Mozambique, being situated between the coast and the great plateaux of the interior, can join or divide civilizations. The "land of good people" has always seen its vocation in fostering relations between the seafarers and traders on the coast and the more vigorous manifestations of bantu culture which developed in central southern Africa.

Given this geographical situation which led the port of Beira to be regarded as a kind of African Rotterdam, the enormous importance of the service sector to the Mozambican economy comes as no surprise. This natural advantage is of inestimable benefit in times of peace, but its very vulnerability may be viewed with covetous eyes when frontier tensions and the possiblity of conflict arise. This has been Mozambique's situation since independence, first by meeting the cost of the sanctions imposed on Southern Rhodesia, and then by becoming the foremost bastion of the conflict with South Africa.

Receipts of foreign exchange from the supply of services for transport and tourism, fell to insignificant levels 1/, while acts of sabotage perpetrated by armed bandits cut communication lines and other infrastructure facilities, impeding traditional exports and better use of natural resources. This process of rapid impoverishment was aggravated by a number of natural disasters (floods and prolonged droughts) which in recent years have greatly surpassed the normal climatic fluctuations occurring in a sub-tropical regions.

1/ International freight traffic in the port of Maputo fell from 6.9 million tonnes in 1973 to about 0.9 million in 1985. Nevertheless, rail traffic from RSA to the port still yielded receipts of about 7.5 million US dollars in 1985.

2. Agriculture and Forestry

The country has about 15 million hectares of arable land and 20 million hectares of timber-bearing soil, being 19% and 25% of its total land area respectively. Of the arable land, two million hectares are irrigable, about half in the Zambezi basin and the rest spread over river basins, such as the Buji-Pungoe with 200,000 ha. and the Incomati and Limpopo basins with 100,000 ha. each. At present only 15% of the arable land is under cultivation and only 0.6% is irrigated.

As regards timber resources, the average yield is given as 20m³/ha. of wood per year, which means 400 million m³ per year for the country as a whole, of which 30 million m³ is of high quality. The utilization of these resources has been seriously affected, both by freak climatic conditions such as the catastrophic flooding of the Limpopo and Incomati rivers in 1977, the flooding of the Zambezi in 1978 and the prolonged droughts which afflicted the centre and south of the country in 1982/83, but also owing to the increasing difficulty of transporting goods in view of the security problem which has affected the entire country. In effect, with the exception of the fruit and vegetables produced by the "green belt" around Maputo, the cultivation of citrus fruits, cereals, cotton, sugar, cashew, tea, copra and sisal, and the breeding of animals occur in parts of the country remote from the consumers or from ports from where they can be exported. Since canning and storage facilities at the production site of production are generally limited, they must be transported to consumers by road and rail, thereby becoming vulnerable to attack by the armed bandits. Thus the abundant resources of an unusually fertile soil, which are already widely known and utilized, are lost to the country because they cannot reach their markets. It is these exogenous factors which were the main cause of the fall in agricultural production as of 1982, preceded by a period starting in 1977 during which the indices of agricultural production and sales had recovered.

Various internal factors had a negative impact on agricultural production, hampering higher rates of growth and discouraging the activity, already jeopardized by the factors referred to above. Of the internal factors the most noteworth were the excessive size of certain public sector enterprises, an overly rigid pricing policy which failed to provide any incentive, a shortage of consumer goods, a lack of adequate support for family and co-operative producers, and an absence of regulations on uses of land.

Mention should be made of the efforts made in the last two years to assist small producers, of the reorganization of the State enterprises with a view to improving their viability, and of the coming into force of the Land Act which has ended the legal vacuum surrounding the use of land.

3. Fishing

Total marine resources are not well known, although the potential catch is estimated at between 400 and 500 thousand tonnes, about half of which is anchovies with some 15,000 tonnes of prawns. The country does not have much of a fishing tradition, except for the districts of Inhambane and Cabo Delgado, where fishing is carried on as a craft. It was at the end of the sixties that the first trawlers appeared, initially operating more or less on an individually basis and later with refrigeration facilities intended mainly for

exports. After independence, most of the fishing boats left the coasts of Mozambique and the few that remained did not have experienced crews. The Government adopted various measures to resuscitate the fishing fleet, e.g. by setting up State enterprises (PESCOM, EMOPESCA, etc), by granting fishing rights to private companies, by setting up joint ventures of which there are presently three (with Spanish, Japanese and Soviet interests), and by providing assistance to individual fishermen.

In 1981 the State Secretariat for Fisheries was set up and, more recently, the "Integrated Fisheries" 1/ were established with the aim of operating a fleet, marketing the catch and assisting in the equipping and maintenance of the boats. Lastly, the creation of the Small Scale Fishery Management Unit, assisted by the Nordic countries and by the FAO is worthy of mention. The unit trains fishermen, officers and seamen, of which there is an almost total lack in Mozambique. Up till now the country's abundance of fish has brought it little more than the receipts from the fishing licences granted to foreign vessels and the local consumption of certain species, most of which are however exported.

4. Mining

The riches of the Mozambican subsoil have long been known, but their geological investigation is still incomplete, in spite of the enormous efforts made in this area in the last 10 years. Extraction activity has also been irregular and most of the mining equipment is obsolete. The frequent attacks on the railways which ended by preventing the transport of minerals from the mines, and the increasing perils of mineral extraction per se led to the suspension of almost all operations. This means that the mining of coal in the various coal-bearing basins has been suspended, while the reserves are estimated at 10 billion tonnes, half of which are confirmed. Reserves of natural gas in the Pande fields are estimated at 60 billion m^3. Tantalite, a rare mineral required for the hardening of steel, was an important export item until the end of 1984, when working had to be suspended. By contrast, exports of ornamental rocks such as marble and granite began to attain importance in 1985. There has been spasmodic extraction of precious and semi-precious stones (aquamarine, morganite, garnets, emeralds and tourmaline).

1/ The Integrated Fisheries are small State-owned companies supervised by the Small-Scale Fishing Management Unit, financed from the State budget, the aim of which is to support small-scale fishing by supplying needed inputs, the repair and maintenance of equipment, and the purchase of any fish remaining unsold. They normally have a repair depot, a store for the sale of consumer goods, and a warehouse for drying fish. They have small fleet of fairly well equipped fishing vessels, which are mainly used for training.

2/ The last shipment of coal from Moatize to the port of Beira rail was in 1982.

There are substantial deposits of non-metallic minerals among which bentonite, diatomite, graphite, apatite and fluorite are worthy of mention. This subsector also offers products for the building industry: bauxite (for refractory products), asbestos, perlite (a cement additive) and limestone for the manufacture of cement and lime. Most of these are not being worked at present owing to security conditions.

The same applies to metals, although the reserves of iron ore in the provinces of Manica and Tete are worthy of mention. Reserves of lead, tin, titanium, nefelic syenite (aluminium ore), copper, nickel, cobalt, manganese and gold. Lastly, there is the offshore and onshore search for oil by a number of international companies.

As soon as the country's security situation changes, it should be possible to recommence extraction of coal, non-metallic minerals and precious stones immediately.

5. Energy

Mozambique is potentially a net exporter of energy, whether in the form of hydro-electric power or of fossile fuels. The Cahora-Bassa dam, completed in 1974, has a capacity of 2,075 MW which can be expanded to 1,684 MW after the construction of the northern plant. The Cahora Bassa is but the first of a number of possible dam sites in the Zambezi basin regarding which preliminary studies have already been prepared together with proposals regarding location and capacity. To the south of the Zambezi the second location for hydroelectric power generation is formed by the river Revue system with dams at Chicamba Real and Mavuzi, linked to the Zambezi grid at Chibata and to the

those of the gas fields of Pande-Buji, estimated at 60 billion m^3 where the stage of operational planning has been reached.

B. Population

6. Structure

In August 1985 the population of Mozambique was estimated at 13.8 million inhabitants. In spite of the series of natural disasters which have afflicted the country in recent years, adversely affecting its food resources, and of the difficult security situation, the population has continued to grow at 2.6% per annum, one of the highest rates in the world. Population density is 17 to the km^2, about the average for sub-Saharan Africa, but its distribution is irregular, above 50 per km^2 in some regions, and less than 5 in others. The uneven population distribution has intensified in recent years by a marked trend of migration to the capital, which has almost tripled its population since 1970 and presently has an estimated at one million inhabitants. The Government's policy of sending unwanted city-dwellers to the farms outside the city of Maputo or even of sending them back to their villages of origin has not so far met with any great success.

Linguistically speaking there are four main groups speaking more than 20 dialects. Portuguese is the official language and the one in widest use, being spoken by more than 1/4 of the population, although for the majority it is the second language and not the native tongue. According to the 1980 census, Mozambique had 12,130,000 inhabitants, of which 5,576,000 (46%) were economically active, the vast majority of these being engaged in agriculture. Only 346,800 persons were working in industry, including energy and mining, i.e. 2.9% of the total population and 6.2% of the active population. Of these, 1/3 were city dwellers, 2/3 rural. The traditional flows of workers from the south of the country to the mines of the Transvaal suffered a marked decline after independence and there is no sign of any recovery 1/. The number of unregistered workers in South Africa may however be several times the official figure (about 200,000 according to certain sources).

Fig. II.1. Migrant workers in the RSA

1975	1977	1980	1983	1984	1985
118,030	41,364	45,824	39,731	51,510	61,156

Source: N.S.O.

1/ May however tend to worsen in the short run if the RSA makes good its threat not to renew employment contracts upon their expiry.

The forecasts of the National Planning Commission regarding the trend of population and the level of activity are as follows:

Fig. II.2 Level of activity

	1980	1985	1995
Total population	12,130,000	13,809,700	17,966,600
Level of activity	46%	43%	40%

Source: NSO.

7. Education and Health

Since independence the Government of Mozambique has accorded high priority to public health. About 7% of government expenditure goes on health care 1/, and since 1975 some 3,000 paramedics have been trained and now provide preventive and basic medical care to about 50% of the population. The country is considerably handicapped by having only 400 or so physicians, particularly in view of their concentration in the urban centres. It is however noteworthy that Mozambique has become one of the most advanced African countries as regards basic health care facilities and the development of a limited range of basic medicines for use in accordance with WHO norms. Progress in the sphere of health care has of course yielded visible benefits, both as regards life expectation, which has increased from 40 to 45 years, and the rate of population growth which has risen from 2.3% to 2.6% in spite of the persistence of a high rate of infant mortality (about 159 per thousand births).

In the sphere of education, the attainment of independence was no less of a turning point. Between 11% and 12% of government spending was devoted to this purpose, with special emphasis on primary education. Since 1974 the literacy rate has risen from 7% to 25%. Progress is even more marked in the 15 to 25 age group, where literacy has now reached 50%. The high percentage of those unable to read and write at the time of independence, and the lack of managers, engineers and skilled workers has perhaps been the colonial regime's most burdensome legacy.

The results obtained at the higher levels of education have been more modest, partly because of the exodus of teachers after independence 2/, and partly a large number of middle and senior level staff were not Mozambican and left the country, leaving a gap which has not yet been filled. Thus, although

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1/ The average for sub-Saharan Africa is 5%.

2/ The need for large numbers of personnel in the latter years of the colonial war brought highly qualified technical and scientific staff to Africa. They were called up to compulsory military service, but in many also cases also carried out teaching functions.

there are at present about 100,000 students undergoing secondary and technical education, this is far below the country's needs in terms of managers, technical specialists and skilled workers. On the other hand the quality of teaching, which even at the university level could well bear comparison with that in Europe, in view of the restricted and selective access prior to independence, has suffered a gradual deterioration owing both to the lack of adequately qualified teaching personnel and to the shortage of teaching aids, laboratory equipment and up-to-date bibliographic data - all in consequence of the financial restrictions which had to be imposed on every type of activity in the country.

C. Production, National Product and Investment

8. Production and National Product

Institutionally speaking, the political and economic system of the People's Republic of Mozambique is characterized by centralized control, for which purposes it has adopted the system of Material Product Accounting (MPA). The main indicator of national production is Global Social Product (GSP), derived from the algebraic sum of the gross value of physical production in the various economic sectors.

For a variety of reasons Net Social Product, obtained from Global Product by subtracting the physical costs of production, is not computed so that national income cannot be ascertained. Either because of this limitation, or because Global Product, owing to the double counting of various headings, does not provide reliable data on the behavior of the economy in case of a change in the structure of production, the NSO calculates the main components of national expenditure independently. For this purpose, taking the balance of payments, central government spending and certain other indicators it computes public consumption, gross capital formation and depreciation. Private consumption is estimated by means of surveys of self-consumption, whose share in private consumption is estimated at 70%-80% of the total.

Using the information available on national expenditure, it is possible to calculate gross domestic product at factor cost (GDP fc) and accordingly national income (in the market economy sense of the term). However, the analysis, if made at current prices or in US dollars will lead to erroneous conclusions. Thus the estimates of GDP fc per capita yield the following results: US$ 171 in 1973; US$ 179 in 1980; US$ 174 in 1982; US$ 175 in 1984 and US$ 250 in 1985 (cf Statistical Appendix - Fig. 10). This is due to higher inflation in the country (average annual rate over the past five years - 25%) and an overvaluation of the metical 1/, which was not adjusted for inflation (the metical even appreciated vis-a-vis the dollar by about 5% in 1985).

1/ In January 1987 the metical was the subject of one-shot devaluation which reduced its value in terms of the US dollar from 40 to 200. This devaluation will be followed by a crawling peg devaluation.

Any analysis over time will therefore have to be made at constant prices.. The evolution of GSP and GDP are given below at constant prices by way of illustration.

Fig. II.3 Comparison of TSP and GDP
(at 1980 constant prices - (10^9 meticals))

	1973	1975	1977	1981	1982	1983	1984	1985
GSP	111.9	71.4	74.8	84.1	78.8	64.4	58.2	53.6
GDP at factor cost	94.4	64.5	64.8	72.2	69.7	53.0	49.4	53.8

Source: NSO and mission estimates of GDP fc at constant prices.

To arrive at a realistic analysis of the Mozambican economy the national income must be disaggegated by sectors of activity. Since GSP does not permit such disaggregation, supplying only total values of production, the economic structure of domestic product must be analysed. While the gross domestic product of Mozambique grew at an annual rate of 2%-3% 1/ in the early seventies, the industrial sector was remarkable for growth close to 10% p.a.

From 1975 to 1978, years which witnessed the departure of the country's managers and specialists, campaigns of economic sabotage and the establishment of the new politico-economic system, the economy grew at an average annual rate (at constant prices) of 2.4% (measured by GSP) or 0.3% (measured by GDP). There followed a period of recovery (1978-81) in which, notwithstanding the negative impact of certain exogenous and endogenous factors (natural disasters, sabotage by the armed bandits, boycotts by the RSA, a number of errors in the utilization of resources, etc) the economy grew at 3.1% (measured by GSP) or 2.7% (measured by GDP) while industrial growth amounted to 4.3% (social product) or 4.1% (value added). Lastly, the period from 1981 to the present has been a time of grave economic crisis, with an annual rate of negative economic growth of 12.0% (measured by GSP), or of 7.6% (measured by GDP) in the period 1981-1985. Industry was even more affected, with negative annual growth of 23.0% (social product) or 17.8% (value added). The causes of this crisis lie in the combined effects of the adverse factors already referred to, compounded by the shortage of foreign exchange preventing imports of raw materials, spare parts and machinery. This means that between 1973 and 1983 national product declined at an average annual rate of about 2%. By adding population growth of around 3% to this figure we arrive at an annual loss of per capita income close to 5%.

This growing poverty was not evenly distributed. Although output fell in all sectors, it was in industry that the fall was most pronounced, with production in 1985 reaching only about 50% of the 1973 level. This was due to the heavy external dependence of industry, lack of foreign exchange to buy needed inputs and the drop in purchasing power.

1/ Source: NPC.

The relative importance of this sector likewise declined, dwindling from 22% of GDP in 1973 to 13% of GDP 12 years later.

Fig. II.4. Share of economic sectors in GDP
(per cent)

	1970	1973	1975	1981	1982	1983	1984	1985
Agriculture */	18.9	19.2	21.7	36.3	36.8	38.0	41.5	38.7
Industry **/	18.4	22.3	17.8	18.5	17.3	19.6	16.8	12.8
Services	62.7	58.5	60.5	45.2	45.9	42.4	41.7	48.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Planning Commission and Mission Estimates.

*/ Includes livestock, forestry and fishing.

**/ Includes mining, manufacturing industry, energy, construction and public works.

It goes without saying that a young industry, heavily dependent on imports for its raw materials, intermediate goods and spare parts and for all its machinery, would inevitably suffer from changes in the politico-economic system which had fostered it. Given the fact that its structure did not change althoug the economic situation deteriorated during the last five years, industry was unable to solve its problems without overall recovery of the economy. In a later phase promising industrial investments could be implemented, the analysis of which had already begun in the second half of the seventies.

In spite of negative growth rates, agriculture was still the main activity in 1985, while 10 years previously it accounted for only 22% of GDP.

Fig. II.5. Overall sectoral rates of growth (per cent)
- at constant prices -

	1970-75	1975-80	1980-85	1983-84	1984-85
Agriculture */	-3.7	+23.9	-18.4	+1.5	+1.3
Industry **/	-18.6	+9.6	-47.5	-21.3	-15.0
Services	-18.9	+1.3	-31.5	-8.3	+26.3
GDP	-16.0	+8.8	-23.4	-7.1	+9.0

Source: Economic Information/NPC; NSO; and mission estimates.

*/ Includes livestock, forestry and fisheries.
**/ Includes mining, manufacturing industry, energy, construction and public works.

9. Capital Formation

The computation of gross fixed capital formation in Mozambique suffers from the same limitations as the computation of national income. Since it cannot be quantified directly by means of the Global Social Product, estimates of domestic product have to be obtained from the main headings of national expenditure, isolating expenditure on capital goods.

The following values were obtained from the national accounts statistics for the most recent years:

Fig. II.6. National accounts
(10^9 meticals)

	1980	1981	1982	1983	1984	1985
Private Consumption	64.0	64.9	76.5	79.7	93.2	127.3
Public Consumption	13.8	16.6	19.0	21.3	22.2	24.2
Gross Capital Formation	14.8	16.3	17.9	9.1	11.4	10.1
Net Exports	-14.4	-16.4	-21.0	-19.0	-18.1	-14.5
GDP (market prices)	78.2	81.4	92.3	91.2	108.7	147.1

Source: National Statistical Office. (Corrected Data)

Investments can also be broken down by type:

Fig. II.7. Investments by object of expenditure
(10^9 meticals)

	1980	1981	1982	1983	1984	1985
Construction	4,800	5,000	5,700	6,249	6,040	5,700
Machinery	5,929	6,419	8,231	5,868	5,520	4,800
Other	2,310	3,770	3,118	1,432	1,000	800
G.F.Cap.Form.	13,039	15,189	17,040	13,569	12,560	11,300
Stocks	1,733	1,203	-110	4,501	-2,450	-500
G.Form.Capital	14,772	16,392	16,939	9,048	10,110	10,800

Source: NSO (Uncorrected Data).

Note: The discrepancy vis-a-vis the g.f.capital per Fig. II.6 is because the data in Fig. II.7 has not been corrected.

The heading "other" is made up mainly of spare parts and accessories. As can be seen from Figs. II.7 and II.8, expenditure on machinery and "other" in 1983 fell by 29% and 54% respectively, while stocks fell by 4.5 billion meticals, which represents about 1/3 of fixed gross capital formation in the same year. All these downward trends persisted in 1984 and 1985 with the lowest absolute and relative values. Only construction, owing to its

Fig. II.8. Annual changes in capital formation
(per cent)

	1980-81	1981-82	1982-83	1983-84	1984-85
Construction	+4.2	+14.0	+9.6	-3.4	-5.7
Equipment	+8.3	+28.2	-28.7	-6.0	-13.1
Other	+63.2	-17.3	-54.0	-30.2	-20.0

Source: Fig. II.7.

low import component 1/ did not diminish significantly after 1983 2/. With respect to equipment and spare parts (heading Other), the situation with regard to plant and machinery has deteriorated enormously. The evolution of stocks since 1983 is equally significant, these having declined to such low levels that stoppages and consequent loss of production are frequent.

Lastly, it is important to note how the structure of fixed capital formation has evolved (see Fig. II.9).

Fig. II.9 Structure of Fixed Capital Formation
(per cent)

	1980	1981	1982	1983	1984	1985
Construction	37	33	33	46	48	50
Equipment	45	42	49	43	44	43
Other	18	25	18	11	8	7
TOTAL	100	100	100	100	100	100

Source: Mission Estimates.

This figure shows how Construction, notwithstanding negative growth, has moved into first place, increasing its lead over the other items.

D. Balance of Payments

10. Trade Balance

As regards merchandise, partially processed agricultural products were the largest category of exports, notably cashew, of which

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1/ Ch. III, para. 16.3.

2/ Construction suffered a serious setback after independence. Its 1980 volume was 33% of that recorded in 1973. The recovery began in 1986.

Mozambique was the world's largest exporter, but also cotton, tea and copra of which the country was likewise a leading supplier.

Fishing, which as already mentioned has great potential, contributed mainly through royalties from fishing licences granted to other countries, only prawns have recently emerged as a significant source of foreign exchange earnings.

Lastly, Mozambican manufacturing industry, which is relatively young and little developed, produces almost exclusively for the domestic market, having to import the major part of its raw materials and intermediate inputs. Nevertheless, manufacturers of tyres, batteries, cement and fabricated metal has managed to export some of their excess production. The Maputo refinery regularly exported petroleum products before suspending operations in 1984. These exports, in spite of being potentially competitive, have had little impact, owing to the high import content.

The evolution of the trade balance has been as follows:

Fig. II.10. Balance of trade
(10^6 meticals)

	1975	1980	1982	1984	1985
Exports	5,050.4	9,096.9	8,655.3	4,060.5	3,309.2
Machinery	10,745.6	25,922.3	31,573.7	22,903.3	18,298.0
Cover	47%	35%	27%	18%	18%

Source: NSO

Attention should be drawn to the simultaneous reduction in imports and exports in recent years. The drop in the latter results from the general insecurity and the attacks on transports or even on production facilities, while the drop in imports results from the lack of foreign exchange, which is itself largely a consequence of the previous factor. The consequences of this situation for the economy were dramatic inasmuch as domestic production had to be suspended or substantially reduced for lack of raw materials, spare parts and machinery. Its effects were aggravated, as will be shown later, by the necessity to increase imports of foodstuffs.

11. Energy Balance

Hydro-electric power generation has great potential throughout the country, in particular the system of small and medium-scale dams, some in the south still under construction, which will help reduce the energy dependence of the southern part of the country. The Zambezi basin supplies the north central region, the Cahora Bassa dam being the best known facility owing to its size.

Systematic sabotage of the Cahora Bassa power transmission lines has made the country, and especially Maputo, dependent on imports from the RSA 1/. In the remaining urban centres emergency power plants had to be installed with attendant increases in the cost of petroleum imports. The country produces no oil and cannot provide these emergency plants with regular supplies.

Thus although there is considerable excess electric power generation capacity, not only is the country unable to utilize this excess for external payments, but is forced to import both energy and fuel for its power plants.

Fig. II.11. Energy balance
(10^6 meticals)

	1975	1980	1982	1984	1985
Total imports	10,745.6	25,922.2	31,573.7	22,903.3	18,298.0
Imports of crude and products	1,585.4	7,105.3	8,043.9	4,273.3	2,983.0
Imports of electric power	—	30.0	296.0	366.0	247.0
Imports of electric power (% of total)	14.8	27.5	26.4	20.3	17.6

Source: NSO

12. Balance of Invisibles

Traditionally, Mozambique has benefitted from its geographical position by providing transit services to its landlocked neighbours. At the same time, these countries received a constant influx of labour from the most populous regions of Mozambique, providing in return an influx of tourists to the main sea-side resorts. In the seventies, payments for services, workers' remittances and receipts from tourism accounted for about 1/3 of the Mozambican economy's foreign exchange earnings. Since independence, the RSA's persistent policy of destabilization has reduced trade relations to the levels that exist today. The number of migrant workers fell by about 2/3, tourism virtually ceased and Mozambique's ports were deprived of transit goods. Remittances by Mozambican migrant workers, mainly the miners (about 60,000), yield some US$ 50 million each year, not counting money and goods sent direct to families and relatives. As already mentioned, goods transiting Mozambique's

1/ Of the 400 GWh consumed annually in the south of the country (about 60% of total national consumption), approximately 80% are imported from the RSA. The remaining 20% are indirectly obtained from the same source in the shape of imported fuels which supply the thermal power plants.

railways and ports from the RSA only contributed about US$ 7.5 million in 1985. In any case, in 1984 and 1985 these two items alone made up about 30% of the foreign exchange earned by exports of goods and services, not counting remittances.

The balance of invisibles reversed in the last years, thus worsening the balance of payments deficit.

Fig. II.12. Balance of invisibles
(10^6 US$)

	1980	1982	1983	1984	1985 (Provisional)
Net balance of invisibles	96.8	29.8	-0.5	-32.5	-75.7

Source: Bank of Mozambique

13. Capital Account

The continuing imbalance in Mozambique's trade and invisibles has led to an accumulation of deficits which has exhausted its foreign exchange reserves.

Fig. II.13. Capital account
(10^6 meticals)

	1980	1981	1982	1983	1984	1985
Foreign Exchange Reserves	8.2	6.5	1.4	-1.7	0.9	0.6

Source: Statistical Annex - Fig. 32.

In this difficult financial situation, which threatened to exhaust the country's ability to meet its foreign exchange commitments, the Government of Mozambique sought international assistance, be it in the form of grants, soft loans, foreign investment or medium and long term loans, which would allow it to gain sufficient time to revive economic activity. While there was little success in attracting foreign investment, these efforts met with a favorable response as regards soft loans and grants (foodstuffs, machinery and technical assistance), the value of which rose from 13% of the current account deficit in 1980 to 35% of the 1984 deficit.

As regards new loans, the results were rather more modest, while natural disasters (droughts and torrential rains) and acts of sabotage frustrated the hopes of a rapid recuperation of the economy and raised doubts as to whether the problems were capable of solution. Thus, while the cost of debt service was on the increase, exports of goods and services fell and new loans failed to match the amounts due for repayment.

Fig. II.14. Debt service

	1980	1981	1982	1983	1984	1985
Debt Service/ Exports of Goods and Services	32.4%	76.4%	98.8%	129.1%	199.6%	216.5%

Source: Bank of Mozambique

Fig. II.15. Loans and repayments
(10^6 US dollars)

	1980	1982	1984	1985 (Provisional)
Loans (10^6 US dollars)	503.1	724.6	264.8	228.8
Repayments	138.9	329.3	337.8	279.6
Loans, net of repayments	364.2	395.3	-73.0	-50.8

Source: Bank of Mozambique.

In 1984 Mozambique's total indebtedness had reached 120% of GDP. 36% of the total was owed to the OECD countries, 30% to the Socialist countries and 16% to the OPEC countries 1/. The Government therefore decided to enter into negotiations with its main creditors, the members of the so-called Club of Paris. These negotiations were reasonably successful, resulting in a rescheduling of debt which reduced the service ratio from 216.5% to about 174%. A glance at these figures shows the extent of the country's dependence on foreign donors. Although the food situation has improved, thanks to more favorable climatic conditions, to the greater importance attached to family farming in national economic policy and by success in changing eating habits, the problems facing the country greatly exceed its internal response capability.

1/ Source: IMF.

III. DESCRIPTION AND ANALYSIS OF THE INDUSTRIAL SECTOR

A. Evolution of Manufacturing Industry

1. An Overview of the Economic Situation

The People's Republic of Mozambique is a primarily agrarian country, given the role this sector plays in the country's economy. For historical and geographical reasons the service sector, particularly transport, has achieved significant development.

The majority of the active population is engaged in agriculture. In 1980, of some 5.576 million economically active persons in 1980, 4.693 million (84%) were occupied in agriculture. Manufacturing industry (M.I.) employed 273,000 (4.9%) of the active population 1/. This total includes workers in the so-called beneficiation industries 2/, of which a large part is considered as belonging to agriculture 3/. Thus employment in M.I. is estimated at some 200,000 persons, including the crafts and informal sectors, the latter having an estimated 50,000 workers 4/. Thus employment in M.I. accounts for 3.6% of the active population and its formal sector 5/ for approximately 2.7%.

The share of industry in Global Social Product is however different. In 1980 industry contributed about 39.7% of GSP while agriculture contributed 37.5%. In 1984 agriculture contributed 42.1%, and industry 31.0% 6/; in 1985 agriculture was to reach to 46% and industry 26.8% (see Statistical Annex - Fig. 7).

1/ Source: 1980 population census; NPC.

2/ Preparing of tea leaves, cotton ginning, sisal defibering, shelling of cashew nuts, sugar manufacture, etc.

3/ In 1980 about 43,400 workers were included under the heading of sugar industry, although only about 6,000 were actually engaged in sugar production.

4/ Figure obtained by deducting estimated formal sector employment from 200,000 (cf. III.8.)

5/ Enterprises which operate nationally and locally, recorded in the industrial register.

6/ In the statistics of Mozambique, industry unless otherwise defined includes the extractive and manufacturing subsectors, the generation and supply of electric power, and fishing, except on an individual scale.

7/ GSP, in accordance with the system of material product accounting, corresponds to the gross value of the physical production of the sectors.

Since the net contribution of the sectors can only be calculated by way of the net social product (central planning approach) or by way of gross or net domestic product (market economy approach) and there being no official estimates of these aggregates, the mission estimated the gross value added of the large sectors in order to arrive at a breakdown of output (see Fig. III.1).

Fig. III.1. Breakdown of output in the Mozambican economy
Contribution to GDP at factor cost
(per cent)

	1973	1980	1981	1982	1983	1984	1985
Agriculture, forestry and fishing	19.2	36.3	36.3	36.8	38.0	41.5	38.7
Extractive industry	0.5	0.4	0.6	0.4	0.4	0.3	0.2
Manufacturing industry	12.2	12.8	12.6	11.5	11.7	10.0	7.0
Electricity	0.8	0.9	0.7	0.5	0.9	0.1	...
Construction and public works	8.8	4.8	4.6	4.9	6.6	6.4	5.6
Services	58.5	44.8	45.2	45.9	42.4	41.7	48.5
GDP (factor cost)	100	100	100	100	100	100	100

Source: Mission estimates; Statistical Annex - Fig. 11.

In 1973 services predominated, particularly the transport of goods from neighbouring countries to the country's main ports - Maputo, Beira and Nacala. After independence this flow of traffic was severely hit by the economic sanctions against Rhodesia and by the RAS's deliberate boycott of the Mozambican economy. In 1980 agriculture increased its share both in relative and in absolute terms, while industry fell slightly. This trend continued until 1984. In 1985 agriculture and industry declined, with a resulting improvement in the service sector (cf. Fig. III.1).

The structural changes which the country's economy appears to have undergone are in effect the mere reflection of the momentary situation in the various sectors, particularly of manufacturing industry. In spite of a high STI of 15.2% 1/ the country has been through the structural transformation which developing countries normally undergo as they progress towards the status

1/ The Structural Transformation Index - STI - is obtained from the arithmetic mean of the sum of the differences, in absolute values, of the weights in per cent of GDP, of the three large sectors in the initial year (1973) and the final year (1985).

of newly-industrialized countries. In spite of this, the importance of manufacturing industry is apparent: it provides 3.6% of employment and contributes about 12% to GDP at factor cost.

2. Manufacturing Industry in the Colonial Era

The country was a Portuguese colony until 25 June 1975 1/, and its economic structure mirrors the colonial regime in all its evolutionary stages. The fact that Portugal was one of the least developed of the European countries meant an additional setback.

After the Berlin Congress, the country's further development was in effect placed in the hands of 3 large companies whose powers were laid down by charter. They were the Companhia de Mocambique, the Companhia do Niassa and the Companhia da Zambezia. These companies were controlled by foreign capital, enjoyed great autonomy and were helped by a system of indentured labour - the "chibalo."

After 1930 the colony embarked on a policy of neo-mercantilism, revoking the charters, ending "chibalo" 2/ and compelling the Africans to cultivate cotton (in 1938) and rice (in 1942).

The industrial development model adopted by Portugal in the post-war period was a protectionist one and remained in force until 1963, when it was modified, but continued in a milder form until 1973. But the system of "industrial licencing" 3/ was not the same in Portugal and in her colonies. While in the metropolis licences were required only in exceptional cases, in the colonies licencing was the rule in order to protect the interests of the mother country, and particularly her textile industry 4/. Indeed, special legislation regulated the establishment of textile plants in the colonies, in order to prevent such plants - in Angola and Mozambique - from depriving the Portuguese spinning and weaving industries on the continent of Europe of their supplies of raw cotton at prices below those of world markets. Thus it was the central government from whom permission to establish textile factories in the colonies had to be obtained and not the governor of the colony, as was the case for other industries not regarded as strategic by the Portuguese authorities. But

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1/ The Transitional Government was formed on 20 September 1984 immediately after the Lusaka Agreements between the Portuguese government and FRELIMO.

2/ Reintroduced in 1942 to ensure that labour was available for export crops (sugar, copra, sisal and tea), it was retained in effect until the sixties.

3/ It made manufacturing dependent on the prior permission of the government "when the advancement or equilibrium of the economy required it", which in practice meant the agreement of the existing interests dominating each sector and thereby effectively barring access to competitors.

4/ The most important branch of Portuguese industry at the time.

returning to the example of textiles, where permission was granted, "the specialized metropolitan industry" was given preference when it came to setting up cotton textile plants in the colonies and facilities were granted for the redeployment of machinery from Portuguese plants to the colonies. As a result, obsolete equipment due for replacement was sent. This legislation, considered a survival of the Colonial Pact, encourage cotton cultivation in Mozambique and, on a lesser scale, in Angola, which ended up by supplying almost the entire needs of the Portuguese textile industry (except long fibre cotton) at a price which starting in 1942 was substantially below world market prices 1/. By contrast, as late as 1962 Mozambique had only one textile factory - Texafrica - consuming 1,800 tonnes of cotton fibre.

As of 1962/63 this industrial model showed signs of obsolescence and could not resist the strong pressures exerted by foreign capital. Moreover, for foreign policy reasons, there were efforts to replace the colonial model by one which would lead to the economic integration of "the entire Portuguese world". The Portuguese government enacted legislation creating the so-called Portuguese Common Market 2/. The licencing system for industry was modified and not only textiles but other activities were also deregulated and encouraged by means of significant fiscal and financial incentives. At the same time, the country was opened to foreign investment, thereby increasing the influence of the RSA and Rhodesia, as it then was. The Cahora Bassa dam is a typical example of this influence.

In 1973, on the eve of independence, per capital GDP was extremely low, of the order of 171 US dollars 3/ (US$ 1,650 in Portugal). Meanwhile M.I. was already of some significance in terms of output (cf. Fig. III.2.). Almost all industrial firms were dependent on the colonists as regards entrepreneurship, management, technical staff, raw and intermediate materials.

Industrialization had already progressed to an acceptable level in spite of the weak horizontal and vertical linkages, a result of the type of existing enterprises which, apart from those engaged in the primary processing of local raw materials, aimed at satisfying local needs. Indeed, a policy of import substitution was adopted in the last decade of the colonial era to exploit the comparative advantage of cheap labour, its natural protection being the cost of transport from Europe and local customs duties being its administrative protection (cf. Fig. III.3). Meanwhile a large number of industrial firms were

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1/ In 1947 Mozambique produced 21,335t of cotton fibre. The purchase price in Portugal was fixed at 10,000 Escudos/t, while the world market price was 24,000 Escudos/t.

2/ Decree-Law No. 44016 of 8 November 1961.

3/ Cf. Statistical Annex, Fig. 10. In the same year, the World Bank estimated per capita GNP in Mozambique at US$ 150. According to the same source, the countries of Africa whose per capita GNP was less than US$ 200 were: Benin, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, Somalia, Tanzania, Upper Volta (now Burkina Faso) and Zaire.

ig. III.2. Structure of employment and value added in 1973

	Employment %	Value added 10^6 Escudos	Value added %
Agriculture, forestry, livestock, fishing	53.7	8,175	19.2
Extractive industry	0.6	191	0.5
Manufacturing industry	8.0	5,156	12.2
Construction and public works	3.0	3,730	8.8
Electricity, water and drainage	0.2	338	0.8
Services:			
- Commerce, banking, insurance and transport	15.1	16,472	38.8
- Other services and government	19.4	8,333	19.7
TOTAL	100	42,395	100

Source: Economic Information/NPC-1984; Industrial Statistics 1973; mission estimates.

of industrial firms were engaged merely in the final processing of raw materials and semi-finished products, which made it possible to earn high profits with a small investment thanks to the low wages and administrative protection. There was no coherent policy on industrialization, neither at the national nor at the regional level, as can be seen from the large number of small businesses which depended almost entirely on outside energy sources - for reasons of security connected with the struggle that had been started by the national liberation movement.

This artificial process of industrialization was achieved at the cost of growing indebtedness and financial imbalance, and was financed by means of the so-called "deferred payments" arrangement characteristic of the "interterritorial payments scheme" based on an Escudo payments area introduced to ensure the continuity of exports from Portugal to its colonies and regular remittances back to that country.

With total employment of 99,500 workers 1/, i.e. 8% of the active population, M.I. contributed about 16% of GDP in 1973. Gross value added in M.I. accounted for about 33% of the gross value of production. Total salaries and wages amounted to 37% of value added, an indication of their low levels, if one takes into account the type of industries which, with the exception of the oil refinery and cement plants, tend to be of the labour intensive type.

The structure of industry in Mozambique in 1973 was typical of developing countries, save the peculiarity that its industrial production was virtually the same as its agricultural product, the services sector being the most important of all. And industrial development, achieved at the price of high external indebtedness, was dictated by political expediency and not in

1/ Does not include the informal and crafts sectors.

accordance with such criteria as economic logic and the utilization of natural resources. Neither was it in the least concerned with regional considerations.

Fig. III.3. Structure of Manufacturing Industry, 1973

Industrial sectors	No. employed	Gross value added '000 Esc	%
Flour, noodles, bread and confectionery	977	63,275	1.2
Sugar	5,298	530,261	10.3
Cashew nut	20,850	284,694	5.5
Oil and soap	1,887	130,662	2.5
Other food products	12,688	511,478	9.9
Beverages	3,095	453,184	8.8
Tobacco products	1,016	278,772	5.4
Cotton ginning and pressing	2,954	186,472	3.6
Textiles	8,319	412,174	8.0
Clothing	4,211	156,240	3.0
Leather and footwear	1,195	52,205	1.0
Wood products	10,312	223,600	4.3
Furniture	1,827	65,190	1.3
Paper	516	54,181	1.1
Printing	3,293	199,955	3.9
Chemicals, paints and matches	2,123	273,854	5.3
Oil refining	368	53,005	1.0
Rubber products	999	77,853	1.5
Plastics products	742	54,194	1.1
Glasses and glassware	787	60,360	1.2
Cement	3,820	298,598	5.8
Basic metals	1,131	56,963	1.1
Light engineering	6,117	340,650	6.6
Machine tools	651	42,625	0.8
Electrical equipment, refrigerators, batteries	941	76,573	1.5
Heavy engineering and shipbuilding	2,733	180,181	3.5
Other manufacturing industries	653	38,155	0.8
TOTAL	99,503	5,155,354	100.0

Source: Industrial Statistics 1973.

3. From Independence to the Present

In September 1974 the Lusaka Agreements led to the establishment of the Transitional Government, and full independence was attained in June 1975.

With the transfer of power to the Mozambican people under the leadership of Frelimo and the change in the political system came the exodus of the colonists which continued until the III Frelimo congress (1977). The Congress finally

established what type of politico-economic system was to be installed in the immediate future 1/. Almost all the landowners, managers, top and middle level executives of agricultural, industrial and service enterprises left the country. The factories were in effect handed over to their Mozambican workers who did not have the technical competence for the task. In most cases stocks of raw materials and spare parts were exhausted, a result of the uncertainties which arose immediately after independence and which affected supplies. There were also cases of deliberate destruction of machinery by those who were leaving the country.

Owing to this situation, a consequence of the process of decolonization, urgent measures were taken to enable the State to play a greater role in the economy, making it more efficient and preventing acts of sabotage. In particular, the State intervened in the affairs of business enterprises in a supervisory or administrative capacity 2/. However, these measures did not avoid inconsistencies in the remuneration of the work force, especially in industry, which led to substantial differentials, even within the same branch. Meanwhile, the level of investment in new plant and the maintenance and repair of existing machinery declined owing to lack of technical skills and/or the lack of spare parts, which further hastened the obsolescence and aging of existing machinery.

The downturn in agricultural production, including timber, resulting from the departure of landowners and agricultural specialists, and the elimination of "chibalo" and other coercive forms of labour caused a reduction in the supply of raw materials to the beneficiation industries (sugar, tea, cotton, sisal, etc.) and consequently a reduction in exports and foreign exchange receipts, notwithstanding the economic recovery in 1978-81. The situation deteriorated further owing to the undeclared war with the RSA which, after Mozambique's independence, embarked on a three-pronged strategy: diverting goods which had previously used the rail links and port facilities of Maputo; supporting the armed bandits and attacking Mozambican territory to destroy productive infrastructures; and drastically reducing the number of Mozambican migrant workers together with the abrogation of the "gold clause" 3/.

1/ The third Congress, held in February 1977, "assigned to the State the priority task of organizing the productive sector so as to ensure centralized management of the economy, promote the planning of its activities, develop and consolidate the State productive sector...."; the same Congress "approved a programme for the building of Socialism in Mozambique".

2/ The only known case of nationalization of an industrial enterprise was that of the oil refinery.

3/ In 1975 118,030 Mozambicans were working in the RSA and 51,156 in 1985, in accordance with the Secretary of State for Labour. In practice, the "gold clause" allowed the Portuguese government to buy gold at a fixed price of 29.75 rands per fine ounce (about 34.13 US dollars), which was substantially below the official gold price. Source: Economic Information, NPC - January 1984.

The construction sector, one which frequently functions as the motor of the economy, and particularly of industry, suffered a serious setback in the first post-independence years. This was due to the lack of specialists and skilled labour, the elimination of real estate speculation and to the changes in the ownership of land and residential property. In addition, the priorities set by the III Congress for other sectors led to the deliberate halting of work on certain unfinished buildings. Even so, the construction sector was reorganized by the Government so as to keep a minimum number of building firms in business.

In spite of the marked decline in economic activity from 1974 to 1976, the measures adopted prevented the situation from deteriorating further and, in 1976, aware of the urgency of quickening the pace of recovery in production levels, the Government prepared an Emergency Programme which guided economic activity in 1977 towards a more careful utilization of the scarce external resources and gave priority to efforts at reviving exports.

In spite of the aggression perpetrated by the Rhodesian regime and the economic boycott by the RSA, these efforts, which continued in the following years enabled exports to be doubled between 1975 and 1981, increasing from 5 billion to 9.9 billion meticals. During this period, and particularly from 1979/80 on, the Government strove to change the structure of the economy, concluding, initiating and pursuing priority investment projects. For example the Massingir and Chipende dams were completed, while those at Pequenos Libombos and Corumana were commenced; 550 km of asphalted roads and 450 km of other types were built; a main drainage system was constructed in Maputo; some 2,000 km of electric power lines were erected, 800 km of which being high tension cables; a number of industrial projects were begun such as those of Iflona and Mocuba, the construction of irrigation systems, etc. These endeavours had a positive effect on GDP in 1978-1981 and also on industrial output which grew at a similar average annual rate (approx. 4.3%) but at the price of increased foreign indebtedness, so that ultimately even minimal expenditure on replacements and routine maintenance of existing industrial plant were no longer possible.

It must be remembered that even at this time the economy was beset by a number of problems which played their part in reducing the growth rates that might have otherwise have been achieved, in particular:

i) Natural disasters: floods in 1977 and 1978; intermittent rainfall and droughts commencing in 1981 and the cyclone "Justine" in 1979 which seriously affected agricultural and timber production and thereby industry's output of export commodities;

ii) The oil price shocks in 1974 and 1979 and the world economic crisis which adversely affected the country's terms of trade 1/;

1/ The terms of trade for 1984 were 70% of those calculated for 1980 (see Statistical Annex - Fig. 20).

iii) As of the end of 1981 the activities of the bandits, who were supported from abroad, intensified considerably. This caused a general mood of insecurity and was accompanied by acts of sabotage against railways, power cables, agricultural and timber resources, and factories, hampering production and reducing exports. At the same time the RSA intensified its economic boycott, further reducing the amount of merchandise transiting via the country's railways and ports. According to a report published by the PRM on 25 October 1986, the losses inflicted on Mozambique since independence by the Rhodesian regime and the RSA in terms of the economic boycott and incursions of the armed bandits, total some 5 billion US dollars. As a result, exports of manufactured goods fell, while as of 1982 imports of raw materials and foodstuffs rose (see Statistical Annex - Fig. 17). In recent years these last two items have also fallen, owing to the lack of foreign exchange. In consequence, industrial investment has likewise fallen (vide Statistical Annex - Fig. 12).

iv) The exodus of the Portuguese traders led to a breakdown of the traditional rural distribution netoworks. The failure of those that succeeded them to achieve the same penetration further aggravated the shortage of basic essentials to be supplied in return for agricultural produce, weakened the incentive to produce, particularly of those commodities which were most easily exported after initial processing. Agricultural produce cannot be marketed on a continuing basis if its availability is limited to the yield of a particular season. On the contrary, there must be a continuing effort in marketing. It has therefore been very difficult, given present conditions, to establish an effective distribution network. Moreover, the lack of tradable goods and the depredations of the armed bandits are factors which have seriously impeded its development.

The combination of the various endogenous and exogenous factors described above has led to an economic situation, particularly as regards M.I., which, in terms of GSP or GDP falls short of that of the last years of the colonial era. It fall into three distinct periods: 1975-77, 1978-81 and post-1981. 1978-81 was, as already indicated (see II.8), was a phase in which the economy, including M.I., recovered in spite of the emergence of the adverse factors which have been at the root of the crisis of recent years. Indeed, reviewing the last 10 years, we can see that industrial output measured by GSP (which is identical to GVP) after a period of recovery (relative to 1973) from 1977 to 1981 during which it grew at an average annual rate of around 4.3%, as against 0.7% in the previous period (1975-77), and -23.8% in 1981-85, began to decline in 1981, reaching its nadir in 1985 1/. Indeed, GSP of industry for 1985, measured in constant 1980 prices, corresponds to 43% of that estimated for 1981 (see Fig. III.4).

1/ It should be noted that the growth recorded in 1978-81 was not universal, since a number of industrial subsectors experienced negative growth, e.g. plastics, paints, electrical equipment, light metalworking, metal fabrication, beverages and tobacco. See Statistical Annex - Fig. 22.

Fig. III.4. Evolution of the economy and of industry
1980 prices - in billions of escudos or meticals

	1973	1975	1977	1980	1981	1982	1983	1984	1985
Total economy									
- GSP	111.9	71.4	74.8	82.1	84.1	78.8	64.4	57.9	53.3
- GDP	94.4	64.5	64.8	70.2	72.2	69.7	53.0	49.4	53.8
Industry									
- Social product	43.1	28.0	28.4	32.6	33.6	29.0	23.2	18.0	14.3
- Value added	24.1	12.1	11.3	13.2	13.3	12.0	10.4	8.2	6.9

Source: Statistical Information - 1985 NSO - for GSP and industrial social product. Mission estimates - for GDP and value added.

The evolution of the various industrial subsectors is shown in Fig. III.5, which gives the indices of industrial production.

Fig. III.5. Indices of production of manufacturing industry
(1980 = 100)

Subsectors	1973	1974	1975	1980	1981	1982	1983	1984	1985
Petroleum	130	73	58	100	78	79	53	15	0
Textiles	110	126	125	100	143	125	121	155	97
Clothing	...	...	...	100	88	92	113	113	82
Sugar	174	157	135	100	105	74	43	23	14
Oils	87	63	66	100	119	97	57	33	25
Beverages	136	139	124	100	92	80	76	62	40
Tobacco	263	256	226	100	121	100	82	70	76
Flour and noodles	83	91	83	100	108	100	92	93	127
Glass	179	131	59	100	92	84	69	72	117
Plastics	189	145	127	100	84	58	73	23	114
Cashew shelling	...	...	...	100	96	77	27	22	16
Cotton	...	...	...	100	86	65	46	23	46
Electr. equipment	54	59	49	100	79	49	71	95	97
Chemicals	259	189	91	100	155	163	39	39	42
Paints	280	202	173	100	84	92	77	56	50
Rubber	...	...	...	100	127	100	93	23	122
Basic metals	332	211	160	100	124	109	76	49	44
Footwear	154	123	109	100	145	118	133	83	104
Fabricated metal products	455	646	424	100	86	75	122	96	121
Cement	245	188	113	100	111	116	84	46	31
Light metalworking	289	275	219	100	111	92	87	52	125
Total industry	137	113	86	100	103	89	71	55	44
Total manufacturing industry	139	111	87	100	103	90	70	56	43

Source: Statistical Information - NSO.

As a general rule, all subsectors except plastics, tobacco, electrical equipment, flour and noodles, rubber, footwear, fabricated metal products and light metalworking suffered downturns in 1985, particularly clothing and textiles, sugar, beverages and cement. Oil refining was nil, since the refinery had closed down in 1984. The continuing fall in industrial production as of 1981 is a fact. The reasons for it have already been indicated.

Exports of manufactured goods reflected the situation with regard to industrial production and also reached their lowest level in 1985. Imports, although diminishing year by year, did not fall as suddenly, because of their essential nature and the aid which the country received through international co-operation.

Fig. III.6. Exports and imports of manufactured goods
(millions of current US dollars)

	1973	1975	1980	1981	1982	1983	1984	1985
Exports */	138.4	93.2	202.8	184.4	148.6	79.0	47.1	33.4
Imports	355.0	279.7	591.0	622.8	695.2	458.9	357.7	275.5
- Raw materials	151.9	163.5	381.8	367.1	378.4	231.7	193.2	173.5
- spare and replacement parts	83.0	50.1	56.7	104.4	107.5	105.5	71.0	50.0
- machinery	120.1	6.1	152.5	151.3	209.3	121.7	93.5	52.0

Source: Statistical Information - 1985: NSO.

*/ Includes cashew kernels and oil, cotton fibres, sugar, processed tea, cement, coconut oil, molasses, clinker and petroleum products.

As of 1975 gross capital formation in both the private and public sectors (State and nationalized) of industry was extremely low. In spite of its reservations regarding new investment 1/ which was also subjected to certain restrictions, particularly in the period immediately after the III Congress, private sector investment in various branches continued, e.g. by Texmoque and Riopele (textiles), the Companhia Industrial do Monapo and Mocambique Industrial (oil and soap) and Mabor (tyres). The lack of investment in other areas, viz. batteries and textiles, particularly after 1982, was not because the State did not endeavour to assist in obtaining funding from a number of governments and financing institutions, but because funding was not forthcoming and also because of the impossibility of repatriating capital invested directly by the existing private firms.

Thus the scarce foreign exchange resources needed for investment in renewals, rehabilitation, or the implementation of new projects, had to be allocated to those types of manufacturing considered to merit priority. Most of these were in the public sector which, as will be seen later (vide III.5),

1/ Partially dissipated by the IV Frelimo Congress (April 1983).

account for the bulk of industrial production. Thus, as of 1982 the bulk of gross capital formation has been generated by public sector enterprises (see Fig. III.7), for the most part using central government funds.

Fig. III.7. Financing of investment from central government funds (millions of currency units)

	1978/79	1980	1981	1982	1983	1984	1985
Total funding of the economic sectors	8,010	9,916	13,962	14,250	17,098	10,600	8,000
Industry and energy	561	1,227	3,349	3,493	4,332	2,400 .	n.a.

Source: Statistical Information - 1985: NSO.

Investment by the State fell drastically from 1983 on as a result of the austerity policies it was compelled to adopt. Even at current prices, investment in 1985 financed from the central government budget was only about 50% of the 1983 figure. The same applies to the sums earmarked for investment in industry and energy resources. Still, the share of these sectors in total investment remained much the same (about 25%).

Thus industry was not able to achieve the goals which had been set for it by the III Frelimo Congress. The directives introducing State control over the economy which emerged from the III Frelimo Congress and were embodied in the ten-year Indicative Long-range Plan (ILP) were based on the following strategy:

i) A short term increase in production using existing productive capacity while simultaneously fostering export industries and those whose products substitute for imports.

ii) In the medium and long term, i.e. by 1990, the creation of heavy industry, particularly iron and steel, increases in the output of consumer goods and intensification of manpower training mainly through public sector investment. The investment plan concentrated on projects for the manufacture of agricultural implements and machinery, iron and steel, various types of machinery, hoisting and transport equipment, aluminium, gas, etc. It also envisaged investments in light industry, especially textiles, foodstuffs, glass and packaging materials.

The reality, however, was different. For the reasons already explained, agriculture and the other sectors, especially ports and rail services, were unable to generate the raw materials and foreign exchange required for such an ambitious programme which moreover always had to face problems of technical and managerial capabilities.

Nevertheless, with the help of bilateral and multilateral aid - grants, soft loans and technical assistance - some investment was undertaken in the State-owned and "interventioned" firms for the purpose of replacements essential to the functioning of industry and even for the expansion of some

capacities, e.g. the Manica timber plant (IFLOMA), the Montepuez textile plant, construction of which had just commenced, the Mocuba textile plant which was under construction, Texmanta, which had just commenced production, the Maputo hosiery factory, CIM's new production line for pasta, Extrasal's salt washing plant, etc. Mention should also be made of the importance rightly given to creating the basic infrastructures for electrification and communications, then at the implementation stage which were a favoured target of the armed bandits owing to their vital importance. The recovery in 1978-81, although not self-sustaining, reflects this realism.

Owing to the above-mentioned factors, from 1982 onwards manufacturing industry was in a critical situation which can be described as follows:

a) Sabotage of most of the road and rail links, preventing the distribution of agricultural products, timber and coal, output of which was expanding. This reduced exports and increased the imports needed for minimum levels of operation (coal, clinker, cotton and sugar are now being imported).

b) A shortage of foreign exchange, hampering the import of raw materials and spare parts needed for normal operation.

c) A halt to all investments in new machinery, which led to aging and obsolescence of plant and significantly reduced productive capacity in many lines of production.

d) Sabotage of power transmission lines, which in view of the few available auxiliary plants and the heavy cost of their operation, caused frequent power cuts, sometimes of long duration (weeks and months), seriously affecting industrial output.

e) Low levels of professional competence, with large gaps at the top and middle levels of management.

f) Economic and financial policies remote from the realities of industry, particularly with regard to prices, salaries, credit, exchange rates and industrial and commercial management. Given the low level of supply in the economy, these policies gave rise to serious distortions, reflected in the unhindered growth of the informal economy and market.

Analysing the structure of the economy and the adverse factors which had taken effect since independence, in April 1983 the IV Frelimo Congress adopted a number of measures which sought to face up to these difficulties with resolve, sacrificing certain priorities established by the III Congress. These measures led to the formulation of the Economic and Social Directives which adopted a policy of making best possible use of the available resources and productive capacities and formulated a strategy in which agriculture would serve as the foundation and industry as the motor of development, establishing immediate priorities to obtain self-sufficiency in food, raise the level of

exports, increase import substitution, assure the supplies of raw materials for industry and improve the skills of the workforce.

The strategy referred to above has the following main features 1/:

a) Giving concentrated and comprehensive support to the family productive sector, to which some 80% of the population belongs, particularly as regards agriculture and livestock breeding.

b) Rehabilitating firms and supplying them with adequate quantities of materials and spare parts where this would promote import substitution, increase the value of imported materials and supply the domestic market with priority products: textiles, agricultural implements, tools, cooking utensils, garments, footwear and foodstuffs.

c) Reorganizating and supplying export industries.

d) Launching selected new products, both manufactured and mineral, e.g. coal and natural gas.

e) Taking steps to ensure rational use of resources and quality control of merchandise.

f) Reorganizing and increasing the efficiency of State-owned enterprises; encouraging and helping private firms which demonstrate capacity for achievement, initiative and dynamism and which undertake to work for the attainment of national economic development goals.

g) Fostering co-operation with all the countries of southern Africa to improve the existing railway and port facilities.

h) Stimulate and support any direct foreign investment which will generate additional foreign exchange income, assure profitable utilization of idle capacities and contribute to the modernization of existing plant and machinery.

The strategy adopted by the IV Congress is the correct one, inasmuch as it assigns industry the role of motor of the economy while making industrial development dependent on the development of the agrarian sector. For it is agriculture, together with the railways and ports which will generate part of the raw materials and, by the export of its surpluses, the foreign exchange be used for investment and for the purchase of the remaining inputs 2/.

1/ See Economic Information - NPC - 1984.

2/ The history of industrialization in sub-Saharan Africa leads to the conclusion that although industry can grow more rapidly than other economic sectors, it can no longer sustain growth rates that differs substantially from those in the rest of the economy. Cf. W.F. Steel and J.W. Evans, Industrialization in sub-Saharan Africa: Strategies and Performance, 1984.

However, the adverse factors have persisted and external aid has not been sufficient, so that the directives of the 1983 Congress did not produce the desired results. In fact, agriculture is not even able to satisfy basic needs, with a resulting lack of raw materials for M.I., whose exports are insignificant. The economy is heavily dependent on international aid. Some enterprises have been the object of attempts at rehabilitation but these have been slow and inadequate, in spite of the efforts made to mobilize the necessary resources, particularly financial, for the rehabilitation of industries, and especialy of those that promote better use of natural resources.

Thus new rehabilitation projects, many of which have already been drawn up, must be put into effect and various aspects of industrial policy must be revised in the light of the country's present predicament and the need to make better use of available resources. (see the Recommendations)

B. Structure and Performance of Manufacturing Industry. Distribution and Marketing. The Fabric of Industry

4. The Tutelage of Industry

Industrial enterprises are under the tutelage of various ministries and state secretariats and are classified as of "national" or "local" importance 1/. Some of them are registered under the Central State Plan (CSP), if their output is included in the so-called Nomenclature of Planned Products 2/.

There are 575 industrial firms classified as "national" with more than 10 registered employees; of these some 250 are registered under the CSP. Fig. III.8. shows how they are divided among the various tutelary bodies. Initially almost the whole of M.I. was under the tutelage of the former Ministry of Industry, Trade and Tourism.

At present, M.I. is split among 11 government departments 3/, not counting the provincial governments which deal with "local" industries. Most branches of M.I. are outside the Ministry of Industry and Energy (MIE). Indeed, the MIE only supervises 14% of firms, which together account for about 19% of the gross industrial product (or Industrial Social Product). By contrast, the State Secretariat for Light and Food Industries (SEILA) controls about 59% of the firms and 58% of Industrial Social Product. In 1980 the MIE and SEILA together

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1/ Firms classified as "local" are under the tutelage of the MIE and, through the provincial directorates of industry and energy, of the relevant provincial government,.

2/ The Nomenclature is a list of items whose production is centrally planned vide Volume II - Appendix VII). It initially covered 153 products, but was recently reduced to 147.

3/ See Annex I.

each accounted for about 30% of the GPV of industry, with the other sectors sharing the remaining 40%. This distribution is probably the feature of Mozambique's industrial operations which most closely approximates normality. Some branches of industry are under the tutelage of more than one government department. Thus in Chemicals, 3 firms are supervised by SEILA and 7 by MIE; in Wood Processing 2 firms are supervised by SEILA and 17 by the Ministry of Agriculture.

Fig. III.8. Tutelage of M.I.

	Firms Supervised		Gross value of Production at 1980 prices ('000 currency units)		
	No.	%	1980	1985	Structure 1985 (%)
Ministry of Industry and Energy	80	13.9	9,757	2,413	18.8
State Secretariat Light and Food Industry	339	58.9	10,005	7,456	58.1
S.S. Fisheries	2	0.3	60	50	0.4
Ministry of Public Works and Water	21	3.7	569	184	1.4
Ministry of Information	31	5.4	174	412	3.2
Ministry of Agriculture	77	12.6	2,867	1,143	8.9
S.S. Cashew Products */	14	2.4	1,758	277	2.2
S.S. Cotton */	9	1.6	1,287	587	4.6
Institute of Sugar */	5	0.9	2,185	305	2.4
Ministry of Health	1	0.1	n.a.	n.a.	-
Ministry of Education	1	0.1	n.a.	n.a.	-
non-Nomenclature production			2,573.	-	-
TOTAL	580	100	31,235	12,827	100

Source: NSO/NPC; Annex - Fig. 23.

*/ Subordinated to the Ministry of Agriculture.

As a general rule, basic industries were assigned to the MIE, while those which manufacture essential consumer goods were assigned to SEILA. The remaining types of industry were assigned to the ministries supervising the subsectors which produce or supply raw materials needed for the functioning of the main activities supervised or with which the relevant government department is closely concerned.

The so-called Management Units (M.U.) have a co-ordinating role vis-a-vis the enterprises and occupy an intermediate position between them and the tutelage of the ministries and state secretariats. The M.U.'s are defined as part of the central government adminstration by the Norms of Organization and Management of Central Government issued 10 June 1981, and were established 1/ in line with the Economic and Social Directives of the III Frelimo Congress to guide the activities of State enterprises of the relevant subsector and carry out tasks common to them all, inform State and private firms of the production targets set for them and ensure that financial and material resources are made available to State enterprises. The M.U.'s also co-ordinate and control the marketing of State enterprises' output, and ensure that private firms adhere to the targets set for them and that companies in the sector adopt more advanced techniques of management and use of labour. Under the Law on the Organization and Operations of State Enterprises, the chief executives of public corporations, can be given supervisory authority by the central government over the branch or sector of activity to which their enterprises belong, with the result that in some cases the M.U. for a given subsector is the same as the leading State enterprise, e.g. Sogere (beverages), Enafrio (refrigerators and air conditioners), the Empresa Estatal de Mobiliario (wooden furniture), Soveste (garments), etc. In subsectors with only one or two industrial firms, there are however no M.U.'s.

The M.U.'s do not have a legal framework of their own but exist de facto. Some of them have staffing levels which exceed the needs of the subsector they co-ordinate. In the main they are financed by the government. Fig. III.9 lists the M.U.'s which co-ordinate the subsectors under the tutelage of the MIE and SEILA.

M.U.'s under other ministries co-ordinate the activities of manufacturing industry, e.g. the M.U. for cement and the M.U. for building materials (Ministry of Construction and Water Resources), the M.U. for Forestry (Ministry of Agriculture), etc.

1/ Replacing the Industrial Services Commission, which in colonial times fulfilled purely administration functions. Its structure was manifestly inadequate for the additional administrative tasks falling to the State under the new system of central planning. With a staff of 30 it was unable to do much more than issue licences, keep a registry and exercise general supervision.

As can be seen from Fig. III.9, the M.U.'s are an enormous financial burden on the central government, since they employ a large number of specialists, even though some of these carry out management, technical or administrative functions in the enterprises co-ordinated by the M.U.'s. Suffice it to say that by the end of 1985 the M.U's reporting to the MIE employed about as many staff as the ministry itself.

Fig. III.9 Management Units - Personnel and Funding

	Location of premises	Funding	Personnel (March 1986 actual)				
				Specialists		Other	Director
			Total	Senior level	Middle level	administrators	General
MIE							
M.U. Chemicals	Own		18	3	5	9	1
M.U. Metallurgy	Own	C.G.*	16	4	2	9	1
M.U. Machine tools	Own	C.G.	30	3	6	20	1
M.U. Refrigeration	Enafrio	Enafrio	-	-	-	-	-
M.U. Electr. engineering	Electromoc	Electromoc	-	-	-	-	-
SEILA							
M.U. Textiles	Own	C.G.	32	4	7	20	1
M.U. Food & tobacco	Own	C.G.	60	8	1	50	1
M.U. Clothing	Own	C.G.	64	4	9	50	1
M.U. Footwear & leather	Own	C.G.	9.	-	4	4	1
M.U. Oils	Saborel	C.G.	4	2.	-	1.	1
M.U. Plastics	Own	C.G.	n.a.	n.a.	n.a.	n.a.	n.a.
M.U. Light engineering **/	Own	C.G.	-	-	-	-	-
M.U. Salt	Own	C.G.	27	3	4	19	1
M.U. Wood furniture	Mob. E.E.	C.G.	23	1	5	16	1
M.U. Agro-industries	Own	C.G.	21	2	5	13	1
TOTAL			304.	34.	48.	211	11

Source: MIE; SEILA and Management Units.

*/ C.G. = Central government budget

**/ Recently established and linked to the M.U. for light engineering.

In spite of the political considerations which led to their creation, the M.U.'s filled a gap in the management of industry inherited from colonial times, particularly when enterprises which had been abandoned by their owners were "interventioned", i.e. taken over by the State, necessitating coordinated and continuous assistance. Moreover a system of central economic planning was introduced which imposed many new administrative tasks as regards preparing the plan and monitoring its implementation. In this situation the M.U.'s, in addition to industrial management, came to play an important role in providing inputs, preparing economic studies, rationalizing production methods, providing technical assistance and help in rehabilitating production units. Still, the government now recognizes that the M.U.'s are no longer as important as in the years immediately after their formation and that they should gradually evolve into bodies of a different type (e.g. holding companies, consulting firms, etc.).

The mission considers that the system of sectoral coordination by means of the M.U.'s must be reorganized in order to make the best use of existing human and material resources, with a new policy based on two main principles (see the Recommendations):

i) Autonomy for both State and private firms, with more responsibility for the chief executives of the State firms.

ii) Establishment of organizations such as holding companies, consulting and accounting firms, etc. and the transfer to these bodies of part of the M.U.'s staff. These new organizations would then carry out the industrial administration functions of the M.U.'s.

Indeed, the mission ascertained that:

a) The functions assigned to the M.U.'s are too broad: preparing and monitoring the plan for the subsector, sharing out the foreign exchange resources allocated to the subsector by the SCP; evaluating and acting on enterprises' requests for changes in prices and salaries and for additional staff; technical assistance with respect to foreign trade transactions; education and training; channelling foreign aid to firms in the subsector; economic studies; overseeing the rehabilitation of firms in the subsector, etc. All these functions require a large number of qualified staff;

b) There are tasks common to all the enterprises, e.g. training, project preparation and appraisal, accounting , technical financial and economic studies, which would be more effectively carried out by a team of specialists dealing with all firms in the subsector.

c) The present system leads to a proliferation of the M.U.'s as they attempt to carry out all the tasks assigned to them, thereby depriving the firms themselves of valuable specialists.

d) The supervising minister or secretary of State has to interact with a number of different individuals, not all of whom have a full picture of industry's problems.

Granting an increasing degree of autonomy to the firms would help engender a greater sense of responsibility in management (and workers), both in the private and public sectors at a time when industrial administration is being

consolidated. This strategy presupposes, however, clarification of the status of the "interventioned" sector, which appears to have started (see III.31) and a reform of the M.U.'s to limit their functions, part of which would be taken over by the enterprises themselves and part by other bodies, such as the ones suggested earlier (see p.46).

5. Structure of Enterprises

In legal terms, industrial enterprises are of the following types: private, "interventioned", mixed, State and co-operative.

Prior to independence almost all manufacturing industry was in private hands. After independence, because the conduct of some private owners was considered by the Mozambican authorities to be "deceitful, unjustified and seriously negligent in carrying out entrepreneurial tasks" and because the Government opted for a Socialist system of central planning, the situation changed radically and the private sector not only lost importance in quantitative terms, but was subjected to regulation 1/ on the assumption that "in order to assure effective management of the economy the State must exercise discipline over the private sector, ensuring that the means of production owned by it were used in accordance with the national interest". Thus the private sector was subjected to regulatory measures, of which the most important currently in force require them to:

a) Submit annual operating plans to the relevant ministry;

b) Fulfil targets fixed by the SCP;

c) Employ specialist staff nominated by the competent State authority;

d) Respect all forms of State control, particularly over their staff;

e) Deposit their cash resources in banks specified by the State;

f) Sell the production to the State on preferential terms and adhere to the prescribed prices and channels of distribution ;

g) To purchase from the State or from firms specified by the State any neede raw materials, finished or capital goods;

h) Obtain the prior authorization of the supervising ministry for the sale in part or in whole of the proprietors' capital, for increases of capital or new investments.

1/ See Decree-Law No.18/77 dated 28 April 1977 which governs private business activity.

These restrictions, some of which have now been mitigated, i.e. those under c), d) and e) above, effectively leading to some degree of deregulation, no longer accord with the existing political and economic directives, inasmuch as they contradict the policies adopted by the IV Frelimo Congress. This congress decided on certain reforms while upholding the principle of central economic planning, but more as a means of keeping control of the main macro-economic indicators, setting priorities and establishing, to the extent commercially feasible, mandatory output levels for products considered vital to the country's development. It would be advisable to revise the legislation in force in order to promote private enterprise and direct foreign investment. In effect, such revision should aim at making the legislation reflect current practices in the private sector.

Immediately after the Lusaka Agreements and even while the Transitional Government was still in office, owing to abandonment of businesses, sabotage, public disturbances and uncertainty about the future business, activity did not function normally. In order to put an end to such situations and enable businesses to continue contributing to the country's economic development, it was decreed 1/ that the Government could intervene in the affairs of a business in certain specified circumstances 2/. Such intervention could take the following forms: nomination of a board of management, suspension from office of one or more of the directors, action by the State to secure financial assistance or take action to bring about commercial and financial recovery. In the case of abandoned enterprises or those where the presumption of abandonment was not disputed by the owners or their representatives within 60 days of publishing the statutory notice, they were "interventioned" - taken over by the State or by the local authorities. Two years later it was decreed that "interventioned" enterprises could be converted into State enterprises provided such conversion was approved jointly by the ministries of Planning, Finance and the ministry or ministries which had decreed the intervention and provided such enterprises had the necessary technical and financial resources and were of sufficient size. The remainder could be handed back to their owners, liquidated, merged with other enterprises or retain the status of "interventioned".

Apart from one case of nationalization (the oil refinery) the procedure

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1/ Decree-Law No. 16/75 dated 13.2.1975

2/ For example: total or partial closure of significant sections of the enterprise; the threat of laying-off staff without due cause; withdrawal of funds or significant disinvestment; adoption of salary scales that the enterprise could not sustain financially; diversion of funds, etc.

3/ Decree-Law No.18/77 dated 28 April 1977.

for acquisition by the State followed the pattern described in the previous paragraph 1/. Meanwhile, numerous other firms continued to be "interventioned", whether or not grouped with others engaged in similar operations.

Recently the State has dropped its interference in the affairs of some of the "interventioned" enterprises by transferring small and medium-scale firms to private ownership in accordance with the legislation in force - on condition the private entrepreneur can demonstrate sufficient management ability required to reactivate the business. The State has also concluded the establishment of a number of mixed industrial enterprises, a practice it intends to adopt whenever the participation of others can contribute materially to the supply of inputs, to management ability and to accessing external markets, thereby enhancing the enterprise's viability.

Meanwhile the so-called "State enterprises in course of formation" which make use of the possibility of placing a group of "interventioned" enterprises under common management, have been in operation for several years, either because of the difficult nature of the political decision involved, or because the reasons for their conversion into fully-fledged State enterprises have not yet been sufficiently clearly formulated. This is a situation which needs to be resolved soon.

Owing to the need to convert nationalized or interventioned enterprises, and even some of the central government agencies into State enterprises and under the influence of the strongly centralistic tenor of the directives of the III Congress, approval was granted for the "Model Charter for State Corporations", which was considered the essential instrument through which the State would assume the function of leading and giving impetus to the national economy." 2/. During the past two years this "model charter" 3/ was reappraised with a view to clarifying certain concepts and principles, particularly as regards the role and individual responsibility of the management and a redefinition of the structure and powers of the corporations. In general, appropriate powers are given to the chief executive as regards his management role, while at the same time it is understood that on of the tasks of the State corporations is to provide the State with revenues. It is therefore necessary to put State enteprises on a sound financial footing, to be achieved by greater independence and management autonomy. As far as the latter principle is concerned, the reality has been very different Owing to insufficient supplies of raw materials and spare parts, capacity utilization in most of the corporations in recent years has been running at between 30% and 40%. The calculations on which prices were based assumed production levels which in most cases were not attained, nor modified to reflect rising costs, prices being held below the cost of production by administrative fiat 4/. Thus most if not all of the corporations, have consistently incurred losses which,

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1/ The coal mines were also nationalized after two disasters which cost the lives of 300 miners owing to the total absence of safety measures.

2/ Decree-Law No.17/77 dated 28 April 1977.

3/ Law No.2/81 dated 30 September 1981 - Law on the Organization and Operation of State Corporations.

4/ See III.14. Vol. II, Appendix IV illustrates the methodologies used to approve prices.

not being fully covered by subsidies from central government funds, have had the effect of increasing indebtedness to the Bank of Mozambique 1/. Hence the recent (January 1987) decision by the Council of Ministers to return the majority of agricultural, industrial, transport and construction firms to profitability at existing levels of capacity utilization, labour productivity and managerial competence by revising its policy on prices in the near future.

The co-operative sector plays only a minor role in M.I., even as regards firms of merely regional importance. The sector's preference has been for activities that are less demanding in terms of technology, management and investment, such as wooden furniture, clothing and light metalworking (sheet metal).

Mixed enterprises are also relatively few and far between, except in the case of fishing, termed industrial. However, as mentioned above, there are reasons to believe, as mentioned above, that this type of enterprise will become more widespread in future. In addition to the "interventioned" enterprises, State involvement in which may eventually come to an end on the lines indicated above, and a State sector characterized by greater efficiency and autonomy, certain enterprises which are presently entirely State-owned could be converted into mixed enterprises through partnership with foreign companies, private or otherwise, which would contribute the technology and the convertible currency resources that are presently lacking 2/. Thus occasions may arise where the State acquires or disposes of holdings in private companies, thereby converting them to mixed enterprises, if both sides consider such a step to be advantageous. Another sphere in which mixed enterprises could play an important role is the implementation of large-scale projects, such as ammonia/gas, soda/chlorine, etc. which are only feasible in the form of a partnership between foreign investors and the State. Moreover, the management of State financial holdings will present a problem since the appropriate machinery has yet to be set up.

Fig. III.10 shows the structure of business from the standpoint of firms' legal status in the year 1984. At that time private sector enterprises still predominated in numerical terms, while in terms of employment, production and capital formation the State and "interventioned" sectors led the field. Fig. III.10 shows how this situation changed in the years 1977-82 in terms of gross value of production.

1/ See III.14.

2/ This strategy necessitated legislation to ease the conversion of State corporations to mixed enterprises. In some cases this might lead to the restitution to their former owners of firms that had been "interventioned" after being abandoned by these owners. Such restitution would have to be negotiated on a case-by-case basis.

Fig. III.10. Structure of M.I. by type of enterprise, 1984

Type of enterprise	Enterprises existing in 1984		Contribution to national output*/ (per cent)	
	No.	%	1977	1982
Private sector	294	51.1	71	27
State sector	114	19.8	15	25
Co-operative sector	21	3.6	-	-
Interventioned sector	140	24.3	5	37
Mixed sector	6	1.2	9	11
TOTAL	575	100	100	100

Source: NSO and MIE.

*/ Industry (manufacturing, minerals, fishing and energy).

Indeed, the private sector which in 1977 contributed 71% of the value of production, accounted for only 27% in 1982, while the State sector rose to 25% and "interventioned" enterprises 37%. While it was not possible to obtain comprehensive statistical data for 1984, the sample of firms analysed by the mission supports the conclusions presented above regarding the larger share of the State sector in terms of production, value added and capital formation. The resurgence of private enterprise which was the will of the the IV Congress, as expressed in its Directives can only be expected to occur if the obstacles imposed on the private sector are mitigated: less interference by the SCP; liberalization, or at least fewer restrictions with respect to prices, salaries and employment; direct exporting and importing; and financial support from the State bank on more favourable terms.

6. Location of Industry

About half the industrial enterprises of supraregional importance are situated in Maputo and 17% of them in Beira, Sofala province, as can be seen from Fig. III.11.

Since the capital intensive firms are mainly found in Maputo, this province only accounts for 28.5% of total employment, although it continues to be the most important in absolute terms. Indeed, employment in Nampula and Zambezia is influenced by the so-called beneficiation activities (cashew, tea, sugar, etc.) where - as was already mentioned (see III.A.1) - employment in agriculture is mixed up with employment in industry,.

From data collected by the NSO on firms which account for 53% of the gross value of production in M.I., and which include the activities considered of most importance, it appears that about 60% of the GVA of M.I. is produced in the City of Maputo. Moreover, Maputo and Beira account for about 80% of this same GVA. (see Fig. III.12).

Fig. III.11. Location of Industry, 1985

Provinces	Enterprises		Employment
	No.	%	%
Niassa	7	1.2	1.3
Cabo Delgado	9	1.6	3.2
Nampula	48	8.3	15.7
Zambezia	50	8.7	15.5
Tete	13	2.3	2.2
Manica	31	5.4	4.5
Sofala (Beira)	98	17.0	19.2
Inhambane	13	2.3	4.8
Gaza	15	2.6	5.2
City of Maputo	291	50.6	28.5
TOTAL	575	100	100

Source: NSO.

Fig. III.12. Gross value added of M.I. by province

Provinces	Structure of GVA of M.I.
	%
Maputo	60
Sofala	18
Manica	10
Nampula	6
Zambezia	3
Others	3
TOTAL	100

Source: Mission estimates based on data obtained from the NSO.

This proves the high degree of concentration of industry in the country, particularly in Maputo.

Apart from the industries of national importance, there are also local industries supervised by the Provincial Directorates of Industry and Energy. These industries normally rely on locally produced raw and intermediate materials, and only occasionally with those produced in other parts of the country (like sugar, certain varieties of timber, cement, iron bars, etc.) Apart from the predominance of inputs of local or national origin (allocated by

the Ministry of Trade) certain imported inputs must also be supplied. Thus an allocation of foreign exchange is made by the Provincial Directorates 1/, which is insufficient for minimum production requirements, particularly in certain subsectors such as those producing consumer chemical products (insect sprays, disinfectants, shoe polish, brilliantine, detergents, etc.). Many of these firms survive by improvisation, using inputs sent from abroad by relatives or purchased on the informal market. Such firms, with an average of 30 - 50 workers satisfy many of the needs of the population, in spite of the poor quality of their products. As regards processed food products, their standards of hygiene are considerably below the permissible minimum owing to lack of quality control. This is the case with fruit juices and sirups, vinegar, tomato sauce, etc. The most important local industries are those producing garments (in the private and co-operative sectors), furniture, sheet metal and simple chemicals. Such production has also diminished owing to lack of raw materials, spare parts and energy cuts. But there are other constratins as well 2/: the lack of a proper institutional framework and the absence of specialized agencies for the support of these firms, quite apart from the lack of resources. The productive process is therefore often stifled by a lack of co-ordination which in turn stimulates and encourages, directly or indirectly, the informal market, particularly when it comes to obtaining supplies.

It is estimated that the local industries contribute about 15% to 20% of the total value of industrial production and 10% to 15% of gross value added. There must be about 800 registered industrial establishments (formal sector) which employ some 30,000 workers. The City of Maputo accounts for about 320 of these establishments.

7. Size of Enterprises

Taking employment as the criterion of size of industrial firms, a representative sample prepared by the NSO of establishments of national importance with more than 10 workers yielded an estimate extrapolated from the total population of manufacturing industry which is shown in Fig. III.13. It can thus be deduced that some 60% of the firms employ more than 100 workers each, and approximately 36% more than 200 workers each. It is also estimated that the average employment per enterprise is 210 (see Fig. III.14.).

1/ In formal terms the Provincial Directorates of Industry and Energy report to the provincial governors. Functionally and technically, they are under the authority of the MIE.

2/ The Provincial Directorates' human and material resources are limited and inadequate for a co-ordinating role and for effective help. On the other hand, the foreign exchange allocated to the Provincial Directorates for apportionment among the firms is minimal, the same applying to certain locally produced raw materials. The functional links between the Provincial Directorates and the various ministries which supervise manufacturing industry are not always optimal. It is to be hoped that the Institute for the Development of Small-scale Industry (in process of formation) will help improve this situation.

Fig. III.13. Size of establishments of national importance (by numbers employed)

Employees in range	%
10.- 19	2.5
20.- 49	15.0
50.- 99	23.5
100.- 199	22.5
200.- 499	21.0
500.- 999	12.5
1000.- 2000	3.5

Source: Mission estimates from data supplied by the NSO.

Fig. III.14. Employment in M.I. by supervising body, 1984

Supervising body	Formal sector enterprises		
	Total	%	Average per firm
Ministry of Industry and Energy	15,000	12.5	188
SEILA	63,000	52.5	186
Secretary of State for Fisheries	375	0.3	187
Ministry of Construction and Water Resources	5,325	4.4	250
Ministry of Agriculture*/	12,500	10.4	176
Ministry of Information	2,300	1.9	74
S.S. for Cashew	11,850	9.8	846
S.S. for Cotton	2,850	2.3	317
National Sugar Institute	6,500	5.4	1,080
Ministry of Education	250	0.2	250
Ministry of Health	50.	—	50
TOTAL	120,000.	100	210

Source: Mission estimates

*/ Distributed as follows: wood processing 7,250; rice hulling 800; prepared tea 2,500; slaughterhouses 700; animal feeds 350; sisal defibering 800; condensed milk 100.

8. Employment in M.I.

Employment in the formal sector of M.I. is estimated to be of the order of 150,000, (see III.A.1.), of which 30,000 are employed in local industries. The number of workers employed in firms supervised by the various government departments was estimated using data gathered from various sources (see Fig. III.14). According to this estimate, the firms supervised by SEILA are the ones that employ most workers, the explanation being the large number of firms (about 60% of the total) and their type (labour intensive).

9. Production and Value Added

The main branches of industry by gross value added are, in decreasing order of magnitude, textiles, garments, ship repair, flour milling and baking, sugar, wood processing, printing, beverages, furniture, capital goods, heavy metalworking, and tanning and footwear (see Fig. III.15). These activities contribute about 46% of the gross value added in M.I., 36% of GSP (gross value of production) and 34% of employment. In terms of employment the cashew industry is the most important branch with 10% of total workers employed in industries of national importance. In terms of output and value added this industry occupies only 22nd place, the reason being the lack of cashew for processing. And yet in normal circumstances this is one of the most important ranking immediately after textiles. Indeed, in 1981 the cashew industry's GVA was 1.033 billion escudos, while the textile industry produced 1.173 billion; in 1984 cashew yielded GVA of 53.2 million escudos and the textile industry 672.5 million.

Basic industries - chemicals, basic metals, and heavy metalworking - are not of great importance in the country's industrial structure. For reasons connected with the economic situation the same is true of oil refining and cement. Oil refining has declined not only because of the country's financial difficulties which have reduced imports of crude, but also owing to the operating losses resulting from the refinery's processing technology which led to its closure. At present the possibility of "revamping" it by introducing technology appropriate to the country's pattern of consumption is under study. It was in fact the failure to adapt to this consumption pattern which led to the refinery's closure.

Cement production, which in 1982 generated GVA of the order of 139.5 million meticals, has been restricted to grinding imported clinker owing to the lack of raw materials (limestone) in Maputo and Beira and of energy in Beira, a consequence of sabotage by the armed bandits. The only exception is the cement works in Nacala, the one with the lowest capacity, which even so is only operating at 30%. In consequence, the losses in this branch are extremely high (573.8 million meticals in 1984) resulting in negative GVA (-50.8 million meticals).

As is usually the case in developing countries, light industry predominates, producing consumer goods some of which use local raw materials. This is the case with cotton textiles, sugar, cashew and to some extent garments and footwear.

Fig. III.15. Structure of production - 1984
Main branches of manufacturing industry
= formal sector =
(millions of meticals)

Ranking*/ Branch of activity	Gross value of Production (GVP)	Gross value added at factor cost (GVA)	Employment (E)	Structure GVP	Structure GVA	Structure E
1 Cotton and fibre textiles	1,736.0	672.5	11,730	6.3	8.2	7.8
2 Garments	2,014.0	429.9	5,684	7.3	5.3	3.8
3 Shipbuilding and repair	468.3	413.8	1,485	1.7	5.1	1.0
4 Flour, noodles, bakery products, confectionery	2,024.7	332.6	3,875	7.4	4.1	2.6
5 Sugar manufacture	498.6	299.0	6,500	1.8	3.7	4.3
6 Wood industry	430.0	285.0	7,250	1.6	3.5	4.8
7 Printing	677.3	273.4	2,300	2.5	3.3	1.5
8 Beverages **/	496.4	243.8	3,250	1.8	3.0	2.2
9 Wooden furniture	390.7	204.8	2,560	1.4	2.5	1.7
10 Machine tools	389.8	193.3	2,493	1.1	2.4	1.7
11 Heavy engineering	436.3	192.8	1,052	1.6	2.4	0.7
12 Leather and shoes	437.5	167.0	2,200	1.6	2.0	1.5
13 Electrical equipment	380.9	151.3	915	1.4	1.8	0.6
14 Light engineering	315.0	135.0	2,250	1.1	1.6	1.5
15 Cotton ginning and crushing	348.0	129.7	2,850	0.3	1.6	1.9
16 Rubber articles (not footwear)	263.8	123.5	850	0.0	1.5	0.6
17 Glass and glassware	213.0	120.5	870	0.8	1.5	0.6
18 Chemicals and paints	252.2	95.8	750	0.9	1.1	0.5
19 Refrigeration equipment	305.2	90.3	1,050	1.1	1.1	0.7
20 Salt extraction and refining	97.4	67.2	1,236	0.4	0.8	8.0
21 Plastic products	162.9	66.9	850	0.6	0.8	0.6
22 Cashew industry	299.7	53.2	11,852	1.1	0.6	7.9
23 Wet and dry batteries	140.2	40.9	320	0.5	0.5	0.2
24 Tobacco industry	516.2	23.1	1,100	1.9	0.3	0.7
25 Paper, cardboard and packaging materials	209.2	21.2	655	0.8	0.2	0.4
26 Defibring of sisal	48.0	20.5	800	0.2	0.2	0.5
27 Matches	16.4	6.6	175	0.1	0.1	0.1
28 Oils and soaps	651.0	0.8	2,997	2.4	..	2.0
29 Oil refining	1,276.1	-11.9	650	4.7	..	0.4
30 Cement	166,0	-50.8	1,650	0.6	..	1.1
31 Basic metals	145.0	-193.2	1,325	0.5	..	0.9
Sub-total	15,805.8	4,598.5	83,524	57.6	56.1	55.7
Other industrial activities	11,613.2	3,589.5	66,476	42.4	43.9	44.3
TOTAL ***/	27,419	8,188	150,000	100	100	100

Source: Mission estimates using data provided by the NSO/NPC, the Management Units and individual firms.

(*) The branches are ranked in order of gross value added.
(**) Excludes consumption tax amounting to 1.705 billion currency units.
(***) GVP is estimated at 5.850 billion meticals and GVA at 1.750 billion meticals for the informal sector (50,000 workers) not included here. Productivity is assumed to be about 65% of that in the formal sector.

Industrial output, apart from cashew, sometimes sugar, cotton fibre and processed tea, as well as products which were partially and sporadically exported (telephones, ball-point pens, electrodes, steel railway trucks, tyres and batteries) is destined for the domestic market, whose needs it cannot however fully meet, in spite of the existence of adequate installed capacities in some cases.

In general, existing industries are traditional ones with simple technology. Those with more advanced technology (for processing or manufacturing), e.g. electrical engineering, paints, glues, chemicals, some engineering products and machine tools, wet and dry batteries, tyres, refrigeration equipment and beverages, obtained it through licences, usually with technical assistance from the parent or associated companies. In most cases this assistance ceased after independence with the departure of the colonists and also owing to difficulties in meeting royalty payments. Meanwhile the government sought to avoid losing too much of this technology by maintaining or reactivating licences as in the case of tyres, batteries, refrigerators, agricultural implements and radio sets. It also endeavoured, albeit much too little, to make some investment in modernizing or expanding industrial capacity, as in the case of tools and radios. As a consequence, the quality of output deteriorated, a situation aggravated by the poor condition of existing plant and machinery.

The external dependence of M.I. was not merely a matter of technology. Indeed, M.I.'s operations encompass all forms of technology transfer: project packaging (licences); simple direct transactions (services) and process package transactions (import of entire production lines), with the latter type predominating. But at the same time its commercial dependence is even greater: exports centred on half-a-dozen products and a wide range of imports (raw and intermediate inputs, spare parts and equipment). The percentage of total inputs which are imported is high (see Fig. III.24). This inevitably required large stocks of raw materials and equipment which however could not be achieved owing to the economic crisis. These problems were not mitigated by the bureaucracy involved in obtaining import licences (owing to the shortage of foreign exchange) and the slowness of customs clearance procedures. The result has been intermittent production stoppages, as the mission had occasion to observe.

For the reasons already given (see section 3 of this chapter) the rate of utilization of installed production capacity is extremely low, as can be seen from Fig. III.16.

Low production not compensated by imports, except for certain cases of grant aid by multilateral and bilateral agencies, has led to the population's needs - even the most basic ones - being less and less adequately supplied and this has encouraged the emergence of an informal economy.

Fig. III.16. Rate of utilization of productive capacity
(per cent)

Branch	1980-1984 average	1984
Garments	n.a.	68
shirts	n.a.	81
trousers	n.a.	61
shorts	n.a.	83
undershirts	n.d.	38
skirts	n.a.	76
uniforms	n.a.	33
togas	n.a.	96
dresses	n.a.	91
Acetylene	n.a.	18.8
Textiles	n.a.	35
Oxygen	n.a.	14
Agro-industries	n.a.	20
Cigarettes	43	31
Foodstuffs	53	47
maize flour	37	48
wheat flour	66	53
noodles	66	32
biscuits	47	32
confectionery	46	48
chocolates	58	14
brewer's yeast	68	47
Electrodes	n.a.	36.4
Dry batteries	54	34
Wet batteries	49	33
Carbon dioxide	n.a.	19
Sugar	13	6
Heavy engineering	n.a.	40
Cashew	6	2
Wood laminates	n.a.	54
Footwear	n.a.	30
Iron and steel smelting	n.a.	40
Animal and vegetable oils:		
unrefined oils	n.a.	15
refined oils	n.a.	3.5
coarse soap	n.a.	15
laundry soap	n.a.	10
toilet soap	n.a.	7
Cement	n.a.	28
Power cables	n.a.	22
Assembly of transistor radios	65	94
Beverages	61	42

Source: Mission estimates using data supplied by the NSO, the Management Units and individual firms.

and market, which account, according to certain sources contacted by the mission, for 30% - 40% of personal consumption 1/.

The retention of the work force in firms operating at such low utilization rates, and the rigidity of prices which cannot be adjusted to reflect these utilization levels 2/ has aggravated the financial situation of most firms.

10. Distribution and Marketing

The internal and external channels of distribution and marketing which initially were completely dominated by the State, have been partially liberalized, particularly as regards the retail trade and mainly after the IV Congress. The wholesale trade continues to be controlled by the State, as does foreign trade. Indeed, foreign trade is a State monopoly administered by the Ministry of Trade (M.T.), notwithstanding the important role played by the Bank of Mozambique and the Ministry of Finance who have the right to be consulted before import licences are granted by the M.T., when borrowings are to be made in foreign currencies and in matters of exchange control. The foreign trade plan is prepared annually by the National Planning Commission (which sets the priorities) and these other bodies (which control foreign exchange resources).

Foreign trade is the preserve of specialized corporations, State or interventioned, operating in specific sectors, as for example: Dimac E.E. (import of building materials), Hidromoc E.E. (import of irrigation equipment), Imbec E.E. (importation of food products, except fish), Medimoc (import of pharmaceutical and veterinary products), Intermaquina (import of industrial equipment) etc. Exports are likewise the preserve of specialized State enterprises (Enacomo E.E., for agricultural products) or of the Management Units (for example the Management Unit for Citrus Fruit) or even of large companies, both State and private, like Carbomoc E.E. (coal) and Riopele (textiles), although closely controlled by the M.T. The trend is towards ever greater freedom of foreign trade operations for the large companies and the Management Units, which have a better awareness of the products they need. Customs clearance is effected by the companies' own officially recognized private customs agents or by the State enterprise ADENA E.E.

The foreign trade corporations are usually also wholesalers, so that they can add the foreign trade markup (5%) to the wholesaler's (between 10% and 20%).

1/ The scarcity of domestic supply and the restrictions on imports added to the opportunities for smuggling and for purchases in the hard currency stores have all tended to reduce the value of the metical. The devaluation of the metical in January 1987 and other short-term measures planned will affect the official and black market rates, the gap between which should gradually narrow.

2/ See Volume II - Appendix IV.

As far as imports of inputs, equipment and spare parts for agriculture and industry are concerned, the link between the importer/wholesaler and the user is a direct one. In the case of the remaining products, except those emanating from agriculture and fishing, there are wholesalers (who may be identical with the importers) who acquire them from the importers or from domestic manufacturers. The wholesale firms are State-owned (e.g. Equitec E.E. for industrial plant; Equipesca E.E. for fishing equipment; Encatex E.E. for footwear and textiles), or private (e.g. Tradime, Spol, Zuid, Sociedade de Manica, etc.). These wholesalers distribute the locally produced or imported goods, in accordance with the allocations made by the M.T. and the M.U.'s through wholesalers at the district level, mostly private, who however also have direct access to the manufacturers. These district wholesalers use the private retailers as their outlets and also play an important role in bringing agricultural produce to market, particularly after the closure of the "people's stores" in 1980, which were transferred, some to the rural co-operatives and some to the private sector. As of 1983 the Government decided to hand over the management of most retail businesses both in urban and rural areas to the private sector. This policy has been flanked by a cautious liberalization of retail prices (where the legal mark-up is between 35 and 40% - see Fig. III.21).

As regards the marketing of non-perishable agricultural products (cashew, copra, cotton, sisal, etc.) these are sold by the producers to the depots of AGRICOM E.E. (which include some mobile ones), to the consumer co-operatives and to "cantine'ros" - small shopkeepers-cum-barter traders, who subsequently deliver them to the silos and depots of AGRICOM, or to the beneficiation plants.

AGRICOM E.E. is a State corporation set up in 1981 to market agricultural products, but also to organize and control distribution jointly with the other traders mentioned above. The market share of AGRICOM, which has a work force of about 2,600 (clerks, manager of silos and depots, drivers and "collectors", is about 40%. In 1985 it had 148 regular sales depots, 105 mobile ones and outlets in the country's markets. This network was supplemented by about 3,100 regular private traders and 2,350 seasonal ones, 1,030 consumer co-operatives and 473 independent sales outlets 1/.

In order to finance the campaigns to improve the distribution of agricultural produce to the markets, bilateral aid has been sought, the aim being to obtain foreign exchange for the import of finished goods or raw materials which can be processed by the local industry into barter goods (telephones, extiles, clothing, footwear, etc.), also referred to as "incentive goods". For example the Caisse Centrale de Cooperation Economique (France) provided resources totalling 100 million French francs in 1986.

Agricultural marketing and distribution was also helped, as regards "incentive goods" through the New System of Foreign Exchange Management, of which the best example is the cashew fund (see III.26).

1/ See "The Agricultural Marketing System in Mozambique", Vicent Tickner, December 1985; University of Uppsala, Sweden.

Finally, for perishable agricultural produce (fruit and vegetables) there is Hortofruticola E.E., which supplements direct sales by the producers, GAPAM E.E. for cattle, PESCOM E.E. and the Combinados Pesqueiros for fish.

These are the legal channels of marketing and distribution, but, as already pointed out, the networks of the informal market, which plays an ever more important role in the Mozambican economy flourish at the fringes. To combat this phenomenon, in January 1987 the Council of Ministers considered the possibility of selling non-essential imports through State enterprises in meticals at market prices. On the same occasion it was decided to permit the direct involvement of the manufacturing firms or branches in the commercial distribution networks, and especially in the distribution and marketing of their own products, wherever this alternative appeared to lead to greater efficiency.

11. The Fabric of Industry

There are no input-output tables 1/ that would permit the types of linkages that exist between the various branches of industry to be studied, or in other words that would enable the direct or indirect nature of production to be determined, direct (or final) production being defined for this purpose as that which is destined to satisfy final demand, and indirect as that which relates to intermediate inputs. This is however easy to determine, particularly by using other analytical tools such as sectoral studies 2/ and by analysing the main types of production. The structure of M.I. consists almost entirely of direct activities based on imported intermediate inputs. If one disregards the export oriented, so-called beneficiation industries (processed tea, rice hulling and polishing, cotton ginning, sisal shredding, preparation of cashew kernels and the manufacture of raw sugar), these activities are characterized by minimal use of the country's natural resources. And yet optimizing natural resource utilization must be the criterion for selecting the appropriate specialization scenario; taking improved use of natural resources as the starting point, the strategic objective must be greater national autonomy with respect to industrial linkages.

The following lines of production 3/: chemicals, metals and textiles, which together make up some 40% of the gross value of M.I.'s total output, are a striking example of the lack of industrial linkages within the country.

1/ The preparation of input-output tables for the economy of Mozambique is one of the mission's recommendations.

2/ See Vol. II - Appendix VIII: Analysis by industrial subsector.

3/ A line of production (filiere) or subsystem is a group of industrial activities which, because they derive their natural raw material inputs from the same sectors, develop a particularly finely meshed network of linkages and aim broadly for the same basic types of application for their products.

These three subsystems produce or assemble from imported components, intermediate inputs and capital goods, or goods for end users classified according to the following branches (see Appendix III): textiles; garments; leather and footwear; chemicals; plastics; basic metals; light engineering; machine tools; ventilation; air conditioning and refrigeration; electrical machinery, apparatus and appliances; heavy engineering; ship building and repair. It is estimated that 20% of the gross value of production stems from intermediate goods, 22% from capital goods and the remaining 58% from consumer goods.

Of the total inputs, about 10% are local raw materials: cotton fibre, sisal fibre, paint filler, iron, steel and other metallic scrap, sand, hides, firewood and coal. Locally produced intermediate inputs account for about 20% of the total inputs, of which 15% are internal consumption of the lines of production: cotton yarn and fabrics, knitwear, sewing thread, elastic, ribbons, tanned hides, leather soles, glues, paints, sulphuric acid, ammonium sulphate, wire, welding electrodes, solder, components of cast iron and steel, melting of non-metallic minerals, nails, screws, rivets, oxygen and acetylene. Intermediate inputs from locally produced items widely used in other lines of production include: sawnwood, cement, fibreboard and plywood, rubber articles and electricity. The inputs imported direct 1/, including knock-down kits and assembly components, account for about 70% of total intermediate consumption, which is indicative of the external dependence of the lines of production and the lack of inter-industry linkages. Recalling that in any industrialized country these three subsystems are the ones that have the most linkages, it is evident that in spite of the need for some degree of specialization, the production of intermediate goods must commence as soon as this is feasible. But if these arguments do not suffice, then it should be done in the interests of continuity of production so as to avoid the total stoppage of lines of production or of equipment and installations, as has already happened, because there were no stocks of certain goods which at present are being imported and consumed on a large scale.

But as indicated above, the lines of production themselves which depend basically on local natural resources commonly have a low degree of specialization (index of specialization 2/ less than 1 at the level of the main line of production and also of most of its segments) and lack of diversification and linkages to other branches of industry. Take for example the line of timber production all segments of which could be highly specialized given of the country's enormous forest resources. It comprises the following product groups: firewood, charcoal and logs; sawnwood. parquet flooring,

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1/ Some of the imported goods are also produced locally, but in insufficient quantity and quality.

2/ The specialization index is the ratio Production/(Production + Imports - Exports). Where it is more than 1, there is specialization.

fibreboard and plywood, woodworking, furniture and wooden boat building and repair; paper, packaging and printing. The following local inputs are used: wood, electricity, glues, paper and waste paper, sawnwood, fibreboard and plywood, nails, ironware and other metal products, paints, paper pulp, starch, caustic soda and other chemicals, corrugated paper, cardboard of various strengths, etc. It is also evident that, apart from intrasectoral linkages, which notabene are insufficiently developed, the linkages with other lines of production, particularly chemicals and metals, are minimal, since they depend entirely on imports.

It is clear from the above that the industrial development model must be redesigned to adapt it to the country's needs and capabilities. The aim must be to create the basis of a structure for industry capable of achieving self-sustained growth which should not penalize the agrarian and mining sectors.

The country's industrial development model must on the other hand give priority to those types of production which utilize available resources more intensively: labour, local raw materials and energy; it is very well endowed with these and the resulting products could be exported, provided the present abnormal economic situation can be overcome. The same considerations apply to the industries to be newly created and to the firms ripe for rehabilitation. Attention should also be devoted to those types of production which have a high import content, but whose value added is also significant and for whose exports a market is assured.

The methodology followed is a simplified one, comprising studies of subsectors and subsystems, to be prepared in combination with sufficiently disaggregated lists of imports and with other studies on natural resources and their uses in industry. This methodology is proposed for the selection of priority intermediate products and for the identification of new industrial opportunities in the areas of import substitution and export promotion. All new projects must be viable, primarily as regards cost-benefit and also as regards their economic rate of return 1/. Since the projects will mainly be import substitution ones, evaluation of their balance of payments effect is advisable, either using the internal rate of return on foreign exchange, or by the internal rate of exchange. Only after a project has been evaluated, and in the case of projects whose output will be exported a market study prepared, should a decision on implementation be taken. This does not mean that in no circumstances may projects be implemented which do not fulfil all the criteria for viability, particularly in cases where for security reasons or for the better use of resources this appears desirable.

1/ In order to calculate shadow prices not only must border prices be determined, but also general conversion factors - of labour, of some of the more important products, and of the opportunity cost of capital to the economy of Mozambique.

2/ Domestic Resource Cost Ratio, for example.

C. Salaries, Productivity and Prices

12. Salaries

Immediately after independence a generous wages policy was adopted which did not conform to the realities of the country's economic situation.

To correct this situation and benefit all workers in a consistent manner, and particularly workers in agriculture and livestock breeding, traditionally among the worst paid, at the end of 1980 1/ a law on salaries was passed which introducing certain concepts and regulations into Mozambican labour law for the first time, and fixed salary levels until January 1987. This law introduced basic occupational categories: worker, employee, specialist and manager and fixed salaries accordingly:

- Workers in animal husbandry:	62.5 MT/day
- Other workers:	13 MT/hour 2/
- Employees:	2,100 MT/month
- Technician:	3,100 MT/month
- Managers:	3,500 MT/month
-	
- Graduates of trade and technical schools	
- in the 1st year:	3,250 MT/month
- in subsequent years:	3,750 MT/month
- Graduates of the agricultural, commercial and industrial schools	
- In the 1st year:	5,000 MT/month
- In subsequent years:	5,500 MT/month
- Graduates of institutes of higher education:	
- In the 1st year:	8,000 MT/month
- In subequent years:	9,000 MT/month
- University graduates (bachelor's degree):	
- In the 1st year:	10,000 MT/month
- In the 3rd year:	12,000 MT/month
- University graduates (advanced degree):	
- In the 1st year:	13,000 MT/month
- In the 3rd year:	15,000 MT/month.

1/ See Decree No. 4/80 dated 10 September 1980, which was revoked by Decree No. 5/87 dated 30 January 1987.

2/ The equivalent of 2,700 MT/month for wage-earners working a 48 hour week.

Starting as an instrument of salary restraint, this scheme finally ended up by freezing salaries, since the existence of inflation was not officially recognized 1/. Salary levels therefore remained identical within the various occupational categories, since the Secretary of State for Labour was unwilling to authorize any changes. In practice, the only way of increasing salaries was by promotion, in spite of the requirement that these be first submitted to evaluation committees.

The virtual freezing of wages led to an exodus of many of the best qualified staff who went to work in the informal economy or migrated to neighbouring countries. This greatly hampered the country's industrial development, already beset by many problems. What is even more serious is that the middle and senior levels of management tended to follow suit. Clearly, there were other reasons as well for the departure of skilled workers and specialists. Quite apart from salary increases, staff expect career opportunities, supplies of essential consumer goods and other benefits. These will however only become available as the present crisis is gradually overcome, a process which would also lead to greater stability in the workforce.

According to the official statistics 2/, the average monthly salary in industry and construction in 1980 was 1,980 MT. Allowing for a 6.5% reduction in employment in these two sectors from 1980-84 3/, the estimated average monthly salary in 1984 would have been 2,063 MT, an acceptable figure if one remembers that agricultural labourers whose work has industrial links (sugar, tea, sisal and cotton plantations) are included, as are a significant portion of individual craftsmen who no doubt earned less than the minimum industrial wage. Restricting ourselves to M.I. we can estimate the average 1984 salary as being around 5,050 MT per month (see Fig. III.17) 4/.

Excluding construction and ship repair, refrigeration, chemicals and rubber, the percentage of foreign workers 5/ is less than 1% (see Appendix - Fig. 26). The effective remuneration paid by firms to foreign workers in 1984 ranged from 11,700 MT/month to 174,000 MT/month, the average being 32,900 MT/month, about 6.5 times more than the average salary of Mozambican workers.

1/ The consumer price index was not published. For statistical purposes only the indices implicit in GSP were calculated. These did not reflect the real situation, as can be seen from a study by the NSO/NPC: "Consumer Prices and the Level of Consumption". The 1985 Statistical Bulletin published the consumer price index for 1980-85 for the first time (see Statistical Appendix - Fig. 5). Average annual inflation for the period was indicated as being of the order of 25%.

2/ See Population Census and Statistical Appendix - Fig. 4.

3/ Mission estimate derived from extrapolation of the statistical series obtained from the NSO/NPC relating to employment in 14 of the most important industrial subsectors (see Statistical Appendix - Fig. 27)/

4/ The firms shown in Fig. III.17 which are distributed over the 22 branches of industry studied, have a total strength of some 54,000 workers.

5/ The description "workers" includes all levels from manual workers to qualified technical staff.

From 1980-84 the average annual rate of salary increase was 4.5%. By contrast inflation in the same period averaged 25% per year. Consequently, real salaries fell to levels which in some cases were below the subsistence level.

Fig. III.17. Salaries and productivity
(10^3 MT)

Branch	Annual salary		Productivity of labour - 1984		Indices based on average productivity	
	1980	1984	Relative to GPV	Relative to GVA	Relative to GPV	Relative to GVA
Textiles	47.0	56.4	148.0	57.3	67.5	89.5
Garments	51.8	54.8	354.3	75.6	161.6	118.1
Plastics	53.7	67.2	191.6	78.7	87.4	123.0
Matches	59.5	42.9	93.7	37.7	42.7	58.9
Glass	68.8	77.7	244.8	138.5	111.7	216.4
Printing	77.8	81.2	294.4	118.9	134.3	185.8
Cement	79.9	77.1	100.6	-30.7	45.9	--
Oil refining	131.4	99.6	1963.2	-18.3	895.6	--
Sugar	31.7	35.2	76.7	46.0	34.9	71.8
Cashew	30.4	48.9	25.2	4.0	11.5	6.3
Ship repair	45.7	69.1	315.3	278.6	143.8	435.3
Refrigeration	69.6	64.7	290.7	86.0	132.6	134.4
Flour milling and baking	54.2	60.6	522.5	85.8	238.3	134.0
Tobacco	90.2	93.9	469.3	21.0	214.0	32.8
Weighted average	45.3	56.7				
Heavy engineering		84.4	414.7	183.3	189.2	286.4
Beverages		74.6	152.7	75.0	69.7	171.2
Paper and cardboard		58.1	319.4	32.4	145.7	50.6
Chemicals		96.7	336.8	127.7	153.4	199.5
Basic metals		72.7	109.4	-145.8	49.9	--
Machine tools		71.3	156.4	77.5	71.4	121.1
Electrical equipment		63.3	416.3	165.4	189.9	258.4
Rubber		107.3	310.4	145.3	141.6	227.0
TOTAL		60.6	219.2	64.0	100	100

Source: Statistical Appendix - Figs 27 and 28; data supplied by the firms and mission estimates.

The share of average salary in average per capita value added is extremely high (about 95%). This is characteristic of industrial activity which is either very labour intensive or in a state of crisis. Fig. III.18 shows some branches which illustrate the situation more clearly and bear out what has been asserted.

Fig III.18 Share of salaries in GVP and GVA, 1984
(per cent)

Branch	Share of salaries in GVA	Share of salaries in GVP
Garments	72.5	14.8
Textiles */	102.5	39.7
Plastics	84.4	34.7
Refrigeration equipment */	124.2	22.2
Beverages	99.6	49.1
Matches */	113.6	45.7
Glass	48.9	31.7
Food and tobacco */	69.6	14.0
Printing	77.9	35.6
Rubber (tyres) */	76.5	32.9
Shipbuilding */	24.0	21.1
Machine tools	97.7	60.4
Dry and wet batteries */	18.6	16.2

Source: Mission estimates.

*/ Branches with an overall operating loss.

Regardless of the characteristics of the industrial subsector, it can be seen at a glance that most of these subsectors must be incurring losses, given the high percentage of salaries in GVA (in some subsectors total salaries even exceed GVA). Fig. III.19 illustrates this situation. Thus, given the current state of the economy, M.I. merely earns the salaries of its workers - and not always even that. A situation is being reached where the capital base is being eroded away and where it is no longer possible to generate a cash flow capable providing a return on invested capital, much less reserves to secure a minimum of self-financing. There is thus not much prospect of recovery unless adequate steps are taken in the sphere of prices, salaries, production inputs and employment.

Since the economy is protected from outside competition and salaries have until now been virtually frozen, there can only be two reasons for this situation: the low utilization rate of production capacity and the inflexibility of prices 1/. This situation was however changed by the Council

1/ In view of the virtual wages and prices freeze until the end of 1986, the de facto inflation is explained by the shortage of goods in the official market, which obliges consumers to resort to the informal market.

Fig. III.19. Share of factors of production in GVP, 1984
(per cent)

	Salaries	Depreciation	Finance Charges	Intermediate Inputs	Results	General Expenses
Garments	14.8	0.8	0.4	70.0	14.0	—
Plastics	34.7	4.3	7.4	39.1	2.1	12.4
Textiles	39.7	9.4	11.1	39.4	-8.1	8.5
Refrigeration Equipment	22.2	3.2	7.9	67.0	-5.6	5.3
Printing	35.6	2.9	0.2	31.1	11.1	19.1
Agro-industries	25.4	5.3	4.8	44.6	11.4	8.5
Matches	45.7	6.7	30.6	51.5	-61.5	27.0
Glass	31.7	8.3	3.4	19.3	23.5	13.8
Rubber (tyres)	32.9	24.0	6.6	41.1	-19.1	14.5
Cement	76.5	46.9	12.6	22.2	-110	8.2
Fibre cement (?)	83.0	7.0	16.3	43.3	-114.8	36.8
Basic metals	110.5	n.a.	n.a.	53.1	n.a.	n.a.
Petroleum and derivatives	3.8	2.2	2.8	87.7	-3.6	13.1
Cashew	105.2	13.9	1.5	67.7	-59.8	28.5
Food and tobacco	14.0	5.9	4.2	70.2	-1.8	7.5
Shipbuilding	24.4	14.4	3.4	10.3	-1.2	31.5

Source: Mission estimates.

of Ministers in January 1987 which decreed the introduction of a new salary system, with salaries at almost double their present level and with the payment of bonuses of up to double the base rates. The policy on prices was also modified with a view to returning enterprises to profitability and stimulating production by the family sector.

On January 30 Decree No. 4/80 was superseded by Decree No. 5/87 which aims to "implement the wages policies defined in the Labour Law" (No. 8/85), which contains a new wages scheme. However, implementing the new system requires firms to be organized and managed in such a way that they can reconcile the work force and wages element of the business with its production and service targets and with the financial resources at its disposal.

The skills required of blue and white collar workers, technicans and middle and senior management have been divided into 20 grades which comprise detailed job descriptions and on which the salary scales are based. The scales have a range of 1 to 7.8, or MT 4,500 to MT 35,000 per month.

Workers outside agriculture are placed in one of 10 grades, depending on the skills required, with a minium of MT 5,000 and a maximum of MT 15,600 per month.

Administrative and service staff are also graded at 10 levels, each of which can be further subdivided into 3 levels depending on working conditions or on the priority attached to the particular occupation. These 3 levels also apply to specialists. Thus monthly earnings are in the following ranges (in meticals):

	Level 3	Level 2	Level 1
Minimum rate (group I)	4,500	4,700	5,000
Maximum rate (group X)	14,000	14,600	15,600

There are four tariff group for agricultural workers, the minimum being MT 3,000/month and the maxium MT 5,800/month.

There are 14 grades for specialist and managerial staff to which the following ranges apply:

	Level 3	Level 2	Level 1
Minimum rate (grade VI)	8,300	8,500	9,000
Maximum rate (grade XX)	33,500	34,300	35,000

The revision of wages increased rates to a level approximately double that fixed in September 1980. In addition, the new legislation permits supplementary payments on condition that an employee's base salary is not more than double the rate corresponding to the required level. Such supplementary payments include performance linked bonuses (paid monthly at up to 25% of the scale rate) and seniority bonuses (10% of the monthly rate after 5 years and an 5% for each additional five years' of service). Firms which end their financial year with a profit may also pay their employees annual bonuses as a reward for the increased efficiency and profitability of the enterprise. Lastly, in specific circumstances, special rates not more than 25% above the norm can be paid to manual workers, specialists and managerial staff.

In view of the time needed to implement the new salary scheme - preparation of detailed job descriptions and post classifications, availability of approved manning tables, assignment to a grade on the scale on the basis of performance evaluation, - ministerial Order No.22/87 dated 30 January 1987 decreed that all salaries would be increased by 50% retroactively from 1 January 1987.

As already pointed out, while individual salaries are low, total salary costs, both at the enterprise and at the national level, have reached unsustainable levels. It is therefore essential that this increase in wages, which could not be postponed any longer, be matched by an overall increase in productivity and by making prices reflect the recent changes in salary, exchange rate and fiscal policy 1/. Taking into account the social impact

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1/ In January 1987 the first part of a legislative package covering exchange rate, fiscal, monetary and pricing policies was published in conjunction with Decree No.5/87.

of a price revision, realistic price levels must be introduced by stages, and not be diluted by subsidies to State-owned corporations. The burden on the 1987 central government budget of financing the deficits of public sector enterprises is indeed a heavy one: 14 billion meticals, or 25% of government receipts. However, it will be some years before the State can cease making good the deficits of the public sector. Only when the latter can operate at normal capacity levels will it be possible to dispense with such subsidies, unless prices are set so high as to be incompatible with salary levels. This is not the Government's intention: recently (January 1987) while considering the principles on which its revision of pricing policies should be based, it referred to the need to prevent a significant drop in the real value of salaries by making wages policy reflect changes in the level of prices of essential consumer goods and services.

13. Productivity

Considering the limited availability of inputs, and other factors affecting production, analysising the productivity of labour is of little use at present, unless it were possible to dispense temporarily with part of the labour force, keeping on only those required. This option has not been adopted. Indeed, there are no regulations on the "laying off" of staff, nor is it an acceptable practice. In effect, apart from jobs being abandoned owing to the reduced prospects offered by the labour market, there are dismissals "for just cause" which, given present conditions, are easy to arrange in view of the many situations giving rise to disciplinary measures in which employees may find themselves. Frequently, staff leave of their own volition to work in the informal market or to go abroad. The Labour Law of 14 December 1985 does however explicitly permit termination of employment by the employer with 90 days prior notice in case of the firm undergoing technical and/or organizational changes and provided the competent trade union is given a chance of expressing his views beforehand. Termination, which must be notified to the Secretary of State for Labour, requires the payment of indemnities.

Since in general qualifications are low and the system of industrial training in its infancy, firms prefer to continue paying qualified or partly qualified staff and keep them in unproductive jobs so that, when the opportunity arises, their skills can be used; giving them notice carries the risk of being unable subsequently to obtain suitably qualified staff. Even so there are at present branches of industry where the low productivity of individual workers poses a problem, for example in food processing, mechanical engineering, chemicals and furniture.

Fig. III.20 compares productivity in various branches between 1980 and 1984. The drop in productivity, whether in terms of GVP or of GVA, is evident. In the case of glass, printing, ship repair and refrigeration equipment there has been an improvement. In the other subsectors, and particularly in textiles and garments, cement and petroleum, the drop in productivity is well-known. In the last two cases, however, the drop in productivity has nothing to do with the factor labour, but is due to the lack of raw materials and to obsolete equipment.

Fig. III.20 Productivity of Labour
(current prices - MT '000)

Subsector	Relative to GVP 1980	Relative to GVP 1984	Relative to GVA 1980	Relative to GVA 1984
Textiles	236	148	125	57
Garments	308	354	114	76
Plastics	202	192	n.d.	79
Matches	244	94	79	38
Glass	223	245	85	139
Printing	189	294	57	119
Cement	217	100	30	-31
Oil refining	13,935	1,963	699	-18
Sugar	50	77	n.a.	46
Cashew	114	25	70	
Ship repair	252	315	226	279
Refrigeration equipment	124	291	15	86
Flour and Bread	489	523	n.a.	86
Tobacco	734	469	n.a.	21
Average	215	208	108	55

Source: Mission estimates.

14. Pricing mechanisms

The prices of certain goods and services are fixed by State, others are regulated by it and others again are allowed to find their own levels. As regards manufactured goods, the Council of Ministers fixes the prices of hydrocarbons. The National Prices and Wages Commission (NPWC), consisting of the Minister of Finance (who presides), and the Ministers of Planning and Trade, fixes the prices of the following items as regards industry 1/: maize flour, bread, sugar, edible oils, beer, tobacco, soap and petroleum products.

Each minister or secretary of state has powers to fix the prices of the remaining industrial goods and services of the firms which are under his tutelage or to determine the criteria for setting "regulated" prices. These powers can be delegated to the provincial governors. The criteria to be applied in the case of regulated prices should include:

1/ In January 1987 the Council of Ministers reduced the range of prices fixed by the State. Thus the following products previously subject to price fixing by the CMSP were given regulated status: wheat flour, salt, meat, noodles, matches, batteries, containers (metal or other), tyres, fertilizers, pesticides and cement.

i) The methodology for calculating the costs on which the price is based;

ii) The maximum profit margin to be added by the firm;

iii) The maximum gross mark-up to be applied in the particular distribution channel or channels.

In legal terms 1/ the price regulation criteria to be observed by producers do not have to be published in the Official Gazette. It is enough if they calculate their proposed revisions according to the official method and using guidelines supplied by the appropriate M.U., to which it is then submitted. The M.U. evaluates the proposal and sends it to the Ministry of Finance for an opinion. In view of the shortage of staff qualified to evaluate the proposals, price revision has become a slow and cumbersome procedure 2/. In recent times however there has been a greater readiness to speed it up either by permitting certain prices to be fixed at the discretion of individual firms or by delegating the decision to the M.U.'s. This procedure for inflation adjustment allows applicants to assume that the proposed price change has been approved if no official notification is received within 90 days. This procedure is however not yet sanctioned by law.

The method of calculating the costs on which prices are based differ in the two departments which exercise tutelage over most industrial activities - the MIE and SEILA 3/. Each method has two main components: manufacturing cost and profit margin. Although the procedures differ, they share the following drawbacks: i) fixed assets are not taken into account; ii) the gross profit margin includes items which are clearly costs of production; iii) the formulas are too inflexible, not being adapted to actual utilization of production capacity, particularly at a time like the present when they may fall below 30%.

The gross margin adopted by SEILA is 17%. At MIE the gross margins depend on the sector: basic metals - 20%; paper and paperboard - 20%; refrigeration equipment - 7%; glass - 15%; in exceptional cases margins can be as high as 30%.

It is clear that the two methodologies must be made mutually compatible, if only because at times the same products are manufactured by firms under the tutelage of both government departments. Moreover, rapid and unbureaucratic procedures should be adopted to speed up price revision. But above all the new formulas should take the arguments adduced above into account.

The mission was informed that there is a task force within the Ministry of Finance which is to devise a common methodology for industry incorporating the positive aspects of the two existing methods. In addition it is planned to

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1/ See Decree No.10/82 dated 22 June 1982.

2/ At times the tardiness appears deliberate, particularly when the items are such that delaying the price increase appears prudent.

3/ See Vol. II - Appendix IV.

bring the prices of industrial goods into line with those practiced in the neighbouring SADCC countries.

The only body empowered to authorize decontrolled prices is the NCWP. In such cases a notice to this effect must appear in the Official Gazette. At present, apart from certain industrial services such as repairs, welding, heat treatment, etc. there are no decontrolled prices in M.I.

In January 1987 che Council of Ministers decided to revise its policy on prices with the aim of: making firms more profitable at existing capacity utilization levels; stimulating output by the family sector; reducing financial imbalances; improving the supply of goods (at official prices) to the public; prevent the alarming drop in the real value of wages and incomes of the family farming sector. With this aim in view and within certain general limits yet to be established, prices are to be allowed to reflect all costs incurred by firms not only in Industry, but also in Agroindustry, Transport and Construction. Moreover the range of prices fixed by the Government, either by the Council of Ministers or the NCWP, would be reduced and the range of decontrolled prices extended, the general aim being to include non-essential goods and services, goods and services not subject to rationing and those whose quantity and quality would benefit from the removal of price restrictions.

The maximum permissible mark-up to be applied in the various distribution channels is still governed by an Order of the colonial government 1/ which establishes wholesale and retail margins (see Fig. III.21). There are thus two types of prices:

a) Wholesale price - Is obtained by adding to the price of merchandise in the warehouse various charges up to a maximum of 7% of the original price (excluding consumption tax) and adding the permitted mark-up, which is calculated on the sum of the two previous items.

b) Retail price - Is obtained from the wholesale price plus transport costs, if any, plus various other charges up to a maximum of 7% of the wholesale selling price. The sales mark-up is calculated on the sum of the two previous items.

The price of goods in the warehouse is obtained as follows: ex-works price plus transport and insurance plus port charges, if sent by sea, plus consumption tax.

In line with a January 1987 decision of the Council of Ministers and with the new pricing policy, in order to limit the high profits presently obtained by traders, in the near future their rates of mark-up are to be reduced in favour of the producers. These will be permitted to trade both upstream and downstream, particularly as regards the marketing and distribution of their products.

1/ See Legislative Order No.6/73 dated 16 January 1973.

Fig. III.21. Maximum Trading Mark-ups
(per cent)

Product	Wholesaler	Retailer
Flour and semolina	10	20
Animal and vegetable oils and fats	10	20
Other food products	10	30
Sugar and confectionery	10	25
Miscellaneous food products	10	25
Beverages	10	25
Fabrics and garments	15	35 - 40
Footwear	15	35
Construction materials	20	25
Cement	10	20
Furniture and household ware	15	30

Source: Decree-Law No.6/73 dated 16 January 1973.

D. External Dependence of Manufacturing Industry

15. Types of Dependence

In the course of time the country's M.I. has become heavily dependent on the exterior in three principal ways: commercial dependence, above all for inputs and equipment, technical dependence and financial dependence. This dependence is derived from a combination of factors. Having been established almost entirely in the colonial era, M.I. was unable to divest itself of characteristic features of the colonial regime 1/: firms were established and operated in commercial, technical and financial dependence on other firms or on Portuguese financial interests (Portugal being the colonial power), sometimes in association with other foreign enterprises. Apart from a few engaged in the primary processing of local raw materials (sugar cane, cotton fibres, unrefined vegetable oils, etc.), these firms were entirely dependent on imported inputs, mainly from Portugal. In addition there was the dependence resulting from industrialization being in its infancy, a characteristic feature of M.I. in most developing countries.

16. Commercial Dependence

16.1. Institutional Framework

Before a firm can engage in importing it must register with the National Forwarding Agency and obtain a licence (issued on a case-by-case basis) from the Ministry of Trade (MT), which adheres to the priorities established by the NPC. At the same time, the MT evaluates the applicant's credibility, his

1/ See III.2.

technical competence and the price and quality of the item, even if the goods have been included in the State Central Plan and there are lines of credit or foreign exchange reserves available under the Foreign Exchange Management System 1/.

In principle the State has a monopoly of foreign trade through its specialized foreign trade corporations 2/, although some M.U.'s also import direct items intended for the firms under their tutelage. There are also some firms which are permitted to import direct, without however being exempted from the licencing and other procedures mentioned above. In recent times the breaches in this monopoly have become more numerous, the expectation being that more and more firms which specialize in foreign trade will be allowed to import direct. It is now accepted that the individual firm knows better than anyone what type and quality of goods it needs. It is clear that only the larger firms are in a position to carry out these functions. While foreign trade procedures need to be simplified, it is also necessary to retain certain controls in order to prevent over- or underinvoicing.

16.2 Exports

Exports of manufactured goods, including those of the agro-processing industries, account for some 50% of total exports. These exports are however unable to generate an acceptable degree of import cover. Indeed the percentage of import cover (including grant aid) has tended to fall: from 47% in 1975 to 18% in 1984 and 1985. The concentration of exports is also noteworthy, both as regards their destinations within the region and the range of products. The OECD countries account for some 70% of exports. The USA went from first to second place in 1985, overtaken by Spain, which took 23% of exports. Mozambique's third largest customer is the Republic of South Africa.

Exports of manufactured goods, apart from certain timber products, are limited, practically speaking, to 10 items (see Fig. III.22), in essence agricultural products with a greater or lesser degree of processing, the most important being cashew nuts of which the country was once the world's biggest exporter. Exports of petroleum products are at present merely a trading operation since the Petromoc refinery has been closed since 1984. The prices of exported goods have remained relatively stable, apart from a slight fall in cashew 3/ and cotton in recent years, and a rise in tea. The downturn in export earnings is therefore due rather to variations in the crop yields. The manufactured products other than the 10 referred to above which have been exported, albeit sporadically and in small quantities, are mainly tyres and inner tubes, batteries, electrodes and fabricated metal products.

1/ See III.26.

2/ INTERQUIMICA, for example, for imports of agricultural chemicals and ENACOMO for exports of agricultural produce. See III.10.

3/ There has recently been an upward trend in prices of cashew nut.

Fig. III.22. Exports of manufactured goods
(quantities in '000 tonnes; values in 10^6 MT)

Main manufactured goods exported	1973 quantity	1973 value	1975 quantity	1975 value	1984 quantity	1984 value	1985 quantity	1985 value
Cashew nut	29.6	1020.2	21.2	779.9	4.1	650.0	0.1	498.7
Cotton fibre	48.9	1116.6	17.8	439.4	5.9	341.0	4.7	230.6
Sugar	178.9	554.5	50.7	575.3	16.4	244.2	16.8	294.6
Tea (processed)	17.5	232.0	11.0	177.1	7.7	458.2	1.8	104.2
Cement	-	-	31.0	15.9	26.1	36.0	-	-
Copra oil	9.7	93.5	7.2	71.3	-	-	0.6	18.1
Molasses	103.3	33.6	79.8	67.6	12.2	23.3	16.6	23.2
Cashew oil	14.8	50.5	5.8	40.9	0.7	5.9	1.0	13.2
Clinker	-	-	-	-	8.6	9.4	-	-
Petroleum products	-	291.3	-	370.2	-	230.5	16.6	167.5
TOTAL	-	3392.2	-	2537.6	-	1998.5	-	1350.1

Source: Statistical Information - 1985: NSO/NPC.

16.3. Imports

The country's imports come from quite a number of different sources and it appears that the related merchandise flows have not yet been stabilized. The shortage of foreign exchange has made the country dependent on bilateral credits, which perhaps explains the variation in the sources of supply (see Statistical Annex - Fig. 17) and inevitable losses due to the diversity of machinery in use and the huge range of spare parts needed, which prevents optimal use of the available resources. Although the OECD countries led by Portugal are the main source of supply, the USSR is the largest single supplier, and its share has tended to increase in recent years, mainly owing to deliveries of petroleum and petroleum products, which represent some 18% of total imports. (see Fig. III.23).

The value of imports of consumer goods and their share of the total is on the increase with particular emphasis on food products. As regards industrial inputs and capital goods, there is heavy dependence on outside sources, inasmuch as these account for between 60% and 70% of total imports, including petroleum and petroleum products. Imports of raw materials, which in 1980 accounted for nearly 50% of imports, have declined in recent years, the same being true of spare parts and machinery. For an industry which is still in its infancy, weak in linkages and needing numerous ancillary items, this decline means that the productive process has slowed or come to a halt, given the high proportion of imports in the intermediate input requirements of most industrial subsectors (see Fig. III.24).

Fig. III. 23. Imports of manufactured goods
(money values in 10^6 meticals)

	1975		1980		1982		1984		1985	
	MT	%	MT	%	MT	%	MT	%	MT	%
Consumer goods	3126.9	29.1	6590.6	25.4	6362.1	20.1	7723.1	33.7	7169.5	39.2
Electric power	..		30.0	0.1	296.0	0.9	366.0	1.6	247.0	1.3
Inputs and machinery	7618.7	70.9	19301.6	74.5	24915.6	79.0	14814.2	64.7	10881.5	59.5
Raw materials ("crude" and products)	4454.9	41.4	12522.7	8.3	13996.2	43.5	7831.3	34.2	6760.8	36.9
	(1585.4)	(14.8)	(7105.3)	(27.4)	(8043.9)	(25.5)	(4273.3)	(18.7)	(2983.0)	(16.3)
Spares and replacements	1365.0	12.7	1837.8	7.1	4060.9	12.9	3013.1	13.2	2019.8	11.0
Machinery	1798.8	16.8	4941.1	19.1	6858.5	21.7	3969.8	7.3	2100.9	11.5
TOTAL	10745.6	100	25922.2	100	31573.6	100	22903.3	100	18298.0	100

Source: Statistical Information, 1985: NSO.

Owing to the shortage of foreign exchange some efforts have been made to reduce raw material imports, either by substituting local products (for example wooden buttons instead of plastic ones) or by recycling (glass, paper, rubber) or by simply omitting them, with an adverse effect on the quality of production (e.g. chemical products) 1/.

Meanwhile, owing to the natural disasters which have afflicted the country and to the depredations of the armed bandits, the Government had to choose between the survival of the population and industrial development. The shortage of foreign exchange and the urgent need for foodstuffs left no scope for decisions to be taken independently of the short-term problems.

1/ Volume II - Appendix VI (Statistical Tables) shows a disaggregation of imports by category of merchandise.

Fig. III.24. Import component of intermediate inputs, 1984
(MT million)

Branches of M.I.	Total inputs (T)	Import component (I)	(I):(T)x100 %
Garments	1480.1	448.9	30.3
Plastics	63.7	60.1	94.3
Textiles	643.8	391.5	60.8
Refrigeration equipment	166.6	138.9	83.3
Beverages	110.7	62.7	56.6
Wooden Furniture	362.6	10.9	3.0
Agro-industries	52.9	9.7	18.3
Matches	8.5	7.7	90.5
Glass	41.1	13.3	32.3
Rubber (tyres)	108.5	98.1	90.4
Cement	58.0	35.1	60.5
Fibro cement	19.9	14.3	71.8
Petroleum and products	1118.8	1118.8	100
Cashew	248.0	10.5	4.2

Source: NSO; Mission estimates.

17. Financial Dependence

17.1. Direct Foreign Investment (DFI)

Prior to independence, industrial investment came mainly from Portuguese and South African firms and financial groups. After independence a large part of these firms were "interventioned", and one of them subsequently nationalized. Meanwhile in some cases technical assistance agreements were concluded with the former foreign owners. Other firms retained links with their parent companies, albeit somewhat precarious ones since, faced with the country's economic problems and the impossibility of repatriating profits, the foreign associates did not contribute any fresh capital to such firms to replace that which had been eroded by their consistent losses.

To resolve these difficulties and in consequence of the new directives which emerged from the IV Frelimo Congress, there was a move to promote DFI in the country, channelling it mainly into medium and large-scale projects. At the same time there were signs of a readiness to renegotiate the rights of the former foreign owners vis-a-vis the "interventioned" firms, with a view to converting them into mixed enterprises whenever benefits for the firms and for the country might be expected to result. Although the process is a slow one agreement has already been reached in some cases.

This is the background to the "Law on Foreign Investment" 1/, which came into force in August 1984. Emphasizing the principle enshrined in the

1/ See Law No.4/84 dated 18 August 1984.

Constitution of Mozambique according to which foreign capital may participate in the economic life of the nation, the law provides further details, defining the scope of foreign investment and the basic guarantees and obligations applying to foreign investors in accordance with principles laid down in the Charter of Economic Rights and Obligations of the State approved by the United Nations General Assembly. The Law on Direct Foreign Investment (DFI) defines the general principles and goals envisaged, establishes an authorization procedure, defines the guarantees of property and other rights falling within the scope of DFI, enumerates the incentives to be granted and determines how disputes are to be resolved. The Foreign Investment Law has established the basic legal framework for foreign investment in the PRM, which is to be subordinated to the guiding principles of economic policy and is to contribute to economic and social development. The Law specifies that DFI will be subject to evaluation, authorization and registration and will be promoted and followed up by the Office for Foreign Investment Promotion (GPIE) which operates under the aegis of the Minister of Planning. The inviolability and legal protection of the property and other rights of foreign investors are guaranteed in conformity with conditions laid down in the authorization or in the legal instruments pertaining to the investment, and in particular the right to remit of exportable profits, to repatriate re-exportable capital and make loan service payments in respect of borrowings on international financial markets. The Law also specifies the investment incentives which may be granted in the authorization document, viz.: exemption from import duties of items needed for the implementation of the project or of raw and subsidiary materials for the production of goods destined for export; exemption of the profits generated by the venture from taxes for a period of between two and ten years, the precise period to be determined in the light of the type of project and its objectives; exemption from taxes on interest on loans provided by third parties or by the investors themselves, etc. The Regulations on Direct Foreign Investment which define the requirements for processing each DFI project and the procedures for its authorization and subsequent registration were published on 30 January 1987. They also determine the legal requirements for authorization, implementation, support and follow-up of each project.

The Regulations specify that investment projects with a value of less than ten million meticals in freely convertible currency are not considered DFI for the purposes of applying the procedures, guarantees and incentives defined in the Foreign Investment Law. The real value of DFI, for purposes of profit remittances and repatriation of capital, comprises the sum total of the capital brought into the country by the investor and used in a DFI project which has been duly authorized, implemented and registered. The investor may, however, incur loans from both domestic and foreign sources, albeit without any obligation in this respect on the part of any governmental agencies of the PRM.

DFI projects are to be submitted in the manner specified in the Regulations, being subsequently evaluated by an Evaluation Committee, part of the GPIE, which comprises representatives of the NPC, the Ministry of Finance, the Ministry of Trade, the Bank of Mozambique and of the body which supervises the relevant economic sector. After completing its evaluation, this committee prepares the draft authorization which covers the various parameters and

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1/ Law No.4/84 dated 18 August 1984.

conditions to be imposed on the project such as the tax incentives and the proportion of profits which may be exported. The proposal is then approved by the NPC if the DFI project represents an investment of less than 500 million meticals or by the Council of Ministers if it exceeds this amount.

The Regulations, in spite of giving full details of DFI procedures, have some lacunae as regards the criteria for determining the period of exemption from Industrial Contribution Tax and other taxes. After all, industrial contribution tax alone catches 68% of taxable earnings 1/. With its guarantees of transferability of profits and, in cases where a venture is wound up, of re-exportable capital the Foreign Investment Code of the PRM is a liberal document. Additional guidelines on the tax incentives available is recommended by the mission in order to determine who is eligible for them, thereby changing the present discretionary nature of the code and its application. The existing regulations should also be flanked by deregulation or even of a new system of regulating the private sector with a view to eliminating the restrictions still in force (III.5.1.). The economy of the country needs foreign investment, even if its external dependence tends to increase as a result.

17.2 International Co-operation in Industry

The difficulties which the country has experienced have to some extent been alleviated by the external aid emanating from technical and financial co-operation. The grants made to the country have indeed been substantial, reaching between 3% and 7% of national income in recent years (see Fig. III.25).

Fig. III.25. Grants in aid and the national income
(billion currency units)

	1980	1981	1982	1983	1984	1985
National income (1)	66.0	68.4	77.8	79.4	96.1	136.5
Grants in aid (2)	1.81	2.03	3.0	3.6	7.12	6.0
(2):(1)x100	2.7	2.9	3.8	4.5	7.4	4.4

Source: Statistical Information, 1985: NSO.

International co-operation is co-ordinated by the Minister of Co-operation who supervises all relevant activities and fosters the various forms of aid the country is receiving in accordance with the its priorities and development policies. NGO's also maintain an effective presence in Mozambique by the implementation at the district level of a number of integrated socio-economic projects, which sometimes include small private firms and productive operations at the family level. In an international perspective there is a need to

1/ The rates of Industrial Contribution Tax are 50% on total profits, and a further 55% on distributed profits. The 68% rate is applied only where the declaration submitted by the taxpayer contains serious deficiencies.

distinguish between two types of co-operation, one of which is called Regional, the other North-South.

a) Regional Co-operation

Nine countries of southern Africa - Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe - are endeavouring to adapt their development policies to their mutual dependence and have formed a organization entitled SADCC - Southern Africa Development Co-ordination Conference. Although the financial means of this group of countries are limited, the importance of the organization rests on its efforts to share its resources, almost all from external sources, and apply them in a rational manner, so as to maximize the benefits to all member states.

In the medium and long-term perspective, its importance as a unifying factor in a region whose geo-political integrity was shattered almost a century ago by the erection of colonial frontiers is even greater. It represents, as it were, a re-encounter of Africa with itself.

In recognition of Mozambique's importance for transport and communications within the region, SADCC's Transport and Communications programme includes investment projects relating to the port and railway facilities of Maputo, Beira and Nacala which total some US$ 1,540 million at current prices. Of this US$ 1,295 million are in convertible currency, being about 53% of the total value of projects envisaged under the programme. Funding in the amount of US$ 311 million (about 24%) has already been secured 1/.

The planned expenditures include not only port facilities, freight terminals, navigational aids, dredging, weather forecasting services and telecommunications, but also the rehabilitation and improvement of the international road and rail networks used by traffic from the neighbouring countries to reach these ports.

b) North-South Co-operation

After Mozambique joined the ACP countries through the Lome III Convention, technical co-operation with the EEC became institutionalized, although the greater part of contributions are still received on a bilateral basis. It is estimated that co-operation with the EEC countries exceeds 50% of total external aid to Mozambique. According to information released by the United Nations in August 1985, international co-operation for the development of Mozambique had reached US$ 372.8 million by 1984, of which 15% are accounted for by technical co-operation, generally on a grant basis, and the remainder by financial co-operation under which about one half is grants and the other half loans and credits.

1/ See: SADCC - Transport and Communications - Amendments, January 1986; Harare 30th-31st January 1986.

Technical co-operation covered assistance by specialists and concerned mainly Agriculture, Industry, Education, Natural Resources, Transport and Communications.

Financial co-operation provided plant and machinery, raw materials and foodstuffs, and covered Industry, Trade and Social Security in addition to the sectors of Agriculture, Transport and Communications mentioned above.

International aid is probably understated because part of the grants in kind are not recorded and because some of the donors do not disclose their contributions. Among the countries which stand out most as regards bilateral co-operation with Mozambique are Italy and Sweden, immediately followed by the USA, Holland, France and Norway. It is known that the GDR, the USSR and other Socialist countries have provided substantial resources for co-operation, but the mission has no data on the amounts involved. The activities of NGO's also deserve mention, owing to the complementarity of their work at the district level, although in national terms its scale is fairly modest 1/.

It is interesting to compare international co-operation in 1983 with that in 1984 (see Fig. III.26). While there was an overall increase of just over 50%, technical co-operation was reduced while financial co-operation underwent a substantial increase.

Fig. III.26 International Co-operation
('000 US Dollars)

	1983	1984	
Technical Co-operation	65,268	54,491	-16.5%
Financial Co-operation	182,619	318,266	+73.3%
TOTAL	247,887	372,757	50.4%

Source: UNDP/Maputo.

Of the industrial sector it can be said that international aid is involved in almost all branches - geology and mines, agriculture and forestry, fisheries, textiles, chemicals, construction materials, basic metals, electrical machinery and ship repair.

While the assistance given directly and specifically to the industrial sector is identifiable, the sums provided for Development and Planning, for Agriculture and in support of the trade balance also include direct or indirect benefits to industry (see Fig. III.27). As regards Development and Planning and support for the trade balance, projects of the following types are

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1/ See IV.3 for the assistance provided by NGO's to the Department of Local Industry.

relevant to industry:

- technical assistance and technical training;
- identification of human and physical resources needed;
- consulting services not further specified;
- support for management, for working capital and for product distribution networks;
- project preparation;
- support for fuel imports.

As regards Agriculture, among the projects relevant to industry are to be found afforestation projects, including sawmills and particle board plants, and charcoal production. Some foodstuffs industries, particularly for dairy products, are included with the farming sector.

Fig. III.27. International co-operation for industry and related sectors ('000 US dollars)

	1983	%	1984	%
Industry	8,529	3.4	63,898	17.1
Agriculture	49,423	19.9	117,987	31.7
Trade Balance Support	44,448	17.9	14,200	3.8
Development and Planning	42,407	17.0	5,086	1.4
TOTAL	248,887	100.0	372,757	100.0

Source: UNDP/Maputo

The growing involvement of international co-operation in the productive sectors should be stressed with particular reference to industry, where external aid rose from 3.4% of the total for 1983 to 17.1% of the total for 1984 and also to Agriculture, which in 1984 received more than double the 1983 amount. By comparison the rate of increase in the value of co-operation with industry increased by a factor of 7.7 from 1983 to 1984.

By contrast, support for the balance of trade and for Planning saw its share diminish considerably.

As regards sources of support, bilateral co-operation leads with about 85% of total external aid (see Statistical Annex -Fig. 34).

E. Industrial Planning

18. The State Central Plan (SCP)

18.1 The Preparation of the SCP

The new Mozambican State was set up with a leaning towards the centrally planned type of economy. In 1978 the National Planning Commission (NPC) headed by the Minister of Planning was set up to succeed the Ministry of Planning and

Economic Development which dated from 1975.

Through the National Planning Directorate, a division of the NPC, the Minister of Planning is responsible for investments in the other economic sectors, as well as for all direct foreign investment. The annual planning cycle for the State Central Plan (SCP) begins towards the end of the first half of each year, when the NPC disseminates instructions for preparing the Plan for the following year. These instructions, which deal with questions of methodology but also contain some qualitative and quantitative targets, are received by the ministries and State secretariats, which pass them on to their M.U.'s to be broken down into greater detail. The M.U.'s distribute the instructions and production targets to the management of the firms subordinated to them. By September provisional plans must be prepared by both private and public sector enterprises, indicating the production targets for each product in the Nomenclature 1/; raw material requirements in appropriate detail; energy, spare parts and new machinery; the work force (with details of the required skills); and, of course, the financial requirements, particularly as regards foreign exchange. The replies make their way back to the NPC in October/November, after having been consolidated by the M.U.'s and the ministries.

The documents which together make up the Plan, i.e. the plans for production, investment and external transactions are submitted for appraisal to the Council of Ministers, which informs the People's Assembly of the general objectives and principles underlying the plan in order to obtain its approval. The Plan explicitly mentions the products covered by the Nomenclature and specifies the total resources to be allocated to industrial production together with rates of growth for the economic as a whole and for individual sectors, e.g. agricultural production, trade, industry, exports, etc.

18.2. Monitoring the implementation of the SCP

Implementation of the SCP commences on 1 January of each year. It is binding on all those involved in commercial activities, although the Council of Ministers or the Minister of Planning can accept adjustments proposed by other ministers, secretaries of state or provincial governments and justified by changes in the economic situation.

The Plan is an annual one, although some parts of the investment and construction programme may require more than one year for implementation. Owing to difficulties with the supply of raw materials, spare parts (especially those imported) and energy, the rate of fulfilment of Plan targets has been very low. Indeed, apart from a few subsectors such as textiles, garments and footwear where the rate has been 60-80%, the percentage of fulfilment has been between 30% and 50%. The fact is that the allocations of foreign exchange firms have received for the purchase of imported inputs has also been much lower than planned.

1/ The list of products which comprise the nomenclature of the Plan is given in Appendix VII of Volume II.

The implementation of the Plan requires that all firms prepare monthly, quarterly and annual reports. This information is not always processed, which explains why little care is taken over its preparation and there are delays in submitting it.

The mission considers that simplifying the administrative procedures of the planning process would be helpful, both to the firms and to the central planning departments. To achieve this, the number of items in the Nomenclature of the plan should be substantially reduced, so that only in the case of essential and strategic products (e.g. textiles, garments and shoes) would quantitave production targets be specified. For the others an indicative plan based on growth rates would suffice. At the same time the documents needed for monitoring implementation would also be greatly simplified and processed more promptly, thereby assuring effective follow-up.

The mission noted that the nomenclature had recently been slightly reduced (from 156 to 147 products), and was told that at the MIE level at least, macro-economic indicators will be introduced for the subsectors, to be used as the basis for resource allocation. It is intended that these shall replace the planning method currently in use - at the enterprise level and on the basis of the products in the nomenclature of the Plan. By the same token, for planning purposes the wages fund will be computed by subsector, rather than by individual firm.

With regard to the planning targets, these have been revised in the light of the radical alteration in the country's economic situation. Thus the emphasis on the public sector and on heavy industry was dropped, without however ending the drive for greater efficiency in the State sector, and priority was given to rehabilitating existing capacities, particularly in light and food industries and to strengthening family production units and small private firms. There were also efforts to stimulate exports.

F. The Financing of Industry

19. The Banking System

There are three banks in the country. The Bank of Mozambique (B.M.) operates both as central and as commercial bank. In its function of central bank it issues currency, manages the foreign exchange reserves and controls the supply of money and credit. It is also the Government banker. These responsibilities are shared with the Ministry of Finance. In its role of commercial bank the B.M. has a clientele consisting of State and "interventioned" enterprises to which it grants short, medium and long-term loans. On the liabilities side, it only accepts sight deposits from firms, other banks and from the State, on which it pays no interest.

The People's Development Bank (BPD) is a State-owned savings and development bank. It was established with the aim of promoting the country's economic and social development, particularly by fostering public investment and agriculture, industry and construction (infrastructure and low-cost housing). It lends medium and long-term loans (25 years) to economic development projects and short-term to farmers and consumers. It can give guarantees and take up shares in companies or purchase commercial paper. It statutes permit it to

promote new ventures and give technical assistance by preparing studies and formulating projects for the creation of new enterprises. In practice, however, it has not fulfilled these functions and does not appear to be equipped for them. In fact, it limits itself to loans for agriculture and fishing (which together account for 89% of its loan portfolio) and for industry, particularly textiles 1/ and small-scale industry. Its consumer credit is negligible owing to the lack of goods and loans for construction have ceased owing to the crisis in this sector.

The Bank Standard Totta (BSTM) is a private bank 20% of whose shares are held by the State, the rest of its capital being owned by 5 foreign banks. Its main activity consists of granting term loans for up to 18 months which can either take the form of an overdraft or the discounting of trade bills for private industrial and trading firms. On the deposits side, the BST has some term deposits but now only accepts sight deposits on which it does not pay interest. Its loan portfolio contains a large proportion of irrecoverable debts.

20. Loans to Industry

The resources of the banking sector are derived primarily from current account and fixed term deposits. Interest on the former was 0% - 2% and on the latter 3% - 6% (see Statistical Annex - Fig. 35) until 1 January 1987 2/. Since average annual inflation in recent years has been around 25% the share of fixed term deposits in the banking sector's total liabilities has been low: 7.5% in 1980 and 4.0% in 1985. In contrast sight deposits have tended to increase in absolute terms. Their relative share has however been maintained at about 65% of M2. B.M. provides money to cover the State budget deficits 3/ and those of the public sector enterprises, This has had the effect of increasing money in circulation which, as shown by the indicator M2/GDP mp. (see Fig. III.28), is excessive, having risen to around 66% in 1985. This excessive injection of meticals into the economy has induced strong inflationary pressures while increasing dependence on the banking system, inevitably with adverse effects on the banks' loan portfolios (in 1985 only about 20% of the loans granted to enterprises were for purposes other than covering their deficits). We therefore recommend starting to classify the loan portfolios of the banks, and particularly of B.M., in terms of the likelihood of repayment, increasing the provisions already made where necessary.

1/ As regards this sector it has holdings in Texmoque, Texmanta, Texlom and Riopele, all of which are beset by financial problems.

2/ By an executive order of the Ministry of Finance and B.M., dated 31 December 1986, the annual rates of interest applying as of 1 January 1987 are the following: Sight deposits, 3%. Fixed term deposits: up to 90 days, 12%; form 91 to 180 days, 13%; from 181 to 365 days, 16%; from 1 to 2 years, 18%; and for more than 2 years, 20%.

3/ The largest debtors with commitments they are unable to meet are Caminhos de Ferro e Portos, Carbomoc, Empesca, Pasol/Saborel, Ceta, Cometal-Mometal, Cimentos de Mocambique, Acucares, Algodao, Magma e Sogere.

Fig. III.28 The banking system
(10^6 MT)

Circulation	1980	1982	1984	1985
Money in circulation	9,137	17,811	27,027	29,791
Sight deposits	23,525	38454	53,818	62,827
Time deposits	2,655	3,216	2,777	3,909
Total = M2	35,317	59,481	83,622	96,527
GDP mp.	78,800	91,300	109,100	147,200
M2/GDP mp.	44.8%	65.1%	76.6%	65.6%
Sight deposits/M2	66.6%	64.6%	64.3%	65.1%
Time deposits/M2	7.5%	5.4%	3.3%	4.0%
Internal credit	100%	100%	100%	100%
- Net credit to the State	3.4%	5.3%	17.9%	18.7%
- Credit to the economy	96.6%	94.7%	82.1%	81.3%
Credit to the economy	100%	100%	100%	100%
- BM	74.2%	78.3%	80.2%	79.4%
- BPD	21.1%	18.5%	17.8%	18.1%
- BSTM	4.7%	3.2%	2.0%	2.5%

Source: Bank of Mozambique.

In June 1985 BM held 67% of all deposits. It holds in fact about 50% of country's sight deposits and 85% of the State's deposits, as well as all deposits of the other banks. It provides virtually all net credit to the State and 78.7% of credit to the economy. Time deposits were shared between the BPD (95%) and the BSTM (5%), which illustrates BPD's savings bank role.

The rates of interest charged to borrowers vary in accordance with the economic sector (lowest for agriculture) and with the type of borrower (lowest for the family and co-operative sectors). Up to 1 January 1987 they were between 3% and 6% per annum for loans to finance fixed investment and 4% - 8.5% for working capital loans. As of January 1987 B.M. introduced new interest rates, first on deposits and the on loans (see Statistical Appendix - Fig. 36). Priority industries were given preferential treatment 1/, being split into two groups for this purpose. Group I (light and food), now pays rates ranging from 14% per annum for terms shorter than 90 days to 22% for those exceeding 5 years. Group II (the remaining priority industries) rates vary from 15% for terms shorter than 90 days and 23% for those exceeding 5 years. For non-priority industries rates vary between 25% and 35%.

In 1985 the breakdown of bank loans was as follows: 18.7% to the State budget and 81.3% for specific operations. The growth in net credit to the State to the detriment of the private sector is well known. This credit has

1/ Priority industries are those specified as such in the Economic Rehabilitation Programme prepared at the end of 1986 which is supposed to run until 1990 (see III.32).

mainly been given by B.M., the share of BPD in this type of support tending to dwindle. While in 1981 the respective shares of B.M. and BPD were 92.4% and 7.6% respectively, in 1985 and the first half of 1986 all credit was provided by B.M.

Loans for commercial purposes (see Statistical Annex - Fig. 33) are provided mainly by B.M. In 1985 it accounted for 79.4% of all advances, PBD for 18.1% and BSTM for approximately 2.5%. The most favoured subsectors were industry (20%), agriculture (50%), trade (12%), transport (10%) and construction (7%). In 1985 66% of bank loans to agriculture came from B.M., 33% from BPD and 1% from BSTM. The respective shares in loans to industry were: B.M. 86%, BPD 8% and BSTM 6%. All other loans were made by B.M., except for small amounts provided by BSTM to domestic trading firms.

As a general rule, lending decisions are not based on criteria of technical, financial and commercial viability, major shortcomings in this regard being common to entire banking system. This is due to the almost total lack of of suitably qualified staff. The mission did however note that under current lending policies the technical, financial and commercial viability of borrowers tends to be taken for granted. This is illustrative of the need for better qualified banking staff.

It is most important that more attention be devoted to project evaluation and financing. And the arrangements by which the deficits of public sector enterprises are covered should also be reviewed in order that appropriate structural measures may be adopted for this sector. The recent changes in tax law 1/ under which State enterprises are now dealt with for tax purposes in the same way as private firms will end the practice of transferring their operating results direct to the State budget. This innovation will not only enable State-owned firms to be self-financing, but will also give them an incentive to strive for greater efficiency and management autonomy.

21. Other Sources of Financing

The other possible sources of finance for industry are the IDA, international development aid and international commerical banks. The Nordic countries and Holland continue to be the main financiers of industry, in terms of their total contribution over the years.

One of the most important financial support programmes for industry is perhaps the IDA/IBRD US$ 45 million line of credit destined for the rehabilitation of enterprises in agriculture, industry and transport, of which 65% was allocated to industry. The programme commenced in July of 1985 and will last until 1988. Of the 33 firms were chosen for funding under the programme 19 are private. Most of the funds have already been committed, with the main disbursements in 1986 and some in 1987. A second IDA/IBRD line of credit is under preparation but preference will be given to agriculture. The amount has not yet been decided.

1/ See Decree No.3/87 dated 30 January 1987 on fundamental issues of fiscal policy.

G. Appraisal of a Sample of Industrial Firms

22. Description of the Sample

The mission visited 54 firms of varying sizes, operating in different subsectors and with differing legal status, in order to analyse, evaluate and diagnose the situation of M.I. and at the same time draw appropriate conclusions and recommend appropriate action. The firms were selected with the help of the MIE and SEILA, the aim being to obtain good sectoral coverage and select the most representative privately and publicly owned firms in each subsector. Care was taken to include large, medium and small-scale enterprises.

The methodology adopted was to prepare, from a personal inspection, the replies to a questionnaire and other information supplied, a qualitative evaluation of each firm based on 17 criteria 1/. The resulting distribution was as follows:

Location	Enterprises No.	Enterprises %
Maputo City, Matola and Machava	43	80
Beira	11	20
	54	100

The breakdown by type of legal status was as follows:

Type of Enterprise	Enterprises No.	Enterprises %
Private	12	22.2
State owned	21	38.9
"Interventioned"	18	33.3
Mixed	3	5.6
Co-operative	-	-
	54	100

As regards the size of the firms visited, the distribution by numbers employed is shown in Fig. III.29.

The average age of the firms' basic machinery was between 10 to 30 years, 90% of it being then 10 years old (see Fig. III.30). This illustrates how out-of-date it is and explains why , with spare parts and raw materials in

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1/ The criteria were evaluated from 1 to 5 as follows: 1 = poor; 2 = average; 5 = good; 2 and 4 being intermediate ratings. For one of the criteria - "level of activity" - a marking system was adopted based on levels of production in the first two months of 1986. According to this system 1 = 0-10% utilization of installed capacity; 2 = 10-35%; 3 = 35-50%; 4 = 50-60%; and 5 = 65-80%.

short supply, the actual capacity of the factories is far below their installed capacity.

Fig. III.29 Size of enterprises visited

Number of persons employed in range	Enterprises	
	No.	%
1 - 10	1	1.9
11 - 50	5	9.2
51 - 100	8	14.8
101 - 300	21	38.9
301 - 500	8	14.8
501 - 1000	10	18.5
1001 - 1500	1	1.9
TOTAL 54	100.0	

Source: Survey of firms.

Fig. III.30 Age of machinery in enterprises visited

Age group (years)	Enterprises	
	No.	%
Start-up phase	1	1.9
Less than 1 year	1	1.9
1 - 5	2	3.7
5 - 10	1	1.9
10 - 15	12	22.2
15 - 20	14	25.9
20 - 30	17	31.4
30 - 40	5	9.2
40 - 50	1	1.9
TOTAL	54	100.0

Source: Survey of firms.

23. The Firms' Main Problems

The questionnaires supplied to the firms contained 10 questions the answers to which could select one of three levels of priority. The replies, although subjective, gave the respondent managers' perception of the problems of industrial operations. These responses are summarized in Fig. III.31.

Fig. III.31 Main problems affecting the firms

Problem		Priority of Importance					
		1ª		2ª		3ª	
Code	Definition	No. of firms	%	No. of firms	%	No. of firms	%
P1	Lack of raw materials (imported and local) and subsidiary inputs	30	55.5	6	11.1	1	1.9
P2	Lack of spare parts and tools	1	1.9	9	16.7	5	9.2
P4	Power cuts a/	5	9.2	17	31.5	7	18.0
P5	Machinery (out of order, obsolete, old)	4	7.4	11	20.3	5	9.2
P6	Work force (lack of supervisory staff and skilled workers)	3	5.6	6	11.1	10	18.5
P7	Lack of transport equipment (for passengers and goods)	-	-	-	-	6	11.1
P8	Technical assistance needs	-	-	-	-	5	9.2
P9	Other	7	13	1	1.9	3	5.6
P10	No response	4	7.4	4	7.4	12	22.3
	TOTAL	47	87.0	54	100.0	54	105.0

Source: Responses of firms surveyed.

a/ This was a temporary problem of the economy with little impact at present, except in Beira.

The conclusion to be drawn from the results obtained is that the management of the industrial firms surveyed considered the main problems affecting their operations to be the following, in decreasing order of importance:

1. Lack of raw (imported and local) and subsidiary materials;

2. Power cuts;

3. Defective, old, and obsolete machinery with frequent breakdowns;

4. Lack of qualified executives and skilled workers;

5. Lack of spare parts and tools.

In spite of the efforts to mitigate their effects, these problems, e.g. industrial training and power supply 1/, inevitably lead to under-utilization of productive capacity which is already substantially below what was installed. This, together with the lack of flexibility in setting ex-works prices has led to a situation where virtually all firms are making losses. Indeed 77% of the firms surveyed were incurring operating losses, and in some cases the cost of production exceeded the selling price.

24. Conclusions drawn from the Sample

The replies obtained from the firms surveyed were evaluated against the above-mentioned 17 criteria and conclusions drawn with respect to the main causes of the problems identified drawn. In the mission's opinion the sample is representative of M.I., so that the results may be extrapolated without any great margin of error.

General appearance of factories and offices. The premises of some 54% of the firms visited were in rather poor condition (buildings and other facilities dilapidated, dirty and untidy). The reasons: i) lack of materials to carry out necessary improvements; ii) negligence and/or incompetence on the part of the management.

Level of operations Production in the firms visited had ceased almost entirely. Indeed, some 52% of the firms visited were either inactive or were operating at below 10% of capacity; 30% at between 10 and 35%; 15% at between 50% and 65% while 1.5% were still at the start-up phase. The main causes were: i) lack of raw or subsidiary materials, tools and spare parts; ii) frequent and prolonged power cuts resulting from acts of sabotage by the armed bandits 2/; iii) old and obsolete machinery; iv) a lack of fuel and lubricants.

Market studies. About 95% of the firms do not prepare market studies since owing to the low level of production and the absence of competition from imports, internal demand greatly exceeds the supply.

Exports. Apart from a few special cases (cashew, batteries, tyres, electrodes, ballpoint pens and sugar-cane), exports are minimal. The industry of Mozambique is for various reasons not in a position to export (exchange rate not compatible, time required for delivery, quality and payment terms).

1/ See Vol. II - Appendices I and III

2/ This problem is currently confined to the Beira area

Market research and catalogues. Apart from a few individual cases (Mogas, Comec, Mabor, Celmoque) these topics were not investigated. Neither customers nor suppliers require the above items, being willing to accept whatever products are available.

Customer contacts. With a few exceptions (Cometal, Renab, Renam, Navipesca, Enafrio, Enmoto and Metecna), the firms do not have direct contact with their customers. The main reasons are the marketing and distribution arrangements imposed by the Government, i.e. the requirement that firms deliver their products in accordance with a list usually prepared by the Ministry of Trade. Indeed, faced with inadequate supplies, the Ministry of Trade gives priority to deliveries.

Prices. Although most of the firms have had their prices frozen by the Government for a number of years (some of them since 1979/80), and price changes are subject to the approval of the MWPC, there are other firms whose prices are not controlled (either because it is not mandatory or simply because they do not submit them for approval). However, in general the firms complain of the rigidity of prices and of the delays in processing and approving proposals for revision (cases are cited where the procedure took more than a year). As regards essential commodities, these can be obtained from the informal market. Owing to the lack of transport facilities, most prices are quoted "at the factory gate", it being up to the purchaser to collect the goods. There are however firms which sell their products direct (e.g. some factories producing garments, agricultural implements, paper and packaging materials, etc.), while other industrial firms function as wholesalers (Sogere) and some, like Mabor, deliver their products.

Work force. There are too many unskilled workers, insufficient managers and technically qualified staff; productivity at all levels is extremely low; qualified staff emigrate to the RSA and Swaziland; salaries were frozen, and promotion was the only way to get a pay increase 1/; there are many negative features, but also a malleable work-force which is willing to acquire new skills.

Machinery. About 46% of the firms visited by the mission had defective machinery (out of order or functioning inadequately) and/or obsolete, and also machinery which was not worth overhauling (e.g. at Somopol, Palmar Comercial e Industrial, Metecna-Fundicao). This is primarily the result of: i) excessive age of machinery; ii) lack of spare parts; iii) sudden power cuts; iv) inadequate corrective maintenance; v) non-existent preventive maintenance; vi) operator negligence.

Raw and subsidiary materials and spare parts. Apart from the special cases of cashew kernels, cotton ginning and agro-industries in general, it was noted that the firms import almost all their inputs. They all suffered from a lack of raw materials and spare parts. To overcome this problem and enable them to fulfil orders, some of their customers (e.g. Renab, Renam, Metecna and Cavan) supplied them with raw materials and spare parts. In spite of this, inventory

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1/ The survey of firms was carried out in February 1986. Decree No.5/87 dated 30 January 1987 will improve the situation with regard to wages.

controls leave much to be desired. The immediate causes of this situation are: i) country-wide stagnation of production; ii) difficulties with imports owing to the lack of foreign exchange; iii) problems in obtaining spare parts resulting from the age of the machinery (production of some types of machinery was discontinued years ago).

Research and development; Production scheduling and control; Time and methods. In some 81% of the firms visited these functions do not exist, or are inadequate and ineffectual. The difficulties in planning production stand out, being due to the lack of technical ability (middle management and technical staff) and to exogenous factors.

Quality control. More than half the firms visited neither check the quality of the materials they use (69%) nor of their finished products (59%), or do so extremely inadequately. It is the firms receiving foreign technical assistance which have properly organized and functioning quality control (e.g. Tudor, Mabor, Cometal, etc). While not possessing all the facilities for an acceptable standard of quality control, firms producing processed foods (e.g. C.I. Matola) maintain a high standard of hygiene and cleanliness. By contrast, firms engaging in agro-industrial processing (Somopal, Palmar and H. Jones) operate in unhygienic conditions. The immediate causes are: i) lack of human and material resources; ii) an undemanding market; and, iii) the absence of quality standards and charge sheets.

Repair and maintenance. Most firms do not have a properly organized maintenance service because of the shortage of spare parts and lack of suitably qualified staff. Corrective maintenance is thus inadequate while preventive maintenance, as already mentioned, is non-existent. It should be emphasized that lack of repair and maintenance of machinery is one of Mozambican industry's biggest problems.

Accounting. Accounting systems, where they exist, are not standardized and are not up-to-date, being sometimes years in arrears. In most cases there is no cost accounting whatsoever. It is therefore difficult to determine the results of a given financial period and compute production costs correctly and assess the effectiveness of the firm's financial and commercial management. There are insufficient accounting staff with an acceptable level of competence. Financial statements are seldom used for purposes of tax assessment, either because they inspire little confidence, or owing to the imperfect skills of the officials of the National Finance Directorate. Even the Ministry of Finance does not insist on the preparation of annual accounts, particularly as regards State and "interventioned" firms 1/.

Financial results. Owing to the situation described above only 22 out of the 54 firms visited could supply figures showing the results of the financial period. Of these, as already mentioned, 77% showed losses.

1/ The State enterprises are liable only to Turnover Tax, which is calculated on sales turnover (see Vol. II - Appendix V). However, as of 1 January 1987, they will be treated for tax purposes in exactly the same way as private companies.

Investment and finance. During the last 10 years there has been virtually no investment in the firms visited owing to the grave economic and financial situation most of them are in. The reduced level of investment that has taken place was financed in most cases by foreign agencies. Such financing has been used not only for capital investment (purchase of machinery, rehabilitation of individual plants, technical assistance) but also for operations (raw materials and spare parts). Of the firms visited two had obtained financing for capital investment and nine for rehabilitation. Apart from Caju de Mocambique, not one of the firms in the sample was benefitting from the new system of foreign exchange management 1/.

Security. It was noted that some of the firms had suffered acts of sabotage by the armed bandits, while others maintained their own militias in view of the security problems, particularly at night.

Monitoring operating results; incentives and penalties. The firms are obliged to send (quarterly and annually) to their supervising body and to the NSO (National Statistical Office) information on production (available, utilized, finished and sold), materials consumed and costs, fixed capital formation, inventories, work-force and wages. Since this information is not processed systematically, control is static rather than adaptive. Given present conditions, the firms' directors can be neither rewarded nor penalized.

General recommendations. The following features emerge from the overall appraisal of the firms in the sample and illustrate the action needed for their recovery:

- greater safety of persons and property;
- more reliable supplies of energy and fuel, repair and installation of emergency power plants;
- reliable supplies of raw and subsidiary materials and spare parts (to the extent feasible);
- re-opening road and rail links and developing coastal shipping routes, for economic and security reasons;
- formulating and implementing an economic policy (exchange rates, wages, money and prices) which reflect the real situation.

Given the state of quasi-paralysis or very low capacity utilization of the firms surveyed (and, by extrapolation, of all industry in the country, immediate measures must be taken independently of the structural reforms and

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1/ See III.26.

other activities to be undertaken in the medium and longer term. In the short term therefore, industrial policy should concentrate on the following priority aspects:

- products which are in shortest supply and which have the greatest social impact (foodstuffs, textiles, garments and footwear, and also beverages and tobacco);
- production which supplies inputs and equipment to the agricultural sector;
- improving human resources;
- securing power supplies (using existing power lines or generators);
- securing fuel, raw and subsidiary materials and spare parts;
- eliminating the bureaucracy inherent in the administration of industry, and particularly in customs formalities;
- taking sources of supply of inputs and outlets for finished products into account when locating industrial facilities.

Medium and long-term industrial strategy should be based on the following principles:

- rehabilitation of existing stocks of serviceable industrial plant after they have been inventorized and their condition evaluated;
- emphasizing the need to maintain existing plant and equipment;
- closing firms which are no longer viable owing to obsolescence either of their technology or of their machinery;
- studying the feasibility of combining firms with similar operations;
- establishing new industrial enterprises only after existing facilities have been rehabilitated, except where the investor is a foreigner;
- the sale or conversion to mixed enterprises of State or "interventioned" firms in non-strategic sectors, even when prior rehablitation is necessary.

The implementation of this strategy will of course require:

a) Preparation of studies on firms' technical, commercial and financial viability to ensure that the criteria defined for the strategy are met.

b) The commercial and financial restructuring of the firms earmarked for rehabilitation in accordance with the outcome of the feasibility studies referred to above: restructuring liabilities, increasing equity capital, granting tax reductions or exemptions, permitting the termination of redundant staff, raising selling prices promptly when required to cover production costs, etc.

c) Obtaining funds needed for rehabilitation which will be channelled to the implementing agency or agencies under the supervision of the Bank of Mozambique.

d) Concluding whenever possible development contracts between the State and the public or private sector firms which are to be rehabilitated.

Rehabilitation of the firms in the sample. The firms visited and the information obtained from them was analysed, following which they were divided into four categories:

Type A - Firms that would be viable, provided they can be commercially and financially restructured and that there are reasonable prospects of their obtaining the material resources (raw and subsidiary materials and spare parts) and the supplies of energy needed for their functioning.

Type B - Firms which could be reclassified as type A after being technologically rehabilitated (overhaul or partial replacement of plant and machinery, or even of whole production lines, and technical assistance and training).

Type C - Firms which could not be returned to profitability by rehabilitation and should therefore be closed

Type D - Firms where there are doubts as to whether they should be classified according to any of the above mentioned types.

Appendix II describes the firms which the mission studied and on which it formed an opinion. In the case of group A firms it will be necessary to define their working capital needs in local and convertible currency and the options for their comercial and financial restructuring. The technical rehabilitation needs of the 36 firms of type B whose commercial, financial and technological rehabilitation is recommended 1/, have for the most part already been defined. However, the problem of commercial and financial restructuring has been somewhat neglected partly because it was assumed that management of the firms cannot be held responsible for the state of near collapse (technically speaking) most of the firms are in, which is due to such factors as attacks by the armed bandits, power cuts, shortages of raw materials and lack of spare parts. These result in an extremely low rate of utilization of the productive capacity still available and increase the operating losses caused by the fact

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1/ This does not mean that its rehabilitation is considered a priority but merely that it must be carried out.

that prices charged frequently do not cover production costs. Since the rehabilitation of industry includes technical, commercial and financial considerations, requests for funding by the firms in the sample (apart from stopgap measures such as the supply of raw materials and spare parts), must be evaluated on the basis of more exhaustive studies,.

H. Recent Developments in Industrial Policy; the Problems of Industry

25. Formulation and Implementation of Industrial Policies

The highest body laying down the general direction of economic and industrial policy is the Frelimo Party through its Congresses. The IV and most recent congress formulated the Economic and Social Directives which were the starting point for the Economic Action Plan for 1984/86, and continue to be the inspiration of the structural and institutional reforms which have meanwhile been put into effect. In the PRM supreme authority is exercised by the People's Assembly which gives legislative effect to the party's directives, the latter being observed by the Council of Ministers. The People's Assembly (or its Standing Committee) and the Council of Ministers adapt and implement the Party's directives through appropriate legislation

This is followed by a process of defining the general principles which will guide economic policy and provide the starting point for legislation on matters relevant to industry. The Prime Minister and the Council of Ministers formulate the general policy guidelines required to implement economic policy as laid down by the Party. The Council of Ministers is responsible for ensuring that the various legal instruments are mutually compatible and for co-ordinating the work of the various Government departments. The formulation of national and sectoral industrial policies falls to a number of different bodies. The National Planning Commission defines the annual objectives and the production targets for industry. The ministers and secretaries of state formulate the guidelines for their sectors and monitor implementation, directly or indirectly, via their Management Units. The Ministry of Finance participates in decisions on subsidies, taxes and incentives and on the authorization of investments, while the National Wages and Prices Commission formulates the guidelines to be followed in pricing policy and fixes the prices of a relatively small number of essential goods and services. The prices of other goods are fixed by the manufacturers on the basis of norms established by the State. The Ministry of Trade issues export and import licences and administers a reduced amount of locally available raw materials supplies for industry. Lastly, the Bank of Mozambique, the leading financial institution, ensures that resources are available for investment in new production facilities and for the operating losses of public sector enterprises and, in co-ordination with the Ministry of Trade, operates the new system of foreign exchange management. Other departments such as the Secretary of State for Labour 1/ and the Secretary of State for Technical Education and Training are responsible for implementation of policies on employment and technical training.

1/ Is now the Ministry of Labour.

These bodies supervise industry in accordance with the powers assigned to them. They also channel to the supervisory ministries major problems requiring legislation by the National People's Assembly or by the Council of Ministers, or mere deliberation by the latter body.

26. The System of Foreign Exchange Management

In November 1983 the Council of Ministers, reviewing the country's economic and financial situation, decided that support should be given to measures which would increase foreign exchange receipts.

On May 1 1984 a new system for managing funds in convertible currencies was therefore introduced with the participation of the Ministry of Foreign Trade, the aim being to:

(i) increase foreign currency receipts in order to achieve a positive balance of foreign exchange;

(ii) improve control over expenditures in foreign currencies and ensure that they were incurred for proper purposes in line with the established priorities;

(iii) require a greater degree of accountability from all those engaged in operations which involve receipts or payments in foreign currencies.

This system allows firms which generate foreign exchange through exports to retain funds needed for their ongoing operations in foreign currencies at the Bank of Mozambique. Part of these funds may be kept in convertible currency, the percentage varying with the sector, the aim being to ensure that funds are available to cover the foreign exchange cost of imports of raw materials, spare parts and other items. In exceptional cases, a percentage of these reserved funds can be used for the direct or personal benefit of private owners. Thus in the case of the cashew industry the percentage is 40, but there are cases, e.g. firms which export non-traditional products (e.g. medicinal herbs) or achieve surplus production of items intended as import substitutes (as in the case of tyres). Here the percentage may reach 100 so that the firms can obtain the inputs needed to maintain levels of production and of exports.

The retention of funds in foreign currency is arranged by means of a contract concluded on a case-by-case basis with the Ministry of Trade and the Bank of Mozambique, subject to a favourable opinion being expressed by the supervising ministry.

The draft contract, to be submitted by the supervising ministry, must specify how the total value is to be split, when the disbursements and receipts in foreign currency are to be made, and the commercial objectives. The contract also indicates whether the firm or the supervisory body will be responsible for managing the funds retained and fulfilling the contract.

Under this system of foreign exchange management five special funds - for exports, freight, petroleum, specific projects and general foreign exchange management - were set up to keep track of the effects of the relevant transactions. The largest export fund is the one for cashew, managed by the

Secretary of State for Cashew which, as already indicated, amounts to 40% of export proceeds and was started in 1985. The fund is used to purchase consumer goods, raw materials for processing by local industry, machinery, etc. The needs of the cashew industry are thereby met and in addition goods are obtained which can be used as an incentive to farmers to supply the nuts. Another important fund is the one for prawn exports administered by Equipesca, which is the key agency importing and distributing equipment for the fishing industry. The mixed enterprises engaging in prawn fishing also benefit from this arrangement.

This system restricted at the moment to business activities generating foreign currency needs to be further refined, as the Government itself recognizes 1/, so as to increase exports of goods and services and benefit the employees of firms involved in this type of activity. By the same token the owners of such firms, whether Mozambican or foreign, should be rewarded in foreign exchange, bearing in mind that permits granted to foreign firms are authorized to remit funds abroad should be based on criteria of commercial efficiency. However, while in general the system has earned the praise of firms directly involved in the type of export activities which qualify, it has not satisfied those who contribute indirectly to such exports to the same extent, e.g. the manufacturers of packaging materials, electrodes and certain fabricated metal products. They prefer that the procedure for passing on the right to receive foreign exchange earnings which is permitted if consented to by the direct beneficiary, were made mandatory so that a part of the foreign exchange fund would be used to purchase of raw materials for the manufacture of items which form part of, or generate exports of the goods in question. This would prevent firms which benefit from the system from resorting to imports without giving domestic industry priority in tendering for the business on equal terms with foreign suppliers.

The view of the Bank of Mozambique as regards extending the range of firms benefitting from the system is that there should be no restrictions, at least until the workings of the system have been fully evaluated, particularly since all the evidence points to its having had positive results. It should also be noted that one of the goals defined by the SCP for 1987 (Law No.1/87 dated 19 January 1987) is that of "continuing to operate the New System of Foreign Exchange Management, making it more and more of a factor which lends impetus to the national economy". The recent law on guarantees and incentives to be granted to domestic private sector investors (Law No.5/87 dated 30 January 1987) specifies those whose products are of particular value to the national economy because of being destined for export, will be able to retain a certain proportion of their foreign currency receipts for the import of goods and services needed for their operations and to reward good entrepreneurship. The proportion will be fixed and subsequently by a joint executive decision of the Ministry of Trade and the Governor of the Bank of Mozambique, and will take the net foreign currency earnings of the investment and the gross value added it generates into account.

1/ Session of the Council of Ministers of 11 May 1985.

27. Foreign Investment Code

Law No. 4/84 of 18 August 1984 was promulgated by the Standing Comittee of the People's Assembly with the aim of fostering direct foreign investment (DFI). This law embodies the political will to involve foreign enterprises in Mozambique's economic development and defines the obligations of the parties. The State guarantees the inviolability of the property and rights falling within the ambit of DFI, apart from exceptional circumstances, and also undertakes to ensure that capital can be repatriated, profits remitted abroad and foreign loans serviced. Investment incentives are also available in the shape of exemptions from taxes and customs duties. The type and scope of incentives to be granted is negotiated on a case-by-case basis, priority being given to investments which promote exports or regional development.

Although law on DFI came into effect at the beginning of September 1984, and provisions for its implementation were promulgated in January 1987, it has not produced any results worthy of mention. Since the Foreign Investment Code itself is a liberal one, it is without doubt the security situation that is the major obstacle to DFI. Regardless of this problem the Code should be publicised, together with documentation on the country's economic activity, its natural resources, basic statistical data and details of projects to which the Government has accorded priority.

28. Liberalisation of Salaries and Employment

Decree No. 4/80, which until 1 January 1987 was virtually the only legislation relating to employment, dealt primarily with categories of occupation and the correponding levels of remuneration. Even though it served to impose a degree of restraint at the time of its promulgation, there is also no doubt that by blocking salary increases without regard to the inflation which afflicted the country, it became a strait-jacket for business and a demotivating factor for the work-force. Thus there was no longer any incentive to acquire additional skills, the result being increased staff turnover and the migration of many of the most highly qualified staff to neighbouring countries or to the informal economy.

The law which has effectively regulated the legal aspects of employment is No. 8/85, passed on 14 December 1985. This law, which covers all legal and organizational aspects of employment contracts together with matters of pay, performance evaluation, promotion, social security, termination, etc, was implemented by the recently published Decree No. 5/87 dated 30 January 1987 (see III.12.3).

While wages levels cannot at present be viewed as the only means of improving living standards, the regulations - not yet completed - implementing the employment law are part of a package of political, fiscal, monetary and foreign exchange policy measures which come at a timely moment and will mitigate both the departure of qualified workers and the distortions in the labour market . Clearly, they will only continue to be effective if a policy is adopted of adjusting pay to allow for inflation.

29. Liberalization of Prices

The official prices of industrial goods are too inflexible, adjustments being sporadic, time-consuming and excessively bureaucratic. In most cases production costs or even the mere cost of the raw materials exceeds the permitted selling price, causing losses, an erosion of the firms' capital base and the diversion of goods to the informal market. This results in an inflation rate exceeding that which would apply in a situation where the supply is properly regulated.

With the aim of encouraging agriculture and livestock breeding, perceived as the basis of economic development, the Government began in the middle of 1985 by liberalizing the prices of all horticultural and poultry products: fruit, vegetables, manioc, maize, rabbits, ducks and turkeys, committing itself to new prices, in particular for beef products, which would serve to stimulate production 1/.

Thus the door was opened for a liberalization of prices which, in spite of provoking an initial sharp price increase, will rapidly lead to an expansion of production once the new system is working and the problems of transport from producers to consumers have been solved - no simple task given the security situation, the main cause of the increase. This increase appears to have favoured traders more than producers, since the latter do not have the transport facilities required for distribution and delivery.

This liberalization should be gradually extended to the industrial sector in the following manner: curtailment of the list of fixed prices, which would successively become regulated prices; these would in turn become decontrolled prices. It is clear that in the wartime conditions of Mozambique, where owing to production problems goods are in short supply, and where the shortage of foreign exchange effectively prevents imports, prices must be de-controlled gradually and cautiously, bearing in mind the social repercussions. This is why a transition from fixed to regulated prices must be given priority. With this in mind the People's Assembly approved Law No.2/87 of 19 January 1987 (State Budget Law) which empowers the State to intervene in the pricing mechanism, i.e. by fixing the retail prices of essential consumer items; setting producer prices for the main agricultural products; defining criteria which will permit enterprises to set their own selling prices within certain predetermined limits; and continuing to allow a limited range of decontrolled prices. At the same time (January 1987) the Council of Ministers considered a short-term reform of pricing policies with four main objectives: to return the majority of public sector enterprises to profitability at their current capacity utilization levels; stimulate production by the family sector; eliminate or substantially reduce the financial imbalance; and supply goods and services (at official prices) to the public; and mitigate the marked drop in the real value of wages and of incomes in the family farming sector. The measures envisaged for the attainment of these goals include:

1/ Session of 11 May 1985.

a) To allow, within certain limits, prices to reflect all costs incurred by the firms concerned;

b) To establish prices for family sector producers which will reflect real changes in the prices of goods and services they use;

c) To adopt a policy of charging different prices for consumer goods supplied to the workers under rationing arrangements, without however jeopardizing the profitability of the producing sectors and without in general resorting to State subsidies. Rents, medical care and education for the working population will however continue to be subsidised;

d) To raise the prices of non-essential goods and services and/or of those which are not supplied under rationing arrangements;

e) To reduce profit margins in the private trading and service sectors;

f) To reduce the range of prices fixed by the State for the following: maize, maize flour, bread, rice, sugar, fish, edible oil, soap, cashew nuts, cotton, dried manioc, beans, "mafarra", copra, ground nuts, sunflower, "mapira", electric power, water, petroleum and petroleum products, coal, transport, communications, housing, education and health;

g) To extend the range of decontrolled prices by including non-essential and non-rationed goods and services and those for which there is less demand, or goods and services whose quantity and quality are likely to be enhanced by decontrol of prices.

In addition, official methods of determining prices must be standardized to reflect all cost components and be sufficiently flexibile to allow for differing rates of capacity utilization. The Ministry of Finance must authorize the revaluation of enterprises' fixed assets and publish an official index based on actual inflation. The approval process must be a quick one.

30. Exchange Rate

The metical, which has been Mozambique's currency since 16 June 1980, was tied to a basket of 6 currencies 1/. The depreciation of the metical vis-a-vis the US dollar from 1980 to 1985 in terms of their respective values at the end of this period was 25.6%. This exchange rate policy had prevented the Mozambican economy from maintaining its international competitiveness, in spite of Government control of prices and wages. Furthermore, the fall in the value of the metical had affected the domestic economy more strongly than exports. Until January 1987 the dollar changed hands in the informal market at 40 to 50 times its official rate. There is a strong demand for dollars to buy

smuggled goods or those only available in the hard currency stores and this leads to manifest price distortions. There are certain markets in the country, even though of minor importance, where prices reflect the informal market. As regards exports, some products have ceased to be competitive owing to the unrealistic exchange rate (salt, electrodes, batteries, tyres, heavy metalworking) 1/.

The necessary changes in exchange rate policy will have to be combined with a stabilization programme embracing prices, wages and monetary policy. The wartime conditions which impede the functioning of already weakened economy impose caution and the need to proceed in stages as the supply of essential consumer goods gradually adjusts to the demand.

The first manifestation of the new foreign exchange policy was the one-shot 500% devaluation of the metical in January 1987, which is however still far removed from the "rates" quoted in the informal market (1 US dollar = 1500/2000 meticals). For this reason the Government (session of the Council of Ministers in January 1987) intends to intervene in the informal market for foreign currencies and goods with a view to gaining from the purchase of foreign exchange at rates below those of the informal market, but above the official ones, and using such currency to make increased quantities of merchandise available to the public at market prices.

31. Stimulating Private Sector Participation

One of the directives of the IV Congress of FRELIMO deals with the need to "encourage and support private entrepreneurs who show initiative, dynamism and the ability to achieve results, and who pledge themselves to implement the goals of economic development". It was later resolved 2/ that public sector enterprises are not part of the State administration and that the CSP as a tool for controlling and fostering the main subsectors and enterprises will concern itself with both the public sector and with the co-operative, private and family sectors. Private entrepreneurs must be supported and encouraged by the State, particularly in those branches with a direct impact on improving living conditions and those which aim to increase exports, reduce imports and expand national output. Entrepreneurs will be permitted to export and import direct where this leads to greater effectiveness, while continuing to be subject to control by the Ministry of Trade, which will regulate this type of operation.

A statement by Frelimo's Political Bureau 3/ has reaffirmed the positive role which the private sector can play in utilizing and developing natural

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1/ Apart from manufacturing industry, it is the ports and railways that are most affected.

2/ Session of the Council of Ministers of 11 May 1985.

3/ Statement issued on 6 May 1984.

resources, provided that the norms of professional and commercial ethics are observed and government institutions respected.

Lastly, in the preamble to Law No. 5/87 (incentives for private enterprise) it is stated that "in pursuing its economic policy goals, the State recognizes the role of private enterprise as regards investment by domestic firms and their right to do all that is necessary for the implementation of such investment within the framework of the law."

The pursuit of these objectives led to an increase in the private sector's share of total production in 1986. Various special-purpose funds were authorized and a number of private and mixed firms were allowed to engage in foreign trade. The law establishing guarantees and incentives for private national investors was promulgated, a number of small and medium-scale "interventioned" industrial firms were transferred to the private sector and financial assistance for them arranged. Progress was also made in forming a number of mixed enterprises from previously "interventioned" firms whose requirements in terms of technology, export markets and management capability were perceived to be of vital importance for returning them to profitability. The possibility of using other approaches, e.g. leasing and management contracts with private firms, is under consideration.

It is clear that greater autonomy for business firms and a reduction in the network of controls that constrain them are essential if State and private companies, competing openly and on an equal footing, are to make their due contribution to the recovery which is underway.

32. Economic Recovery Programme

Towards the end of 1986 the Government prepared a recovery programme for 1987-1990 with a view to reviving output and gradually reducing the existing financial imbalances. Its basic objectives are:

- to foster agricultural production, particularly in the family sector;
- to grant incentives enabling exports to reach pre-1981 levels within the next three years;
- to revitalize the social sectors, in particular health and education.

This process of resuscitating the economy is intended to take place concomitantly with measures to contain expenditure so that there can be a gradual return to financial and economic equilibrium. It also envisages vigorous policy measures in the realm of salaries, prices, exchange rates, money and credit 1/ to eliminate the serious and complex distortions which exist at present. These measures will support the substantial improvement over present levels of economic activity which it is hoped to achieve: a return to 1981 levels of production and exports, particularly in industry.

1/ The legislative package of January 1987 is a first consequence of this plan.

However, to reach these levels Mozambique needs financial support for its import requirements, estimated by the Government at US$ 600 million per year 1/, of which about US$ 180 million are essentials (cereals and other foodstuffs, textiles, agricultural implements, garments and items for the social sectors).

The Recovery Programme recognizes that in order to encourage agricultural production, inputs and consumer goods must be supplied, together with improvements in distribution and transportation facilities.

In order to attain these goals, industry must be rehabilitated and supplied with raw materials, spare parts and technical assistance. Thus the main objectives of the industrial sector will be to contribute directly and indirectly to increasing food production and exports. The Programme considers this will best be achieved by getting industry to concentrate on the production of foodstuffs, consumer goods, both food and other (which can contribute materially to increasing deliveries of agricultural to the markets), production inputs and tools for agriculture, export-oriented subsectors, products which generate significant tax revenue, and building materials - the latter because of their importance to investment in rehabilitation and to the marketing of agricultural produce.

With these objectives in view, the following activities have been accorded priority so that by the year 1990 they may return to 1981 levels of production and exports: textiles, blankets, ready-to-wear garments, footwear, metal and plastic household ware, batteries, oil and soap, wheat and maize flour, cigarettes, beer, soft drinks, salt, iron bars, cast iron articles, rolling stock, agricultural implements, bicycles, water pipes, sheet metal, tyres and inner tubes, paints, glass and paperboard containers, cement, fibro cement, stone, bricks and ceramic tiles.

The output of these subsectors is expected to grow at an average annual rate of about 13% at constant prices. Implementation of this production programme requires external resources such as imports of raw materials and spare parts, and also the implementation of certain rehabilitation investments whose funding requirements have already been quantified by the Government (see Fig. III.31).

In addition to capital investment, the industrial recovery programme must be underpinned by measures to improve profitability, including the reorganization of a number of subsectors and the strengthening of management and technical skills, which will require technical assistance and manpower training. As regards the financial recovery of firms, the Programme considers that special attention must be paid to firms and products where the direct and indirect foreign exchange costs do not exceed the prices of equivalent imported finished goods, and that strict borrowing limits must be imposed in order to firms' current operations increasingly self-financing.

1/ See: "The Economy of Mozambique and Apartheid's destabilizing action", Maputo, 25 October 1986; Mozambique Press Agency.

Fig. III.31. Economic recovery programme
- Resources needed by industry -
(millions of US dollars)

	1987	1988	1989	1990
Raw materials	120	132.2	152.0	166.5
Replacement parts	23.7	21.1	21.0	17.3
Subtotal	143.7	156.3	173.0	183.8
Investment in rehabilitation	42.1	42.3	20.2	4.6
TOTAL	195.7	198.6	193.2	188.4

Source: Ministry of Industry and Energy.

I. The Outlook for Manufacturing Industry

33. Basic Conditions for an Economic Recovery

The country's economy is in a crisis, and so is M.I. All the indicators and analyses are in agreement on this point. The causes are mainly exogenous, but some are also endogenous and have already been discussed.

Economic recovery requires stability and the safety of persons and property, the confidence of the business community, both foreign and domestic, and technical and financial co-operation. For a considerable period Mozambique's industry will remain heavily dependent on external sources, not only in terms of machinery and spare parts, but also for most of the raw and intermediate materials it needs.

In consequence, the development of manufacturing industry will be accompanied by a substantial current account deficit. It therefore needs the support of other sectors of the economy to supply it with raw materials and above all with the foreign exchange it needs for self-sustained growth.

The macro-economic scenario for a policy of sustained industrial development therefore envisages the agricultural sector together with fishing, mining and hydroelectric power as the bedrock of the economy 1/. Plans to develop these sectors must be implemented, which

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1/ Financial resources derived from invisibles and remittances, while significant, are not crucial because of the fluctuations to which they are subject.

will require priority allocation of resources to these sectors, with possible adverse effects on manufacturing industry. But the macro-economic scenario also assumes that such issues as the following will be satisfactorily resolved: decontrol of prices, employment and salaries, more autonomy for business and a reduction in the legal and administrative constraints with which it is confronted, more autonomy for public sector enterprises, a more flexible monetary and foreign exchange policy, a distribution network which caters to the rural areas, an improved transport network and increased use of seagoing vessels for cargo and passengers, particularly in coastal waters, and the reorganization of public sector enterprises.

34. Reorganizing the Public Sector

Given the importance of the public sector in the industry of Mozambique, its reorganization is one of the main pre-requisites of the recovery currently underway. One of the directives of the IV Congress stated that State enterprises must be of a size which allows effective operational and financial management. The directive also indicates that they must be given the necessary legal personality and administrative and financial autonomy, and emphasizes the importance of properly functioning accounting systems. In view of this, policy measures in the sphere of credit, taxes, wages and prices and the use of profits have been designed to help achieve these objectives, ending a situation where enterprises continue to depend on subsidies and lack the resources and autonomy to function as profitable business entities.

Recently published legislation provides for managers and workers to share in firms' financial results, according to recently published legislation, and also permits prices, salary levels and the size of the work-force to be adapted to market prospects and the needs of the business 1/. At the same time efforts must be made to keep wherever possible to the principle that specific levels of production can only be maintained if the firm is operating at a profit, thereby putting an end to the negative impact of successive deficits on business activity and on the economy.

The "interventioned" sector must be carefully studied so as finally to settle the status of these enterprises and also that of the "State enterprises in course of formation". To the extent possible Mozambican entrepreneurs should be encouraged to run small and medium-scale businesses and to study ways of joining forces with foreign investors, wherever this would benefit the country. Other firms should only be converted into State enterprises if the State is able to provide proper management and ensure that they are of appropriate size and strategic importance to the national economy. The State sector should also be encouraged to take shares in mixed enterprises, provided this would yield benefits for the parties involved. The existing organizational arrangements for managing State property and State shareholdings should also be scrutinized with a view to restructuring the existing Management Units and creating one or more business-oriented, financially and commercially autonomous bodies to manage such property. (Vide the Recommendations).

1/ See: Decree No. 5/87 dated 30 January 1987.

35. A Methodology for Industrial Recovery

In addition to eliminating the many distortions implied by the macroeconomic scenario described above, recovery also means combining different activities and measures: legislation, reform of the way industry is administered, in particular as regards the system of tutelage and the Management Units, the establishment of bodies for technical support, industrial promotion, vocational training and the dissemination of technical information. At the same time the rehabilitation of industrial firms must continue in accordance with established short, medium and long-term priorities and the available financial resources.

The 1st priority comprises export industries utilizing local resources; industries manufacturing essential consumer goods which help the balance of payments (i.e. foodstuffs, beverages, tobacco, textiles, clothing and footwear), even if they are heavy consumers of imported raw materials; industries which manufacture production inputs or consumer goods that stimulate output and availability of agricultural produce, timber and livestock. Those which promote construction, and particular private building, e.g. simple building materials (bricks and roof tiles) also have top priority because they can help improve living conditions and can absorb privately held surplus cash.

The 2nd priority includes manufacturers of intermediate products and some basic industries such as ceramics, metals and plastics used by existing industries; tools and simple agricultural machinery; iron and steel production and certain chemicals, etc. The 3rd priority would include all other branches. Because of the size of the investment needed and the greater risk involved, large-scale projects using advanced technologies and with production capacities that exceed domestic demand can only be undertaken in the much longer term, jointly with foreign investors and with or without State participation.

It must however be stressed that while efforts and resources are being committed to the rehabilitation of priority industrial units and subsectors considered to be priority, more detailed and searching studies (already mentioned in III.24.) must be prepared on the main "lines of production" with a view to strengthening industrials linkages, on the basis of which the most promising projects for rehabilitation, expansion or green field implementation would be chosen. These studies, to be prepared by an interdisciplinary team, would provide a natural corollary to the present analysis but would require technical assistance (see the Recommendations) if they are to lead to effective action.

36. Problems of Industrialization: an Example of Simulating Industrial Growth

Although the industrialization of Mozambique will not be easy, it is an objective which the Government will not relinquish, particularly now that there is an upturn in international co-operation and private enterprise, both domestic and foreign, is showing the first signs of wishing to participate in the process of rehabilitation and development that is now permitted and encouraged.

In order to assess the difficulties of industrializing the country, a simulation exercise was carried out, based on a simplified model for the purposes of which a growth hypothesis was adopted. Let us consider, by way of illustration, the apparently modest goal of achieving the structure of active population emerging from Fig. III.32 by the year 1995, viz., that the percentage of the total active population engaged in manufacturing industry, at present 3.3%, would increase to about 10% by 1995 1/.

For this simulation to become reality, substantial investments would be required in manufacturing industry alone. Firstly, investment in rehabilitation is estimated at about US$ 450 million in total, given an average of US$ 2,000 per job, to which US$ 50 million would be added for special projects,. Thus, after rehabilitation, employment would be maintained at present levels, but per capita income would rise from the current US$ 251 to US$ 540.

In order to reach the goals set for 1995, i.e. an average growth of 55,500 jobs per year, an annual rate of investment of US$ 550 million per annum would be required, assuming a cost of US$ 10,000 per job created and a ratio of invested capital to production of 3.5. Assuming that spare parts, technical assistance and industrial training will also be required, we must allow for additional annual investment, excluding the rehabilitation indicated above, amounting to US$ 600 million per annum.

Thus, assuming total investment in rehabilitation of US$ 450 million and annual investment of the order of US$ 600 million in new projects for manufacturing industry, to which must be added investment in the remaining sectors, the simulation indicates that by 1995 per capita income at constant prices adopting the rates of productivity assumed for the sectors (see note 3/ in Fig. III.32), would be of the order of US$ 538 or US$ 723, i.e. average annual economic growth of 11.9% and 14.5% respectively. By the same token, the proportion of the active population employed in M.I. would be 10%.

1/ The existing 200,000 industrial workers would increase to 755,000.

Fig. III.32. Projected Structure of the Active Population in 1995 (in constant 1985 prices)

	1985				Post-rehabilitation scenario 1/	
	Active Population		GDP fc			
	10^3	%	10^6 contos	%	GDP 10^3 contos	Productivity contos
Sector						
Agricult. and fishing	5,187.0	89.4	54,288	38.7	186,735	36.0
Mining sector	73.4	1.2	248	0.2	3,532	48.0
Manufacturing	200.0	3.4	9,938	7.0	17,391	156.7
- formal sector	150.0	2.5	8,188	5.8	14,329	95.5
- informal sector	50.0	0.8	1,750	1.2	3,062	61.2
Electric power 2/	3.0	0.05	36.	...	1,650	559.0
Construction	42.1	0.7	7,856	5.6	7,856	186.6
Services	432.5	7.28	67,954	48.5	84,918	196.3
TOTAL	6,138.0	100	14,032	100	302,082	1,182.6

	1995 3/					
	Active Population		GDP fc			
			1st variant		2nd variant	
	10^3	%	10^3 contos	%	10^3 contos	%
Sector						
Agricult. and fishing	5,661.7	75.5	203,821	38.8	101,910	24.1
Extractive sector	113.3	1.5	6,345	1.2	6,345	1.5
Manufacturing	755.5	10.0	80,840	15.4	80,840	19.1
- formal sector	680.0	9.0	75,480	14.4	75,480	17.8
- informal sector	75.5	1.0	5,360	1.0	5,360	1.3
Electric power 2/	7.5	0.1	4,860	0.9	4,860	1.1
Construction	106.0	1.4	22,869	4.4	22,896	5.4
Services	906.0	12.0	206,568	39.3	206,568	48.8
TOTAL	7,550	100	525,303	100	504,259	100

1/ The post-rehabilitation scenario envisages only modest recovery in terms of GDP per capita and an increase in labour productivity of around 75% in the electricity and industry sectors, and 25% in services. In agriculture, productivity is assumed to rise by a factor of 3.4.

2/ Not including Cahora Bassa.

3/ The total active population is derived from MPC projections which set the activity rate at 42%. An increase in productivity of around 1.5% p.a. was assumed for all sectors except agriculture, for which two variants were computed. In the 1st variant productivity is identical to that of the post rehabilitation scenario; in the 2nd variant productivity is assumed to be 50% lower.

IV. RECOMMENDATIONS

A. Brief Outline of the Present Situation

1. Natural Resources

Mozambique's geographical location has oriented its economy towards the provision of services, mainly transportation, to its landlocked neighbours. Apart from this, its long coastline intersected by numerous rivers has an abundance of marine life, little exploited hitherto. To date only its prawns have made any impact on international markets.

Its soil and subsoil also contain significant resources which are scarcely exploited. The country is not only a major exporter of agricultural produce - cotton, sugar, cashew nuts, tea, copra and sisal - and a producer of citrus fruits and cereals, but also possesses substantial livestock resources. Mozambique has however been devastated both by natural disasters (droughts and floods) and by the systematic sabotage of its communication links and industrial facilites by armed bandits, having thus been prevented from exploiting its agricultural potential. Errors in economic policy have also played their part in preventing the economy from achieving greater growth and making better use of its resources, even at a time when production levels were beginning to recover.

Substantial deposits of coal and iron ore, an abundance of lead, tin, titanium, copper, nickel, cobalt, manganese and precious metals, make up a large part of the confirmed reserves.

Among Mozambique's natural resources its energy resources deserve special mention, hydroelectric power being the best known owing to the Cahora Bassa plant which however only uses part of the Zambezi's resources and a small portion of the country's total water resources. In addition to hydroelectric power, there are significant confirmed reserves of natural gas and probable reserves of oil in addition to the coal deposits referred to above.

In spite of their abundance, the impact of these natural resources on the outlook for industrial development in the short and medium term is likely to be small, since only agricultural products and minerals requiring little secondary processing can be utilized to any extent in the country's M.I. Even these will need to be shielded from sabotage and destruction by the armed bandits at both the production and processing stages. The remaining resources, which require large-scale investment, adequate infrastructures, high technology and a skilled work force, can only realize their potential in the long term. In the meantime the question of how to implement them as viable propositions must be pursued - as soon as the immediate priorities have been met and the necessary preconditions as regards funding, markets and human resources have been satisfied.

2. Population and Incomes

The average population density of Mozambique is 17 per km², which is the average for sub-Saharan Africa. Population distribution is however uneven: less than 5 per km² in some regions and exceeding 50 per km² in others. In August 1985 the population was estimated to be 13,809,700, 43% of whom were economically active. Demographic projections put the population at 18 million in 1995, with a decline in the activity rate to 40%. Most of the population (82%) is engaged in agriculture, with only 6.2% in manufacturing industry, mining and energy.

By tradition, tens of thousands of Mozambicans seek work in the mines of the Transveal. In 1985 61,165 Mozambicans were working in South Africa, but it is recognized that clandestine emigration raises this figure to over 200,000. This large contingent of migrants, mainly miners, sends some US$ 50 million home through official channels each year, without counting money and goods taken or sent direct to their families 1/.

Per capita national income in 1985 was estimated at 9,884 meticals which at the official rate of exchange of MT 40.4 to the US dollar would correspond to $ 245 per capital (per capita GDP at factor cost is US$ 251). This indicator, low enough as it is, would be a good deal lower if the parity of the metical were adjusted to its effective purchasing power 2/. At constant 1980 prices per capita income in Mozambique in 1973 was about double what it is today, there having been a drop of about 1/3 between 1973 and 1975.

3. The Evolution of the Economy

Economic performance in general and that of M.I. in particular has been unsatisfactory since independence owing to a combination of factors: the country inherited out of date plant and machinery; spare parts were in short supply and the maintenance of equipment and its rate of replacement was inadequate; the best qualified staff left at independence; natural disasters (droughts and floods); acts of sabotage by the armed bandits against power transmission lines, roads, railways, plantations and production facilities; economic boycott by South Africa; and also mistakes in economic policy, especially as regards selection of priorities and use of resources. The Government of Mozambique estimates the losses since independence resulting from

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1/ This explains the serious effects on the economy of South Africa's carrying out its threat not to renew contracts of employment.

2/ At the January 1987 rate of exchange per capita income would be about US$ 50. However, this indicator should not be adopted since, being in terms of current prices, it does not allow for the effect that the new rate of exchange will inevitably have on prices - and consequently on national income expressed in terms of the metical. Still, there is no doubt that as the effects of the expected inflation will be less than those of devaluation, per capita income will be less than US$ 245, but greater than US$ 50.

deliberate destabilization and economic boycott, by the destruction of productive and other facilities and infrastructures and by natural disasters total more than 5 billion US dollars, the main effects being felt after 1981.

Nevertheless, as already mentioned, three distinct phases can be discerned in the period since independence :

a) 1975-77, when the new political and economic system was devised and implemented and the economy grew at an average rate of 2.4% (measured in terms of GSP) or 0.3% (measured in terms of GDP) and average annual growth in M.I. of 0.7% (Social Product) or of -0.9% (measured in terms of value added).

b) 1978-81, a period of recovery when in spite of the negative impact of some of the problems referred to above (natural disasters, economic boycott and sabotage by the armed bandits), an annual rate of economic growth of 3.9% (GSP) or 2.7% (GDP and of 4.3% in M.I. (social product) or 4.1% (value added) was achieved.

c) 1981 to the present, a time of grave economic and financial crisis resulting from the combined effects of the negative factors already mentioned. From 1981 to 1985 the economy declined at an annual rate of 12% (GSP) or 7.6% (GDP) with an even greater downturn in M.I. (-23% in terms of social product and -17.8% in terms of value added).

As we have already seen, it was industry 1/ that was most affected by this process of impoverishment, its share in GDP dwindling from 22% in 1973 to 12.8% in 1985 2/. New investment had to be suspended and great difficulties were experienced in importing machinery, spare parts and raw materials. In latter years owing to declining 3/ stock levels production has suffered frequent stoppages and long interruptions for lack of raw materials.

At present existing manufacturing facilities are in a state of serious deterioration and depend heavily on external sources of inputs although they include relatively important branches of industry and account for a significant investment in relation to GDP. Since there are not the financial resources to develop industry on the basis of new investments more suited to the economy's needs, the most realistic approach to such development, at least in the short to medium term, is to rehabilitate these existing facilities. However the strategic importance of gradually restructuring existing industry in the medium and long term should not be overlooked.

1/ For these purposes industry includes the extractive and manufacturing branches and electric power generation.

2/ See Fig. II.4.

3/ See Fig. II.7.

4. Balance of Payments

As regards its relations with the exterior Mozambique has always benefitted from its geographical situation by transporting merchandise from neighbouring countries across its territory, supplying migrant workers and receiving tourists. In the seventies these activities accounted for about 1/3 of the country's foreign exchange income, but during the eighties the situation deteriorated owing mainly to economic boycotts and sabotage, so that in 1984 the balance of invisibles was negative for the first time with a deficit estimated at US$ 32.4 million.

With the balance of invisibles swinging into deficit, the energy balance also evolved unfavorably, owing to the systematic cutting of power transmission lines which prevented electric power from reaching consumers. Thus delivery of hydroelectric power fell to 10% of its rated capacity while the thermal power stations in the urban centres increased output, with corresponding increases in imports of crude and effects on the petroleum bill as regards both price and quantity.

At the same time, the balance of trade deteriorated and the ratio of import cover fell from 47% in 1975 to 18% in 1985, export proceeds amounting to a mere MT 3,309 million 1/ (US$ 82 million), little more than 1/3 of 1980 merchandise exports. In 1985 imports totalled about US$ 465 million. The increasingly negative current account balance in recent years has led to the depletion of foreign exchange reserves and a rising level of external indebtedness.

In 1985 debt service reached 216.5% of exports of goods and services but this figure was reduced to 174% after lengthy negotiations. Even at this level it greatly exceeded the country's ability to resolve its problems from its own resources.

In consequence, industrial production is heavily dependent on external inputs and is unable to obtain the foreign exchange it needs from the exports of other sectors. Thus it can only survive on foreign exchange emanating from international aid and from increased exports of the primary sector (some of which are partly processed) and the service sector (by restoring services and exporting electric power).

B. Macroeconomic Scenario Required for Recovery

5. Preconditions and Strategy for Industrial Recovery

Mozambique's abundant natural resources and the availability of a labour force which is demonstrably adaptable but not always of the desired standard and sub-optimal utilization of plant and machinery, frequently obsolete and/or in poor condition, can bring about at least a partial recovery provided that suitable economic policies are adopted and the best use made of scarce financial resources.

1/ Statistical Information 1985; NSO/NPC.

In the short to medium term industrial development will have to be achieved through: a) macroeconomic measures to alleviate the economy's main anomalies details of which are given below; b) the institutional and industrial policy changes described above; c) a recovery programme with a strong external financing component, the main features of which are enumerated under heading 11 of this chapter.

Clearly the internal security situation, which is heavily dependent on exogenous factors, is the first of the constraints facing any development strategy. Thus the process of industrial rehabilitation must start in the urban centres (where the most important industrial facilities are located) to be extended later to the suburban and rural areas as communications and transport facilities improve. In the meantime the problem of supplying factories in the towns with raw materials from the country districts (e.g. the transport of limestone to the cement factory) will continue to affect certain types of manufacture located in the larger cities.

Regardless of these limitations, any development strategy must concentrate on satisfying in the short and medium term the basic needs of the population as regards food, clothing and footwear, barter goods and farm tools, articles of personal hygiene, packaging materials, simple electrical services and equipment. These are areas in which the country is in a position to improve the supply situation substantially and also the degree to which needs can be satisfied even though production facilities are restricted to the urban centres. Such a strategy should also give priority to certain types of agro-industrial products which can be exported so as to earn foreign exchange and likewise to those which generate tax income for the State budget but without forgetting the limited foreign exchange resources, and products which promote private building activities - roofing tiles, bricks, concrete blocks and fibro cement. These two major types of activities must be assigned top priority in any programme of industrial recovery.

The second and third levels of priority and activities to be undertaken in the medium to long term have already been discussed under heading 35 of the preceding chapter.

6. Necessary Structural Changes

Any programme of industrial development, whether aiming at rehabilitation or new investment, must be flanked by a series of structural reforms we will term "Macro-economic Scenario for Recovery". Without these reforms industrial development will be misconceived and misdirected.

Indeed, recovery will only be possible in peacetime conditions and on the basis of a balanced economy functioning with a minimum of anomalies.

As a first step, the devaluation of the metical, which was significantly overvalued until January 1987, will increase the competitiveness of locally produced goods over imports, provide an incentive to export and combat the informal economy which has been fuelled by the shortage of consumer goods and the overvaluation of the metical. At the same time the pressure exerted on

prices by the informal market will lessen as this market slackens. In the near term the effect on imports of the devaluation will put pressure on prices which are already out of alignment and, above all in industry, insufficient to cover production costs, particularly where rates of capacity utilization are low. However, wages are also out of alignment and the rise in prices inevitably means that wages must be adjusted to reflect the price increases so as to avoid, or at least reduce, the continued exodus of skilled personnel. Moreover increased earnings would act as an incentive to individuals to strive for higher standards of productivity. In spite of the low level of wages, shortages of goods have caused strong inflationary pressures, a situation aggravated by the excessive liquidity of private households which the Bank of Mozambique has been unable to channel into sight or fixed term deposits owing to the low interest rates offered hitherto and the absence of a capital market. The banks have been equally unenthusiastic about granting loans to the business sector, since they have already incurred heavy losses by lending to firms of extremely dubious viability. They have accordingly limited themselves to an almost routine reimbursement of public sector enterprises' operating losses via the State budget, thereby increasing the budget deficit and inflating the money supply, which in turn puts pressure on prices. This policy of systematically making up the deficits of public sector enterprises has led to increased centralization of the machinery of government, for which reason it is essential to grant more autonomy and responsibility to public sector enterprises and to adopt commercial and financial viability as the yardstick to be applied when granting loans, particularly to industry, while keeping the priority industrial subsectors in view.

Apart from the priority which must of course be given to the agricultural and service sectors (for operations which generate foreign exchange), the most important measures envisaged by this scenario are the following:

a) Prompt and continuous adjustment of the exchange rate, meaning that the metical will be heavily devalued so as to improve competitiveness in foreign markets and reduce the scope for activity in the informal market 1/.

b) Curbing budget deficits, in particular by ending support for loss-making business activities and thereby reducing pressure on the banking system to finance chronic State budget deficits and inflate the money supply.

c) To make pricing policy more elastic by:

- curtailing the list of products whose prices are fixed by the Council of Ministers, by the NCWP and by the various ministries;

1/ The recent one-shot devaluation of the metical (January 1987) and the announcement of a crawling peg devaluation are initial steps towards implementing this measure proposed as part of the Scenario.

- modifiying the prices fixed by the State so that they cover production costs and help reduce operating losses.

d) Introduce a more elastic wages policy so that remuneration paid to staff will act as an incentive, and thereby halt the emigration of the best qualified personnel 1/.

e) Raise interest rates on deposits to levels close to those charged on loans so as to encourage savings and end the persistent losses of the banking sector 2/.

f) Give public sector enterprises more autonomy so that they cease to be treated as an arm of the State.

C. Recommendations

7. The Essence of the Recommendations

Framed by the macro-economic measures outlined above, the mission's recommendations for reviving industrial activity are based on five main premises which are to some degree interrelated:

- Reform of the system of tutelage of industry, with more autonomy for the individual enterprises.

- Management of State firms and of the State's financial holdings.

- Support for small and medium-scale industry and for the informal sector. This activity is to be more clearly defined and given greater independence.

- Rehabilitation of existing industry and sources of funding.

- Strengthening of industrial promotion and services.

Other recommendations falling within the scope of this study concern:

- Improvements in the statistical base;

1/ Decree No.5/87 dated 30 January 1987 which approved a new national salary system is a move in this direction. It follows Law No.8/85, part of whose provisions it implements.

2/ The joint Order of the Ministry of Finance and the Bank of Mozambique dated 31 December 1986, which introduced new interest rates on loans and deposits (see III.20), conforms to the macro-economic scenario described.

- Greater flexibility as regards prices, contracts of employment and wages;

- Technical education and training;

These recommendations are accompanied by proposals for technical and financial assistance.

8. Reforming the System of Tutelage

Manufacturing industry is supervised by ten government departments (6 ministries - MIE, Ministry of Construction and Water Resources, Ministry of Agriculture, Ministry of Information, Ministry of Education and Ministry of Health -, 3 secretaries of state - SEILA, S.S for Cashew and S.S. for Cotton - and one national institute, that for sugar 1/. The majority of these firms and also the bulk of employment and GVP come under SEILA, which accounts for about 60%, while MIE supervises 14% of the enterprises of national importance (see Fig. III.4). SEILA itself is under the Ministry of Trade.

In the view of the Mozambican authorities the sectors which are supervised by SEILA should be kept independent of the MIE because of the need to give priority to those manufacturing subsectors which produce consumer goods, and keep them clear of a body like the MIE whose problems with the remaining industries and with the energy could impede their growth. According to these authorities, joining SEILA to the Ministry of Trade is justified by the importance of linkages with the trading sector (in particular certain items available from domestic sources and the channelling of raw materials produced by the farming sector to industry) at a time when it is more important, particularly in the light and food industries, to keep existing units properly supplied with inputs and make them more profitable than to invest in modernization or new production units. As a result of this decision, firms and subsectors were classified according to whether or not their main products were consumer goods. This is why there are cases where different M.U.'s are responsible for products with similar technology and production processes, e.g fabricated metal products (MIE) and light metalworking (SEILA). There is the additional facet that when the sectors were divided up between MIE and SEILA the existing allocation of firms to the M.U.'s was retained, thereby perpetuating the division, regardless of whether it was the most appropriate one.

An industrial development strategy which relies on this type of tutelage is hard to reconcile with a vision of industry being interdependent since so much effort is wasted on the duplication of effort, and external aid cannot be properly co-ordinated. In order to achieve interdependence of industry and to improve its level of technology in the medium term a decision must be taken on whether to retain the existing system of tutelage or create other instruments through which industrial policy can be co-ordinated.

Considering the reasons for establishing SEILA and for recently merging the ministries of foreign and domestic trade, one solution might be to group all industrial production under a single ministry of industry, with the possible addition of a deputy-minister for light and food industry. The different forms

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1/ The S.S. for Cashew, the S.S. for Cotton and the National Sugar Institute come under the Ministry of Agriculture.

of energy are currently supervised by three ministries: the MIE for electricity and petroleum products; the Ministry of Natural Resources for coal and natural gas and the Ministry of Agriculture for charcoal and firewood.

In view of the special nature of the energy sector, its strategic importance and the difficult times it is now experiencing, a concerted effort by the planners is needed to make optimum use of the available resources. With this in mind the mission proposes the creation of an independent authority within the MIE, e.g. a state secretariat, which would exercise supervision over all forms of energy.

As regards the Management Units, the tasks they carry out on behalf of the State would be taken over in part by the appropriate divisions of the ministries concerned (national directorates and departments), by service organizations (dependent institutions and even commercial firms or bodies with a commercial orientation),. The main such tasks are training, studies, standardization, rehabilitation and promotion) and in part by the management of the firms themselves, which would thereby acquire more autonomy.

This restructuring should be implemented together with a programme of industrial rehabilitation (described in IV.11) which would provide the human and financial resources needed for the firms to operate in a better financial and commercial framework and and to give them more autonomy and also greater responsibility as regards production, employment, wages and prices, and foreign trade. This reform will have to go hand in hand with a review of the way State enterprises and the State's financial holdings are managed (see IV.9).

The Ministry of Industry itself should concentrate on the following areas for which at present the M.U.'s are responsible:

Industrial planning and development
Industrial economics
Human resources
Documentation, technical information, standardization and quality of industrial production.

The existing staff of the M.U.'s 1/ would be reassigned to the national directorates, departments or service organizations, and also to the industrial firms themselves.

The curtailment or abolition of the red tape resulting from the present system of supervision of firms and which, as can be seen from the low rate of plan fulfilment (20% - 30%), has failed to achieve better results, must be borne in mind when reorganizing the management of the sector. More flexibility in prices and wages and greater freedom in marketing arrangements and in sourcing needed inputs (including importing direct) are factors which will make firms more independent and more dynamic. The mission is therefore of the

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1/ See Fig. III.5 which gives a breakdown of the staff of the M.U.'s.

opinion that industry should be rather less regimented, thereby relieving the pressure both on the central government and on the provincial administrations. This would operate in favour of the proposed scheme for reforming the system of tutelage. The mission is also of the opinion that the Ministry of Industry could undertake supervision of the industrial units presently supervised by other departments, e.g. some manufacturers of non-metallic mineral products (Ministry of Construction), foodstuffs (Ministry of Agriculture), pharmaceuticals (Ministry of Health) and also manufacturers supervised by the Secretary of State for Fishing. The idea would be a concerted effort to start by rehabilitation and then proceed to development.

9. Management of Public Sector Enterprises and of the State's Financial Holdings

All governmental machinery for managing industry has, practically speaking, been set up since independence. As already indicated (see III.5), the State owns a substantial number of firms and also possesses financial holdings which will tend to increase with the passage of time (see Fig. III.34). It must therefore ensure that these are properly managed and assign responsibility for administering them, ensuring their viability, and rehabilitating and developing them as necessary.

In the light of the above remarks not only should the M.U.'s be disbanded and their functions reassigned as part of a process of giving the firms themselves greater autonomy, but a body or bodies must be created which would take on some of these functions. This means that a choice must be made between establishing an Institute of Industrial Rehabilitation and Promotion, or setting up bodies with financial and commercial autonomy to act as holding companies and be the owners and managers of the State's shareholdings. The proposed Institute of Industrial Rehabilitation and Promotion (see IV.14.1 below) would have the drawback of being a completely new body with a considerable impact on the country's economy and institutional structure, establishment of which would entail certain risks.

The other option would be easier to implement, since it would draw on the managerial capabilities of the best-run State firms. However, it would have the drawback of continuing to co-ordinate the activities of private firms at a time when the trend is towards more freedom of action.

This alternative would create a more specialized body or bodies with narrower powers and a sectoral orientation: one for chemicals, another for metals, another for foodstuffs, and perhaps one for textiles and footwear. In addition to the management of the State's holdings on a commercial basis, this type of organization would have additional functions:

a) to prepare or commission opportunity and feasibility studies and to implement rehabilitation projects and those requiring new investment;

b) to analyse the operations of State-owned production units, restructure them and return them to profitability;

c) to ensure that the State's shareholdings yield an appropriate return on investment;

d) to implement projects to establish State firms in a a given sector (whether greenfield projects or the restructuring of "interventioned" firms;

e) to engage in foreign trade and in domestic marketing and distribution, assisting individual firms in these areas;

f) to invest capital and profits in accordance with the legislation currently in force;

g) to appoint or nominate the directors and managers of the companies in which they hold equity;

h) to help mobilize and make proper use of funds derived from industrial co-operation;

i) to fulfil other functions such as: preparing statistical data, providing financial information to prospective lenders, setting planning targets, auditing the accounts and operating results of affiliated and associated companies.

These bodies, at least for the industrial sector, would appear to deserve close consideration by the Mozambican authorities and should be endowed with legal personality.

Given the technical, organizational and financial problems which the creation of new organizations always entails, basing them on viable State firms with a sound financial base or with prospects of a return to profitability would be more appropriate and no doubt offer greater prospects of success. The aim would be to avoid a situation in which these new bodies commence their operations with insufficient financial resources and are then held liable for losses and financial burdens which would jeopardize at the outset the achievement of their main objective - to concentrate on profitable production units or those which could be made profitable in the short term 1/. As regards the remaining State or "interventioned" firms, the Ministry of Industry will have to prepare an analysis of their future prospects and consider all the available options, including that of closing them down.

Since these bodies will be created out of State enterprises to exercise control over State, interventioned and mixed (affiliated or associated) firms, they will continue to be more or less part of the public sector.

The primary and secondary functions of the proposed bodies should not be confused with the productive functions of State enterprises per se. It therefore seems desirable that at the outset the new entities form an integral part of the State firms mentioned above, functioning as one of their divisions, and then gradually starting to carry out the tasks mentioned above.

1/ Since these bodies will partially replace the M.U.'s, most of which are financed from the State budget, it might be appropriate to provide them with a subsidy during their start-up phase so as not to bring about an abrupt increase in the operating costs of the relevant State enterprise.

At a given moment the division would detach itself from the State firm and become a holding company pure and simple 1/. Basically the idea is that such holding companies should be created in the traditional manner: an enterprise producing goods and services acquires equity holdings in other firms until ultimately a group of companies is formed which needs to be controlled and co-ordinated by a company which is independent of the others in the group.

Such holding companies must have close links with consulting and service firms, with the bodies responsible for industrial standards and quality control, with the Centre for Technological Documentation and Dissemination (see IV.14.2.2) and with the Industrial Training Centre (see IV.17), all of which have been proposed.

10 Support for Small and Medium-scale Industry (SMI) and for the Informal Sector

10.1. SMI

Small industrial firms in Mozambique are usually labour-intensive, less dependent on imports, use unsophisticated technology and therefore fit the country's economic conditions better than the larger firms.

Because such firms satisfy local needs (for building materials, furniture, clothing, footwear, small-scale foundries, food processing, etc.) and also make good use of local resources, they later often develop into larger enterprises with more advanced technology and improved management skills, provided their owners receive technical and financial support.

It should be added that given the country's size (782,000 km², 11 provinces), some provinces have practically no industry whatsoever. Thus even if the productive capacity of the industries of national importance recovers to previous levels, it will not be sufficient to meet the needs of the whole country.

In January 1984 the Department of Local Industry (DLI) was created within SEILA with a view to putting into effect the Social and Economic Directives of the IV Frelimo Congress to the extent that they establish guidelines for the development of small-scale projects based on the use of local resources. The tasks of DLI are:

a) To prepare and follow up the implementation of small projects in the branches of industry under SEILA's tutelage;

b) To encourage the establishment of small-scale industry using locally available resources in close co-operation with the local authorities;

1/ A company which controls other companies. Its assets are composed almost entirely of equity holdings in other companies (its subsidiaries), usually such that engage in similar or related activities, with the aim of directing or co-ordinating their operations.

c) To establish links with other bodies with a view to promoting local industry;

d) To foster the study and dissemination of technologies to be applied in local small-scale industry projects;

e) To study and propose ways of fostering small-scale industry.

Since the DLI had a staff of only three, these objectives could not be wholly attained, in spite of being supported by the Management Units and the Provincial Directorates of Industry and Energy, and having access to their human and technological resources. With this help and some external support, particularly from non-governmental organizations, the DLI has hitherto promoted the preparation or implementation of 40 small-scale projects (oil presses, manual production of soap, woodworking and pottery, pig and poultry breeding, tanning, milling, fruit processing, etc), dispersed over the 11 provinces with the participation of SEILA, the Ministry of Agriculture and the Ministry of Construction and Water Resources.

The Government of Mozambique, in accordance with the directives of the IV Frelimo Congress, recognizes the importance of private enterprise at the small and medium-scale level. Now that the troubles of the immediate post-independence period have passed, when the State was forced to intervene in the affairs of a large number of small and medium-scale firms, it appears willing to end its interference where this appears to offer benefits in terms of management, profitability and correct use of resources by their owners. The Government has already gone further than mere declarations of principle since there are already various cases in which the State has ceased its involvement in small and medium-scale units, particularly with regard to metalworking, foundries, and by awarding management and leasing contracts in the building materials subsector. Private individuals have shown interest in these measures, particularly those with surplus liquidity who are unable to obtain a return on their savings deposits which at least makes up for inflation. In addition to the measures described above the Government is also seeking to arouse the interest of the private sector in starting new small-scale industries which would use local resources and/or manufacture essential consumer goods.

It can however happen that the financial resources of the private sector are not matched by the business skills needed to achieve the results which the Government expects from its policy of involving the private sector. This is why technical assistance must be given to these potential entrepreneurs and also to the co-operative and family production units which are now appearing, particularly in the rural areas. Thus because it is recognized that the DLI in its present form will hardly be able to contribute to achieving these promotional goals, the Council of Ministers has already approved a law establishing an institute for the support of this sector - the Institute for the Development of Small-Scale Industry (IDSI), which is already functioning.

The objectives of this institute are to foster the establishment of small-scale industries in close co-operation with the local authorities. Such production units will have not more than 40 workers and will be use local inputs and supply local needs. It will also promote, study and disseminate

technologies appropriate to small-scale industries , foster the development of simple technologies and provide the firms with education and training facilities as well as consulting services. At the same time it will channel all types of external co-operation and assistance to them. The Institute's functions will also include studying small-scale manufacturers and suggesting measures of protection for them, providing them with technical assistance, and proposing prices to be adopted for products of small-scale industry. It will establish links with other bodies with a view to an integrated development of the sector. The staff complement of the DLI will be 22 .

As regards technical assistance, UNIDO's help has already been requested 1/. The cost of establishing the institute is estimated at US$ 348,000 which, in addition to national and foreign experts, includes direct assistance to 45 small-scale enterprises on a pilot basis (in technology, management, administration, accounting, marketing and distribution) and training for the entrepreneurs concerned, details of the imported inputs needed, and preparation and support of 30 projects for small-scale industries.

The mission recommends the swift implementation of the IDSI project since if qualified staff can be found to run it, since it would appear to be a valuable instrument for fostering small-scale industry in co-operation with other bodies, particularly the BPD.

10.2 The Informal Sector

The informal sector includes crafts and other activities normally carried on by small-scale firms, family units in many cases, which are not licenced and therefore not registered with the Provincial Directorates. This sector is of some importance owing to its employment effect (some 50,000 workers 2/ or about 25% of the total active population engaged in manufacturing industry), its use of locally available natural resources, and because it caters to the needs of local consumers. Some types of activity are of particular importance. For example, the number of informal sector mills (hammer mills) is estimated at 1,000. They employ 3,300 workers (106% of that recorded in the formal sector) and generate added value of MT 150 million (42% of the formal sector); employment in the garment industry informal sector is estimated at 1,750 (30% of the formal sector) while its value added is some 10% of that in the formal sector. Similar values apply to furniture, metal products, foundries, metalworking, beverages, etc.

The informal sector has not received adequate support mainly because of the problems in suppling raw and subsidiary materials. Such has also been the case with industries of local importance (these small and medium-scale ones are usually registered and therefore formal).

1/ Project MOZ/85/015 entitled "Assistance to the Small-Scale Industry Sector".

2/ Mission estimates (see Note 4 on p.28). It should be noted that this includes individual craftsmen working either alone or with help from their families.

This is a sector which tends to expand rapidly at the regional level and could, given sufficient encouragement, reduce migration from the rural areas and become the seed-bed of larger units. If the directives of the IV Frelimo Congress are to be given effect in this sector it should receive more support and both provincial and local governmental authorities should be given responsibility for assisting it. The following are examples of the types of assistance recommended:

i) Free-of-charge licences and registration;

ii) Inspection of industrial establishments to be discontinued or carried out free-of-charge;

iii) Simplification of the returns required for statistical purposes;

iv) Exemption from or reduced rates of Turnover and Industrial Contribution Tax for a limited period;

v) Access to bank loans on the same terms as SMI;

vi Exemption for a limited period from the regulations on minimum wages;

vii) Help in obtaining allocations of local raw materials;

viii) Help with technical training;

ix) Decontrol of prices.

It should however be noted that the Regulations on Domestic Investment give the local authorities wider powers with respect to licencing and registering this type of activity and providing it with support, and also grant certain exemptions from taxes and customs duties 1/.

11. Programme of Rehabilitation for Existing Industry

Mozambique has a large amount of industrial plant and machinery but it is in poor condition and obsolete. Some of the production units are of doubtful commercial viability. The universal shortage of human and financial resources, the higher priority of the primary processing sector and the problem of internal security all point to rehabilitation of existing plant as the path to industrial development. Any rehabilitation programme must be assessed from the financial, economic and technical standpoints and the appropriate priorities established. Investments in new types of production which complement existing lines may have to be considered.

The principal limiting factor in any rehabilitation programme will be the availability of funds. Since the firms' own resources in both national and

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1/ In accordance with Law No.5/87 dated 19 January 1987.

convertible currencies are extremely limited, such funding will have to have a large external component, preferably long term and with a grant element. Another possibility is the attraction of foreign capital by existing enterprises, as envisaged under the new DFI code. An outcome of this type may be feasible in the case of certain "interventioned" firms. Meanwhile, until the political and economic situation in southern Africa returns to normal and secure conditions exist in Mozambique, the amount of foreign capital that can be attracted will be small in proportion to the requirements for industrial recovery. This recovery will therefore have to be funded mainly by external bilateral and multilateral aid programmes, although the potential benefits of direct foreign investment should not be overlooked.

If this programme is to achieve success it will however have to be underpinned by a whole series of macro-economic measures such as those outlined in IV.5. This paper does not claim to present a detailed recovery programme, which would exceed its terms of reference, and require prior knowledge of the amount of external funding available. Moreover this programme would have to be designed in close collaboration with the external financing agency concerned 1/. The present report by providing information on the sector and guidelines for industrial recovery merely attempts to serve as the point of departure for such a programme.

The measures proposed below for inclusion in any programme of restructuring is proposed below are divided into short, medium and long term. For this purpose short term means within the next two years, medium term between two and five years and long term more than five years from the present. The sequence of the action recommended assumes that the country's situation will change for the better, enabling people and goods to move more and more freely, that climatic fluctuations will remain within normal limits and of course that each of the proposed phases will lead to some improvement and thereby have a positive effect on the succeeding ones.

First priority was given to the population's needs in terms of food, clothing and footwear, to agro-industries whose output is exported, and to the manufacture of goods which can be supplied to the farmers as an incentive to increase production. Additional short term goals with less priority are the production of packaging materials for goods exported, toiletries, pharmaceuticals and other products using simple technologies, e.g. building materials and metalworking services since industrial recovery will have to proceed via plant and machinery.

The production of goods which both serve to stimulate the exchange of goods and an important source of government revenue (beverages and tobacco) will commence in the short term and overlap into the medium term.

Some diversification of existing production is proposed in the medium term, together with an improvement in quality and the rehabilitation of a larger

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1/ The chapter on recommended technical assistance (see IV.18) deals with selecting industrial units for rehabilitation, the priorities to be observed and the investments to be undertaken on the basis of objective evaluation criteria (commercial and financial viability, value added and balance of payments effects), as well as new projects the implementation of which will strengthen the linkages between the various branches of industry.

number of units, particularly in agro-industries, textiles, building materials, leather footwear, basic ferrous metals and electrical engineering. It should be noted that the industries accorded priority by the Government's Economic Recovery Programme for 1987-1990 (see III.32) are to be considered for development in the short to medium term.

In the long term a return to normal transport conditions will link the various local markets and at the same time efforts will be made to match the quality standards obtaining in European markets, thereby benefitting from the access to those markets afforded by the Lome agreement.

In the meantime the rehabilitation of existing plant and machinery will be completed and new types of medium-scale manufacture will be introduced to the extent permitted by national capabilities for project preparation and technology, while also broadening the range and improving the quality of products for export.

Large-scale projects, e.g. steel, aluminium, coal, fertilizers and soda products, will have to be put off to a later date, unless implemented wholly under DFI arrangements.

a) Industrial recovery in the short term

To a large extent, short term rehabilitation activities correspond roughly to the first priority of the industrial recovery programme described in IV.5 and consist primarily of supplying raw materials, spare parts 1/ and the new machinery most urgently needed for the continued functioning of production units. These short term efforts must be continued and those that involve the branches now under consideration expanded, likewise in the medium term. However, when production units are selected for rehabilitation, preference must be given to those located in and near cities, leaving the ones in rural areas until later. This does not mean that DLI/IDLI's efforts to assist and promote local private small-scale industries should not be pursued or even intensified.

In spite of the problems of security and transport, it goes without saying that assistance and encouragement to the agrarian and fishing sectors will continue, particularly as regards export products and inputs for local industry (cotton, sisal, cashew, copra, "mafurra", legumes and other vegetables, fruit and fish). It must be stressed that programmes of action outlined and the order they follow under each subheading, both in this phase and in the following ones (medium and long term) are meant as an indication and for general guidance only since, as already pointed out, they should be supported by detailed studies to be prepared as part of the technical assistance recommended.

As regards the activities listed below, the need for raw materials and spare parts supplied from external sources must always be subsumed in the concept of rehabilitation.

1/ If the estimates in the Industrial Recovery Plan for 1977-1981 prepared by the Government of Mozambique are correct, about 85% of the US$ 776 million needed for these 4 years would for raw materials and spare parts.

Food industries

- Rehabilitation of industrial refrigeration units so that they fulfil local needs but can also become part of a national refrigeration network;
- rehabilitation or establishment of fish drying and canning plants;
- rehabilitation of units for producing beer and soft drinks;
- rehabilitation of the A complex of the Companhia Industrial de Matola (flour, noodles, bread and biscuits);
- rehabilitation of salt-works: pumping equipment, transport and storage;
- technical and financial support for a pilot plant to produce flour from manioc root suitable for baking into bread and experimenting in the use of other local agricultural products for food purposes;

Agro-industries

- Partial rehabilitation of the following industries: sugar, cashew, tea, cotton and sisal in view of the foreign currency they generate;
- Rehabilitation of canneries for fruit and horticultural products (Sopal and Sumovit);
- Partial rehabilitation of tobacco processing plants.

Textile, garment and footwear industries

- Priority rehabilitation of spinning mills (Texlom, Texafrica and Texmoque);
- modification of the knitwear industry's to include a higher proportion of cotton;
- financial and technical assistance to blanket manufacturers;
- technical support for the tanning industry;
- rehabilitation of plants for trimmings and zip fasteners;
- rehabilitation of producers of components for the shoe industry; establishment of a plant for components for the garment industry; arranging reliable sources of the inputs they need;
- rehabilitation of shoe factories with priority for canvas, rubber and plastic footwear;
- replacement of some of the garment industry's plant and machinery.

Timber and furniture industry

- Rehabilitating sawmills and furniture plants located in secur areas;
- increased production of particle board, veneers and plywood;
- encouraging craftsmanship, particularly in the use of ebony and rosewood;

Paper, paperboard and packaging

- Rehabilitation of Line IV of the Papel-Papacar paper mill;
- technical assistance to rehabilitate production and improve the quality of paper and paperboard products;
- expanding the use of waste and scrap paper and ensuring raw materials supplies.

Non-metallic mineral products

- Reactivating the manufacturing of whitewash;
- rehabilitation of plants producing simple ceramic products for construction (bricks, cement blocks, roof and glazed tiles) and earthenware for domestic use;
- commercial and financial restructuring of the national cement company, rehabilitation of the Nacala plant and repairs to the one in Matola (clinker grinding, warehousing and packaging division);
- re' abilitating the fibro cement plant.

Metallurgical industry

- Reactivating the manufacture of rolled steel from imported billets to produce rods, wire and some of the types of structural steel most widely used in the building trade;
- rehabilitation of iron and steel smelting (Phase 1 of the CIFEL project for billet casting for steel rolling);
- rehabilitation of small foundries for ferrous and non-ferrous metals;
- improving and expanding the production of wire netting, nails and screws.

Electrical engineering industry

- Rehabilitating the workshops for repairing and maintaining transport equipment and industrial machinery;
- rehabilitation of plants producing agricultural tools and implements (continuation and expansion of the SIDA programme);

- rehabilitation of existing manufacturing units with a view to reviving or initiating production of simple automobile components and spare parts (radiators, exhaust pipes, and brake components);

- technical and financial assistance to plants assembling bicycles and motorcycles;

- launching the scheme for Integrated Engineering Units (IEU's);

- expanding and improving the manufacture of metal domestic utensils; this will need a certain amount of technical assistance, particularly with enamelling techniques.

Chemical industry

- Rehabilitation of oil and soap factories, including their financial and commercial restructuring, funding of ongoing capital investment and technical assistance;

- rehabilitation of plants supplying packaging materials for glassware and household articles;

- rehabilitation of plants manufacturing plastic products, especially packaging materials, buttons and domestic utensils;

- establishment of a physiological serum plant in Maputo, and one for galenical pharmacology;

- expanding the production of tyres, inner tubes and retreading services for the domestic market and exports to regional markets;

- improving paint quality;

- increasing output of industrial gases and welding electrodes;

- increasing output of wet and dry batteries;

- speciality chemicals for agriculture using imported inputs.

Shipbuilding and repair

- Preparation of a master plan for the sector and selection of the yards of either Beira or Maputo for the construction of a shipyard for the repair of large vessels.

- reconditioning the equipment in worst condition, supplying tools and safety equipment;

- technical assistance for technical education and training;

- anchoring the Maputo floating dock.

b) Medium-term activities for industrial recovery

It is assumed that the most urgent problems of nourishment, clothing and footwear together with security problem will be solved in the medium-term, i.e. over the coming 5 years 1/.

By then the rehabilitation of the railways (Machipanda, Limpopo, Goba and north-eastern lines), ports (Maputo, Beira and Nacala) and roads will be underway. It is also assumed that there will be a reliable supply of electricity.

In view of the production capacities still available and the shortage of human and financial resources which will still be experienced, it would thus be advisable to embark on the 2nd and 3rd priority activities specified in IV.5, in addition to the activities recommended for the 1st phase.

Moreover, it will be necessary to start diversifying the range of goods produced and improving their quality. In some cases this will mean adopting international standards, since by this time the prospects for exporting certain manufactured goods to regional markets should be studied where a comparative advantage appears to exist.

The following activities are recommended:

Food industry

- Rehabilitate and improve the quality of yeast production;
- establish a Centre for Food Processing Technology;
- establish plants for salt washing and one with iodization equipment to be located in Lumbo;
- work the salines to the north of Maputo on an industrial scale for domestic consumption, for exports and for the future needs of industry as regards soda and chlorated products;
- improve the quality and variety of food products;
- expand the network of industrial refrigeration facilities;
- re-equip commercial refrigeration plants;
- rehabilitate units producing beer and soft drinks;
- rehabilitate the dairy products plant;
- expand the production of sausages and other preserved pork and beef products;
- reactivate production units for margarine.

1/ If the unsatisfactory security situation continues, many of the proposed activities will have to be postponed.

Agro-industries

- Continued rehabilitation of the sugar, cashew, tea, cotton and sisal industries;
- rehabilitation of canneries for fruit, horticultural products and fish, and an improvement in the quality of production;
- rehabilitation of tobacco-processing units, technical assistance to improve the quality of tobacco and promote its cultivation through the establishment of mixed enterprises.

Textile, garment and footwear industries

- Technical assistance with dyeing, fabric design and models for ready-to-wear clothing;
- production of mixed fabrics;
- rehabilitation of the main textile mills for yarn, fabrics and knitwear (Texafrica, Texlom, Texmoque, Riopele, Mapril and Fapem), particularly as regards the fabric printing shops;
- rehabilitation and expansion of units producing braid and trimmings;
- improving the quality of sewing thread, converting one of the existing spinning mills to this type of production;
- rehabilitating manufacturers of leather footwear;
- establishment of a Centre for Footwear and Leather Technology;
- expand the range of production inputs and components for the garment and footwear industries.

Timber and furniture industries

- Rehabilitating and expanding sawmills and output of particle board, veneers and plywood (phase II of the IFLOMA complex);
- installation of a wood drying oven at the State Furniture Corporation;
- technical improvements in furniture production and the introduction of new production techniques to attain a greater degree of specialization and improve the division of labour among the firms in this subsector.

Paper, paperboard and packaging materials

- Continuing the rehabilitation of plants manufacturing paper, paperboard and packaging materials
- Establishment of a Centre for Paper Technology.

Non-metallic mineral products

- Rehabilitation of the Matola and Dondo cement factories and of the quarries which supply them;
- production of various types of cement: for pre-stressed concrete, fibro cement, etc.;
- production of ceramic paste using local raw materials for the manufacture of pottery and china;
- rehabilitating and re-equipping a porcelain factory for manufacture of sanitary and household ware;
- manufacture of refractories;
- manufacture of abrasives.

Chemical industries

- Developing the grades of paints, varnishes and glues most widely used in printing, furniture making, construction, ship repair and footwear;
- manufacture of paint filler from local materials and production of certain types of paints widely used in the building trade from locally available pigments;
- installation of galenical pharmacology units in all provincial hospitals;
- expanding the manufacture of plastics to include items weighing over 500g (crates for bottles, fish etc.);
- manufacture of articles of fibre and polyurethane for maritime use;
- initiating the manufacture of cleaning products, toiletries and other consumer chemical products;
- manufacture of natural and synthetic organic fertilizers.

Metallurgical industry

- Developing a wider range of basic metal products;
- rehabilitating two plants for irrigation pipes and galvanized sheet metal;
- rehabilitation of the CIFEL foundry to produce rolling billets from steel scrap (phase II of the project for casting ingots;
- expanding the steel rolling and wire drawing facility and its range of products;
- increasing the range and quality of nails, screws and rivets and improving their quality.

Electrical engineering industries

- Manufacture of electrical parts and components;
- manufacture of domestic applicances using simple technology;
- assembly of television sets, hi-fi equipment, air conditioners, refrigerators and freezers;
- assembly of industrial and commercial refrigeration equipment;
- manufacture of fibre panels for industrial and commercial refrigeration equipment;
- manufacture of metal parts consumed in large quantities by the textile industry;
- rehabilitation of facilities for chrome and nickel plating;
- manufacture of a wide variety of intermediate products using simple technology (locks, springs, diverse metal fittings, metal products for office use, etc.);
- rehabilitation of the plant producing moulds and dies for the plastics industry;
- manufacture of domestic utensils from aluminium, enamel and stainless steel;
- manufacture of certain types of hand tools;
- manufacture of agricultural machinery and vehicles without motors;
- manufacture of chassis and trailers;
- assembly of a limited range of motor vehicles (lorries and buses);
- continuation of the IEU programme; inaugurating the Production and Development Centre for the Metalworking Industry (see 14.2.3);
- rehabilitation of the railway workshops;
- rehabilitating the engineering workshops for rolling stock, hoisting and irrigation equipment and structural metal with the aim of exporting to regional markets.

Ship building and repair

- Establishment of the Technical Centre for Ship Building and Repair;
- rehabilitation of the shipyards at Beira and Maputo;
- re-equipping the Navipesca shipyard in Beira and possible shared use of infrastructural facilities with Renab;

- re-equipping and rehabilitating shipyards for the repair of small fishing boats.

c) Industrial recovery in the long term

In the long term, i.e. between five and ten years from now, the institutional, administrative and financial reform of industry will be in progress, while monetary and foreign exchange arrangements will be more realistic. At this point industry, in addition to solving its internal problems, should aim strengthening its position in external markets, thereby exploiting comparative advantages in the international division of labour.

The Institute of Industrial Standards and Quality Control (or the Technology centres - see IV.14.2.3) will make it easier to introduce international standards. The attainment of these is essential if any goods manuactured in Mozambique are to find their way onto the markets of the SADCC countries and of Europe (food products, clothing, footwear, electrical goods and domestic appliances, rolling stock, etc.).

In the meantime the rehabilitation of industrial units must continue while at the same time ongoing activities are adapted so as to incorporate a higher proportion of local content and technology in the finished product.

This will be the most appropriate juncture to implement large-scale, high technology projects for the utilization of natural resources (coal, iron, salt and electric power, wood of evergreens, etc.) which will have to be implemented through DFI, with or without State participation.

Industrial activities that would be feasible at this stage of development include the following:

Food industry

- Developing a dairy industry by increasing the numbers of cattle and increasing the range of its products (cheese, yoghurt and milk powders);
- construction of a facility for the production of baby foods and army rations;
- completion of the national cold storage network;
- a substantial increase in the quality of food products;
- producing flour and bread from agricultural products which would offer an alternative to wheat;
- manufacture of chocolates.

Agro-industries

- Improvements in the quality of production and packaging of selected industries with a view to increased exports: refined sugar, cashew nuts and tea in tins, etc;

- canned tropical fruit for export.

Textile, garment and shoe industries

- Adoption of international standards for footwear and leather articles;

- expansion of the tanning industry;

- securing imports of artificial or synthetic fibres for blending with cotton fabrics, obtaining inputs for the garment industry including machinery and spare parts, as well as technical assistance in pattern design for fabrics or styles for ready-to-wear garments. Reliable supplies of such imports are essential for the sector to succeed in accessing export markets, in which case the share of imported inputs in the value of the finished product will need to be from 30% to 50%. This can be arranged by means of a fund for the textile industry similar to the other foreign exchange funds that have been set up;

- completion of the Mocuba industrial complex.

Timber and furniture industries

- Construction of a new sawmill for exotic woods and of a plant for the manufacture of prefabricated houses (stages II and III of the Ifloma industrial complex);

- construction of modern furniture plants.

Paper, paperboard and packaging materials industries

- Open a paper pulp mill using wood from evergreens (stage III of the Ifloma industrial complex) for domestic consumption and for export;

- diversifying production of articles of paper and paperboard;

- expanding production of paper, paperboard and corrugated paper.

Non-Metallic Mineral Products

- Expansion and diversification of the industry and export of some of its products, particularly clinker and cement for the regional market;

- manufacture of porcelain ware.

Metallurgical industry

- Creation of an integrated iron and steel industry using the electric power, iron and coal available, tailored to domestic consumption and to the regional markets, whose size and demand characteristics must be carefully studied 1/;

1/ Projects requiring substantial investment, intensive support and external partners.

- manufacture of metal components, forged or cast and machined, and of various types of metal tubing;

- commencement of the aluminium project 1/.

Chemical industries

- Manufacture of plate glass 1/;

- manufacture of soda and chlorated items from sea salt of local origin 1/;

- manufacture of ammonia and nitrogenous fertilizers from Pande natural gas 1/;

- manufacture of phosphatic and synthetic fertilizers;

- manufacture of selected pharmaceuticals and related products (insecticides, fungicides and pesticides) for the domestic and southern African markets;

- securing regular supplies of crude for the Maputo petroleum refinery, so that it can operate on a continuous basis. This would mean "revamping" the refinery so that it can supply the full range of the country's needs. Success will of course depend on how the world oil prices develop.

Electrical engineering industries

- Manufacture of certain types of simple machine tools such as press brakes, cutters, punches, etc.;

- installation of aluminium anodyzing units;

- diversification of the types of production initiated in the preceding phases together with a higher proportion of domestic inputs;

- expansion and diversification of production of intermediate inputs.

Shipbuilding and ship repair

- Construction of steel fishing boats;

- repair of large vessels on internationally competitive terms.

1/ Projects requiring substantial investment, a large amount of support and external partners.

12. System of Industrial Credit

The technical, financial and economic evaluation of the industrial recovery programme and the implementation of its rehabilitation projects will have to be monitored by the local banks.

In a situation characterized by constraints of all kinds, the banks have been more concerned with keeping firms afloat than with observing generally accepted principles of sound banking. Criteria of technical, commercial and financial viability must therefore play a larger part than hitherto in decisions on the granting of loans.

However the Loans Department of the B.M. which in theory should fulfil these functions is incapable of analysing and evaluating loan applications. Moreover it is unable to keep track of the operations of its industrial clients. Even if the idea of establishing a development bank in the near future may be viewed with some apprehension, the complexity and dynamics of economic development in general and industrial development in particular will require the creation of such an institution in the medium term. The mission therefore considers that the B.M.'s Loans Department should be strengthened so that it can make well founded commercial and financial decisions on loan applications and also play a part in the evaluation of rehabilitation projects which will be financed from external sources. The strengthening of this analysis and evaluation function within the B.M. should be considered, since it could form the core of a future development bank. The same recommendations apply to the BPD with respect to its financing of local industries. Both departments could ultimately be merged in the future development bank.

13. Tax Incentive Scheme for Industry

As a general rule, the country does not have a coherent policy of using tax exemptions to promote industrial and regional development. Nevertheless, it has been publicly stated that private sector entrepreneurs who show the ability to put into effect the goals of economic and social development should be encouraged and supported. As regards direct foreign investment, there is the basic law dealing with the subject (No.4/84), and the regulations dealing with matters of implementation (Foreign Investment Code, approved by Decree No.8/87 dated 30 January 1987) which provides for DFI projects to be granted tax benefits, albeit on a case-by-case basis. The most important of these are:

a) Exemption from customs duties, temporarily or permanently, of plant and equipment, and of raw and intermediate materials imported for the manufufacture of goods destined for export markets;

b) Exemption from taxes for a period of between two and ten years of:

   i) The proportion of profits earned by the venture that corresponds to its foreign-owned capital;

   ii) Profits distributed or dividends attributed to the foreign investor;

c) Exemption from tax of the proportion of the profits of the venture transferred to reserve corresponding to its foreign-owned capital.

As regards national private investors, Law No.5/87 dated 19 January 1987 not only protects the property and rights embodied in an authorized investment (which is subject to the Regulations on Investment by Nationals) but also bestows incentives, particularly on investments which contribute significantly to any of the following: fulfilling national and regional development plans; improving the competitiveness and technological standard of domestic products; follow-up investment in other types of activity; high value added measured by the resources utilized; sound financial structure and technical and commercial management. The incentives are mainly exemptions from taxes and customs duties, the actual amount being decided on a case-by-case basis and depending on the extent to which a given investment fits the above criteria and is in a priority industry.

If the investor is a citizen who has emigrated, the profits derived from the investment will be exempt from Earned Income Tax, Section B or from Industrial Contribution Tax, or will be eligible for a lower rate of tax for a period of 5 years 1/.

All ventures which increase non-traditional exports, or which sell to new markets on advantageous terms, are exempt from Turnover Tax and export duties.

There are financial incentives as well as fiscal ones. For example priority industries may obtain loan finance on preferential terms, without however such terms being spelled out in the law. If the products are destined for export and will bring benefits to the national economy, a proportion of the foreign currency earned may be utilized to import goods and services needed for the business and to reward successful management. Such proportion is determined jointly by the Minister of Trade and the Governor of the Bank of Mozambique.

Curiously enough, domestic private investment has had more impact than foreign investment in spite of having been eligible for fiscal and financial incentives only since January 1987. The truth is that the best incentive to private investment is a general improvement in the economic situation, in security, and in the functioning of the machinery of government - and also an appropriate level of taxation, which at present appears excessive. Now that public and private sector firms are treated equally for tax purposes and the arrangements for collection have been improved, the rates of Industrial Contribution Tax could be reviewed to see if they can be reduced.

1/ See Vol II - Appendix V for details of the taxation system currently in force.

As regards DFI, there is no doubt that there are other factors more likely to attract foreign capital to a given country than fiscal and financial incentives, the most important being:

- an atmosphere of safety and security;
- a clearly defined institutional framework with straightforward administrative procedures;
- political and social stability;
- a rate of exchange which prices the local currency realistically;
- exploitable comparative advantages (agricultural, timber or mineral resources, energy resources, well trained, low cost labour force);
- flexibility in matters of employment, wages and prices.

Nonetheless, in all countries fiscal and financial incentive schemes continue to be the most common, if not always the most effective tool of government policy in promoting private investment, both domestic and foreign. Therefore, to get the maximum results from such schemes the following rules should be observed:

a) Procedures should be simple and easily understood.

b) Decisions on the award of incentives should be swift and they should be available to all those who qualify, i.e. neither discretionary nor discriminatory.

c) Once incentives have been granted, the implementation of the relevant investments should be monitored to ensure that all the conditions stipulated have been met.

14. Strengthening Promotional and other Services to Industry

In order for the industry of Mozambique to return to self-sustained development two conditions must be fulfilled: industrial activities must spread to all parts of the country and industrial plant and machinery must be rehabilitated so as to improve the quality of its products.

As regards the first condition, existing industrial units producing consumer goods and durables must be strengthened and their number increased. At present these units produce low quality goods, have low capacity utilization and produce low quality output, but are nevertheless indispensable as sources of supply and require assistance with their development. Hence the IDSI's recommendation (see IV.10.1).

The proposed rehabilitation programme concerns the second condition. Any programme of industrial rehabilitation programme needs financial resources, much of them in foreign currency. Without denying the overriding authority of the bodies supervising industry, it must be emphasized that the preparation, organization, implementation (whether centralized or not) and follow-up of the action required, is only possible if a [illegible] or bodies enjoying autonomy

vis-a-vis the State administration can take responsibility for implementing the recovery programme and managing the State's financial holdings - both the existing ones and those that will emerge from the programme.

The work of such bodies and indeed the entire recovery programme will have to have the support not only of the various departments of government but also of other agencies which promote and propagate industrial development, e.g. consulting and research firms, documentation centres, centres for standardization and quality control, maintenance services, etc.

Projects to establish new production units, or even rehabilitation projects for public sector enterprises can clearly be managed either directly or indirectly by other organizations, e.g. consulting and research firms, by the industrial units themselves, provided they possess the necessary skills, or even by other bodies yet to be set up or reorganized. Projects in the private sector can and must be put into effect by this sector itself.

Thus the studies on the industrial development programme and on the type of investments needed to provide the country with a comprehensive network of industrial facilities, thereby gradually supplying all its needs, could also determine the type of organization best suited to implement such projects. Such organizations would support either the holding companies previously mentioned as an alternative means of fulfilling some of the functions of the M.U.'s (see IV.7), or the Programme or Institute of Industrial Rehabilitation and Promotion which the mission likewise advocates as a possible option, albeit a more ambitious one.

This Institute and the principal industrial support mechanisms are detailed below.

14.1 The Programme or Institute of Industrial Rehabilitation and Promotion

Preparing and implementing a programme of industrial recovery in a scenario like the one proposed, in which the M.U.'s are replaced by bodies at the same tier in the hierarchy would require an organization that could carry out such a task with the support of the departments of government and other bodies.

However in the longer term, the sustained industrial development the country is aiming for also requires new industrial projects. Inevitably project opportunities will arise in the various branches of industry, many of them identified by the Ministry of Industry or other government departments. These project ideas must be developed to the stage of feasibility or pre-feasibility studies. The pre-feasibility studies will provide the basis for promoting such projects and identifying sources of funding. They can then be implemented either by local entrepreneurs through DFI or by the co-operative and State sectors. In certain cases financial and technical assistance will be needed, e.g. through the State taking an equity position in the companies formed to implement such projects, or simply by its providing guarantees to obtain finance from the domestic banks or from international financing institutions.

The policy of reprivatizing "interventioned" firms will, in addition to the neeed to find the most suitable partner or partners, will require lengthy and careful negotiations.

The policy of reprivatizing "interventioned" firms (some of which will be converted into mixed enterprises) and starting new projects jointly with the private sector (domestic or foreign) will give the State (has already) an extensive portfolio of financial holdings which it must manage, either directly or indirectly. Section IV.9 describes one of the alternative ways of carrying out part of the tasks of the existing M.U.'s, the abolition of which is proposed, by making holding company-type bodies out of profitable State firms. The section also lists the main functions which such bodies might carry out.

The other alternative is the creation of a Programme or Institute of Industrial Rehabilitation and Promotion (IIRP) which would have legal personality and administrative and financial autonomy. This would be an entirely new organization which would cover the whole of M.I., as opposed to the first alternative, which would have a separate entity for each subsector. The IIRP would have funtions similar to those of the above mentioned bodies, albeit more restricted, except that it might give guarantees (free of charge or for a fee) and other forms of surety in respect of advances to State and private firms by domestic or international banks, where this was a condition of the loan and held to be in the national interest.

Since this would be a new organization with important functions to be set at short notice and needing highly qualified staff, there would be some risk of failure. However, the bodies envisaged by the alternative proposal also involve the risk of becoming a drain on the resources of the State-owned parent company.

The principal functions of the IIRP would be the following:

a) To carry out or commission opportunity and feasibility studies and projects for rehabilitation or new investment.

b) To implement, directly or indirectly, projects for the rehabilitation of public sector enterprises with support from the Ministry of Industry or other bodies (the enterprises themselves, consulting and research firms, and any other organizations that may be set up for this purpose).

c) Enter into negotiations leading to the reprivatization or conversion to mixed enterprises of "interventioned" (or State) firms.

d) Promote new industrial projects vis-a-vis private, co-operative or State firms, and give such projects technical and financial support through equity participations.

e) To manage projects to establish State enterprises in M.I.;

f) To manage the State's financial holdings in M.I.;

g) To give guarantees and other sureties where necessary to obtain financing from national or international banks in cases thought to be in the national interest by the government department exercising supervision;

h) To encourage the holding of workshops and seminars on industrial development topics.

The main sources of funding of the Institute would be:

a) The State budget;

b) Credits for industrial rehabiliation under international technical co-operation arrangements;

c) A percentage of the profits from the State's financial holdings;

d) Remuneration for the services it renders.

14.2 Other organizations and services providing support to industry

Other bodies providing ancillary services to industry must be set up so as to be more or less independent of the Ministry of Industry, in particular:

14.2.1 Research, consulting and service firms

Studies on the structure and performance of M.I. are indispensable in preparing and monitoring the implementation of the Recovery Programme. Studies must therefore be prepared, whether global or sectoral or dealing with specific aspects of industry such as productivity, capital formation, analysis of subsystems, techniques of project evaluation, etc. Such studies would cover the whole field of industry in a degree of detail of which the departments of government, and particularly of the Ministry of Industry would not be capable. As regards the microeconomic aspects, firms must have access to studies and views on the various aspects of management such as critically analyzing the firm itself, marketing and sales management, financial management, requests for financing, preparation of investment projects, etc. Firms may also require specialized services in the spheres of auditing, accounting, foreign trade dealings, etc. And yet in the vast majority of cases, the firms do not have staff qualified to prepare such studies, so that they virtually do not exist.

Seen from this standpoint, the creation of one or more firms for consulting, research and services, preferably mixed or private, would make it possible to prepare more detailed studies on opportunities already identified by government departments or by the firms themselves, conduct feasibility studies and formulate investment projects. These firms, and others which may be encouraged to emulate their activities, could provide services such as:

- Financial auditing and accounting services;

- foreign trade operations, market studies, licencing and registering companies, including DFI projects, applications for incentives or for for bank loans, completion of statistical questionnaires and other documents required under the SCP procedures;

- firms' internal procedures, work study methods, production processes and selecton of plant and machinery;

- organization of firms' internal maintenance services or the improvement of such services 1/.

Clearly, such services would be provided on a paying basis and the firms would endeavour to strengthen their technical skills by means of links abroad.

14.2.2 Technical Documentation and Information

The mission recognizes that implementing a technical information scheme for industry is a necessary task. In order to establish an information network, infrastructures and support networks must be established and refined so that they function optimally. The foundations of such a a network should be built on links between the University and Industry.

The creation of a library for industrial technology is suggested as the first step towards a Centre for Technical Documentation and Information. Without understating the problems of vertical integration, such a centre could be organized along subsectoral lines and would comprise two main divisions:

a) A basic library with pedagogical and educational objectives;

b) A specialized technical library in which works written in Portuguese, or translated into Portuguese would predominate.

This technical library would ultimately form part fo a future national industrial information network and would have to be conceived so as to allow the national and international institutional links that have been advocated.

It will therefore be necessary to organize from the outset a data base, preferably computerized, linked to international data banks, which will be able to respond to enquiries from its users. This is why co-operation with the university is so essential to such a scheme. An information service must also be set up to supplement the library function. The library, apart from allowing "on the spot" enquiries must also, as it were, come to its users.

1/ See also IV - 14.2.4.

14.2.3 Centre for Industrial Standards and Quality Control. Technology Centres

It may appear inappropriate to raise the question of quality and standards at such a difficult stage in the country's economic development when, apart from the export of certain processed agricultural products, the entire production is absorbed by the domestic market regardless of its quality (because there is no alternative source). Nevertheless, the mission considers quality and standardization not only an elementary precept of good management, but also a vital element of industrial development.

Programmes and activities concerned with standardization should therefore now commence, the role of the State will being to define and introduce production and quality standards and endeavour to obtain their acceptance by the business community and by the institutions concerned with science and technology. These in their turn will help in developing more sophisticated standardization and quality control functions. At a later stage further refinement of these activities will make additional demands on the country and on industrial firms, e.g the creation of testing laboratories to ensure that technical specifications have been met and that accordingly products conform to the standards set.

The mission therefore proposes that a Centre for Industrial Standards and Quality Control be set up within the Ministry of Industry - but jointly with the University - as an intermediate stage in a process which in the long term will lead to a national scheme for monitoring industrial standards and quality. This Centre will pursue three main objectives:

i) Centralize standardization and certification through product testing in its own laboratories and in those already installed in industry;

ii) promulgating standards approved by the Minstry of Industry, in particular by publishing them in the Official Gazette;

iii) fostering and disseminating the concept of standards and quality among industrial firms, giving relevant technical assistance to small and medium-scale firms and organizing training programmes.

However, as regards the immediate future, the mission considers that a way must be found of obtaining the desired results so that the danger of setting unattainable goals can be avoided, given the present serious shortages of human, material and financial resources.

With this in mind, certain sectors should be encouraged to take the initiative in the initial stages and given priority so that they can prepare the ground for a system of industrial standards and quality control.

Mention should also be made of the Production and Development Centre for the Metal Fabrication Industry (PDCMFI) and of some other technology centres such as those for the food, footwear, shipbuilding and paper industries. The CPDIM 1/, which will function as a national body, located in Maputo and

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1/ The relevant project has already been prepared for implementation.

part of the scheme for establishing the IEU's (Integrated Engineering Units) under the overall supervision of GABRICOM - Project Office for Metal Fabrication - will have the following responsibilities:

- basic and advanced training;
- technical support for the other IEU's;
- technical support centre for government departments, including a library;
- centre for metrology and standardization;
- testing centre;
- design of new projects.

14.2.4 Maintenance Services

In the ten years since independence, investment in the replacement of industrial plant and machinery has been at a virtual standstill in some branches and greatly reduced in others. Diversity of types and makes, excessive age and obsolescence are typical of the machinery in service. Most industrial firms have machines which are out of service owing to lack of spare parts. Operator negligence or lack of training may even increase the number of breakdowns, in addition to which staff qualified to carry out maintenance are few and far between.

Since machines whose useful life is over cannot be replaced, adequate maintenance is needed to keep them operational longer, reduce breakdowns and optimize resource utilization,keeping downtime and waste to a minimum.

In recent years the value of imported spare and replacement parts has accounted for 8% to 10% of total imports and is almost as much as imports of machinery.

The type of maintenance carried out at present is of the corrective type only - repairing machinery that is out of order. It would therefore be desirable to introduce preventive maintenance on a systematic basis.

As explained above, maintenance must be included in the list of priorities for M.I. so that it can be embodied in the recovery programme. The topics to be considered are the following:

a) Training skilled production workers in techniques of preventive and corrective maintenance;

b) Establishing minimum stock levels for spare and replacement parts and, where possible, maintaining up-to-date records of such stocks and of their whereabouts so as to respond quickly to emergencies which may arise in priority lines of production.

c) Establishment of firms, mixed or private, which would specialize in providing maintenance services, carrying out repairs and making spare parts which are unobtainable because production of the relevant machinery has been discontinued.

15. Statistical Information

Economic planning in general, and industrial planning in particular, needs reliable statistical data.

The industrial statistics currently available in Mozambique are inadequate, although there is plenty of statistical information. At present firms have to supply data monthly, quarterly and annually - to the M.U.'s, to the ministry that supervises them, to the Provincial Directorates of Industry and Energy (for industries of local importance) and to the National Statistical Office (NSO). The mission had occasion to note large discrepancies between data supplied to itself, to the M.U. and to the NSO, all by the same firm. As a general rule this information is not analysed by the recipients; this is known to the firms which accordingly pay scant attention to its preparation.

The NSO lacks qualified staff, data processing facilities, in particular EDP resources (software and programmers), and also has difficulty in publishing the most important statistics.

Studying the structure and state of industry and designing an appropriate industrial model requires better statistical data than that presently available, which has to be prepared or estimated by extrapolation. Accordingly, the following action is recommended for implementation by the NSO:

a) Annual publication of industrial statistics covering all firms with more than 10 workers 1/ in the first phase to which at a later stage would be added all firms with from 5 to 10 workers;

b) Quarterly publication of the index of industrial production, based on a representative sample;

c) Computation of the basic indicators (employment, production, value added, profit or loss and capital formation) from which the relative weights and performance of the public, private and co-operative sectors in the country's economy;

d) Preparation of national accounts. These should go beyond the Global Social Product. This macroeconomic aggregate is of limited value, as it merely the gross value of physical production of the various sectors, and can only be used for purposes of comparison as long as the economy undergoes no structural alterations.

1/ If this it not possible, all firms with more than 25 or 50 workers could be fully covered and, on the basis of a sample, a part of those with between 10 and one of the class limits indicated above.

The emergence of any large firm using imported inputs, but low value created, will substantially change GSP although contributing little to the economy. Consequently, Net Social Product 1/ should be computed and broken down, not only by the branches which created it but also by the uses to which it is put. Since there are conversion factors from CPM to SNA (System of National Accounts), the basic aggregates of the latter system, and also the value added of the economic groupings, should be determined in due course 2/;

e) Preparation of input-output tables to supplement the national accounts and facilitate industrial planning.

f) Preparation of foreign trade statistics, with sufficient differentiation between the various categories of manufactured goods.

The technical co-operation project which led to this study also included a request for assistance in the area of industrial statistics. The study has already benefitted from this assistance. The NSO has already requested additional technical assistance from UNDP to implement some of these priority tasks.

It will also be necessary to enable the ministries to analyse the statistical data gathered by virtue of the planning process. They must however avoid a repetition of what sometimes happens now: that firms have to supply the same information both to their supervisory ministry and to the NSO.

16. Liberalization of Contracts of Employment, Prices and Wages

A relaxation of the restrictions on termination of employment, prices and wages is an esential prerequisite of economic recovery. However, for obvious reasons, resistance is encountered, both from workers and trade unions and from the authorities concerned.

Of the problems which afflict the economy of Mozambique, and particularly its industry, the following are particularly acute and impede firms' commercial and financial recovery 3/:

a) Surplus workers (unskilled), it being difficult to give them notice except in cases where the employment is terminated for just cause (e.g. the employee is unsuited to his duties or has committed serious or repeated breaches of discipline).

1/ The Net Social Product is generally obtained by deducting from GSP intermediate consumption of essential production-related goods and services.

2/ See "Relaciones conceptuales entre el SNC y el SPME revisados", United Nations, E/CN.3/397/Rev.1, 6 July 1970.

3/ In January 1987 a package of economic and financial policy measures on exchange rates, prices and wages was adopted. The measures aimed at eliminating the obstacles referred to below or at least mitigating their effects.

b) The price of goods, and particularly of basic consumer goods, has in most cases been frozen and does not cover production costs while administrative procedures for adjusting prices are not only complex but unduly protracted. This means that owing to the inadequacy of supply part of manufacturing output is diverted to the informal market where it fetches exorbitant prices. These generate high inflation and also make huge profits for people who have had nothing to do with producing the goods.

c) Wages have been virtually frozen since 10 September 1980 when a decree (No.4/80) came into force which failed to introduce any inflation adjustment mechanism, because the existence of this phenomenon was not recognized 1/. In practice, employees' remuneration could only be improved in exceptional cases through promotion to a more senior post. Even so, the average monthly remuneration of workers in industry, aggregating all occupations and including all social benefits, was about MT 4,750 2/.

The low level of wages led to widespread absenteeism and low productivity, and encouraged skilled workers and especially the best qualified ones to go over to the informal economy or emigrate to neighbouring countries, whether legally or clandestinely. At the same time it discouraged staff from undergoing further technical and professional training 3/.

The industrial recovery now to be launched means that the enterprises earmarked for rehabilitation must be returned to commercial and financial viability. One of the preconditions for achieving this goal is that the labour force may be tailored to the needs of the production process and that factory prices can be charged which cover the cost of production plus a margin of return on the capital invested, whether the investor is the State or private interests. Lastly, the freeing of wages will create the incentives needed to increase productivity, stabilize the work-force and motivate staff to undergo training which will improve their skills.

The Labour Law (No.8/85 dated 14.12.85) which came into force on 15 June 1986 made it considerably easier to give staff notice to quit and represents a signficant advance in the field of labour relations. According to this law, employers will draw up manning tables on the basis of their economic and social

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1/ Decree No.5/87 dated 30 January 1987 approved a national salary scheme, thereby changing the situation considerably.

2/ Not allowing for the prices of rationed goods distributed offically via the co-operatives, but in insufficient quantities.

3/ The new salary policy will double wages and the new rates can double again after bonuses and overtime payments.

plans and will comprise the jobs needed to carry out the essential functions in the light of the performance, productivity and efficiency expected of each worker. The law allows employers to terminate contracts of employment with prior notice of not less than 90 days if measures of a technical and organizational nature require that the size of the work force must be adapted to the needs of production or services. Such termination is however only effective after the competent trade union has expressed its views and requires the payment of compensation to the workers the amount of which is specified in the law. Reservations regarding the law's provisions mainly concern practical matters. Since in normal circumstances the plan targets which the firms are set require greater material resources than they receive, the plan provides for a larger work force than is needed. Moreover the law does not explain what happens if the view expressed by the trade union opposes the termination of employment, as is normally the case, particularly if the termination affects a number of workers. These uncertainties must be removed by an appropriate executive order.

The law also contains provisions on the remuneration of labour, determines the salary system (scales, categories of occupation, rates of pay, supplementary payments and how payment is to be made) and the content, form and procedures of the evaluation which must precede any promotion. Detailed implementation provisions on these topics came into effect, particularly as regards the scales for the various categories of occupation, when Decree No.4/80 was superseded by Decree No.5/87 dated 30 January 1987 (see III.28).

Lastly, the system of pricing manufactured goods has also been revised, with a reduction in those that can be fixed (by the Council of Ministers and by the National Wages and Prices Commission) (see III.14), and an increase in those described as conditional (applying standard costs) and approved by the supervisory minister or secretary of state. Those which were already decontrolled remained unchanged. Controlled prices should always be based on actual production costs. If it be the Government's intention that for reasons of social policy they are to be set at levels below production cost, the firms (State and mixed) should receive subsidies via a special fund. It is recommended that the range of conditional prices is extended since this makes it easier to pay more attention to production costs and also remove the political element from the decision-making process. In the medium term the range of conditional prices should be progressively reduced by decontrolling the prices of an ever larger number of goods, particularly where there is scope for competition. In any case prices should be periodically adjusted, preferably annually.

It is clear that there is no single methodology for calculating the costs on which a particular price is based. The same is true of the maximum profit margin which a firm may add. Each supervisory body has its own limit, so that related activities like machine tools and light metalworking which are supervised by different government departments, are subject to different sets of regulations as regards the price approval mechanism. It is therefore essential that the Ministry of Finance takes action a soon as possible to standardize the methodologies in use.

The authorities' non-recognition of inflation has prevented firms which maintain proper accounting records from revaluing their fixed assets 1/. Since price revisions should take such revaluations into account, this has meant that prices reflect only part of the real attributable depreciation expense. But once the inflation indices start to be published along with the official statistics 2/ it is advisable to to compute a revaluation index for the purposes of assessing taxes and arriving at production costs. The formulas for calculating costs to which the mission had access (those of the MIE and SEILA) 3/ do not reflect all costs, particularly administrative expenses, which are included in the profit margin. Regardless of what system of economic management is adopted, these are genuine production costs which should not be confused with the profit margin. For this reason it is proposed to treat them as costs. Lastly, prices must be fixed on the basis of actual and not planned utilization of productive capacity since, given the present shortages of imported and local raw materials it has been observed that the plan targets - themselves substantially below installed capacity - are only 30% - 50% fulfilled. Apart from the need to select a realistic rate of capacity utilization, a way must be found of modifying at short notice (within predetermined limits) a price fixed on the basis of a planned rate of utilization when the actual rate is different. It is also advisable to use the prices of manufactured goods in the regional market (SADCC countries) as a yardstick to get Mozambique's industry more and more accustomed to competition.

17. Industrial Training

All efforts at industrial development, even those that merely aim to rehabilitate existing plant and machinery, must include technical training facilities for all staff, from the shop floor to the top management. The Secretariat of State for Technical and Vocational Training is the body responsible for such training. In the near term the different programmes recommended by this study (IV.18.) must contain a substantial element of direct assistance to firms in matters of training. In the meantime, the creation of of institutions to continue and expand on-the-job training should begin as soon as possible. In view of the urgency of resolving this issue, external technical assistance in the field of industrial training should initially be for the benefit of trainees themselves but, in course of time, will be aimed more at the training of instructors and its scope extended to include basic tuition in a classroom environment.

1/ There are few firms which have proper accounting systems producing reliable and up to date information; cost accounting systems are likewise seldom encountered. Insisting on proper accounting systems as the basis for price revisions could help firms to use this technique for compiling data on their assets and liabilities.

2/ The Consumer Price Index was first published in Statistical Information for 1985 (see Statistical Appendix - Fig. 5).

3/ See Vol. II - Appendix IV.

UNIDO has tried to find a solution to the problems of industrial training in Mozambique. Apart from training programmes already implemented (84 participants, of whom 8 have achieved instructor status) a programme of technical assistance was drawn up with the following main objectives:

- Improve the training capability of the MIE's Department of Human Resources (DHR) and those of similar departments in other ministries supervising various branches of manufacturing;
- Basic courses in management for executives of public sector firms;
- Courses in organization and methods for senior staff;
- On-the-job training courses for supervisors;
- Provision of teaching aids;
- Supplementary courses for instructors at industrial training centres.

it must however be recognized that the lack of training facilities, language problems and the shortage of local counterparts have delayed the attainment of any tangible results. The lengthy procedures of the agencies that are funding the programmes have contributed to this delay. Nevertheless, UNIDO's assistance 1/ is beginning to bear fruit now that the charter and statutes of the Industrial Training Centre (ITC) are at the stage of final approval and publication (January 1987). At present implementation of the ITC is still provisional: it has acquired premises and part of its furniture and equipment and is already holding courses in management and administration, this being its aim and object, and is also continuing to train future instructors.

Although the ITC is being set up under the auspices of the MIE's Department of Human Resources it will operate as a separate department of the MIE with a budget of its own. It is primarily intended to assist firms supervised by the MIE, although its services are also available to firms will fall under other ministries. Co-operation agreements with eight of these have already been been signed.

The ITC's courses will be held on its own premises, and will finance expenditures in local currency from its own sources of income. Firms supervised by the MIE will pay a levy based on the number of staff on their payroll plus a nominal charge, while other firms will pay regular tuition fees.

The ITC will remain dependent on technical co-operation, at least for the next few years (UNIDO, SIDA, ICE, ILO, etc.), for its expenditures in foreign currencies (payments to instructors, courses abroad attended by instructors on the staff of ITC, purchase of materials and equipment). The future development of the ITC, its expansion into the regions and the inclusion of other types of

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1/ UNDP project ref. DP/MOZ/82/012 is being implemented in the MIE's DHR.

training could in the long run lead to the establishment of a National Institute of Business Education.

In view of the limited relevance to industrial training of classroom-style teaching, on-the-job training within the firms themselves will have to introduced as soon as possible so as to overcome this difficulty 1/.

18. Recommendations for Technical and Financial Assistance

The rehabilitation programme for public sector industrial firms discussed in IV.11. is an essential part of the economy-wide recovery programme which includes both macro-economic measures and such objectives as providing essential supplies, capital investment, technical assistance for individual productive units and technical training.

Funds for the purchase of raw materials, spare parts and equipment, and for the recuperation of production plant and infrastructures will be of special importance.

The Government of Mozambique has already outlined financial support programmes for the revival of production which conform to the priorities identified by this study and has tried to reduce to a minimum the resources needed by making the most effective use possible of raw materials and energy and by limiting investments planned for the immediate future to the bare essentials 2/.

In the mission's opinion this programme has sufficient internal logic to merit support. When implementing its it, i.e. studying the programme for for rehabilitation existing industry in greater detail in manner already proposed, areas in which additional assistance is required will be identified so that external support can be sought.

If it turns out to be possible to mobilize additional resources in the immediate future, the strategy, programmes and projects identified by the mission would indicate how they should best be used. The Mozambique Government's recent measures to reduce financial imbalances and create the macro-economic scenario essential to recovery should encourage donors to increase their technical and financial assistance.

The mission's proposals for technical assistance list the main topics to be dealt with equired and is cross-referenced to the report by means of chapter numbers in parenthesis.

1/ See Vol. II - Appendix III.

2/ As shown in Fig. III.31 the needs identified by the Government add up to a annual funding requirement of about US$ 195 million throughout the Economic Recovery Programme (1987-1990), of which on average US$ 30 million is for investments in rehabilitation, and the remaining US$ 165 million is for raw materials and spare parts.

a) Programme for the Rehabilitation of Industrial Enterprises (IV.C.11)

The present study on the industrial sector serves not only as an overall framework for the recuperation of Mozambique's industry, but is also a first attempt at outlining a rehabilitation programme distinguishing between different levels of priority (see the last figure of Chapter I - Summary and Main Conclusions, and Chapter IV, para. II).

This outline does not yet allow any quantification of the investment needed for this recovery. Although external financial assistance, e.g. balance of payments support for the acquisition of raw materials, spare parts and other inputs can and must continue, a recovery programme based on economic fundamentals will require not only more extensive funding but also a more detailed and thorough study of the country's industrial linkages. Such a study would make it possible to base the selection of firms for rehabilitation on economic criteria and the funds available.

Furthermore the State's ability to guide industry must be improved so that, together with the external financing agencies, it can design and supervise the rehabilitation programme for industry and also prepare plans for the sector's future development.

These studies, which are given top priority among the technical assistance measures recommended by the mission, would have the following main aims:

- Show that the funding available will secure the technical and economic viability of the industrial units and/or branches to be rehabilitated. This would enable the firms whose rehabilitation is to receive priority (see figures on pp. 10 to 12) to be selected on more objective and meaningful criteria.

- Review the operations of loss-making firms with a view to restructuring them converting them or shsutting them down.

- Determine what new investments are needed to complete the country's network of industries, subject to their being technically and commercially viable. The processing of local raw materials, the manufacture of basic consumer items, of goods for export and of inputs for agricultural would receive priority.

- Study the future development of domestic and foreign (and particularly regional) markets.

In order to prepare these studies, the mission proposes the creation of a two-man team comprising an industrial economist and an engineer, supplemented by short-term consultants in special fields. The team would continue the work begun by the mission (particularly that in Vol. II), taking the previously mentioned aspects of the industrial network into consideration and analysing the main "lines of production" (Appendix III of this volume) and existing linkages, or such as could be established between them. The team would study the problems of identifying units suitable for rehabilitation and the investments to be made on the basis of criteria such as commercial and financial viability, value added, balance of payments effect, necessity of

expanding production or of strengthening the linkages within industry, the availability of human and financial resources and the demands of the other economic sectors).

Recommendations on ways of protecting industry, including legislative measures, the system of incentives to industry, particularly as regards exports could perhaps also be submitted.

Following this phase, which would take about 12 months, the team should supervise the preparation, evaluation and follow-up of rehabilitation investments at the individual plant level. It would be logical to carry out these studies in close co-operation with the World Bank which is currently sponsoring a study on public sector enterprises.

The proposed assistance would have to be provided on a grant aid basis (UNDP, for example) and should be co-ordinated with the action to be taken by the government departments which supervise industry (Chapter IV.C.8) and should begin as soon as possible, responsibility for co-ordination being entrusted to the MIE, as in the case of the present study.

b) Programme for support to small and medium-scale industry, including industries in rural areas (IV.C.10)

A programme of support for small and medium-scale industries would have to be implemented with the help of a financial intermediary (possibly the BPD) and an institution to administer the programme (the IDSI - Institute for the Development of Small-Scale Industry) and provide the firms with technical assistance.

The banks would ensure the financial assistance needed by means of a line of credit, i.e. for capital formation, technical assistance and ongoing supplies of materials to private and co-operative firms. The proportion of imported inputs would be small, so as to encourage the utilization of local resources. A large part of the programme element intended for projects in rural areas could be provided by NGO's.

The programme would have to include a substantial technical assistance component. Such technical assistance would support the Institute in its endeavours to encourage the revival or creation of small-scale industry based on local needs and resources: promotion, study and dissemination of technologies for the creation of small-scale industry; providing these small production units with training and consulting facilities; guiding and monitoring the implementation of schemes for the supply of inputs; to ensure that external aid reaches the intended recipients; and encouraging the participation of industries of national importnce in re-equipping the small units. The BPD should also receive technical assistance in preparing and evaluating investment projects according to financial and economic criteria.

c) Education and Training (IV.C.17)

The principal aim will be to ensure the continuation of the support given throughout 1986 and until the middle of 1987 in recruiting instructors, supervisors, technical advisers for the selection of training activities, bursaries, on the job training and the organization of workshops in line with

the objectives formulated in section IV.17 - Technical Education and Training - on a renewable annual or biennial basis.

d) Strengthening Statistical Data Processing Capabilities (IV.C.15)

Technical assistance is needed to strengthen the MIE and SEILA's ability to gather and process industrial statistics, thereby ensuring close links with the programme described in IV.15. This would complement the envisaged programme of assistance to the NSO. The aim is not to duplicate statistical data but to complete and refine those that already exist, using the notation adopted for industrial planning purposes and preparing the way for the preparation of input-output tables.

This support would take the form of designing and implementing methods suited of gathering statistical data, processing them by computer and training Mozambicans in these techniques within the MIE and individual firms. The programme would last 12 months and would include the services of a specialist in this field, basic operator training; and training of technical staff to ensure that the system functions under proper management.

e) Restructuring the Management Units (IV.C.8 and 9)

Whatever the Government's choice of a body or bodies to take over some of the functions of the Ministry of Industry's Management Units, if they are disbanded (holding companies or an Institute of Industrial Rehabilitation and Promotion) there will be a need of technical assistance to establish such bodies and make them functional.

f) Establishment of Technical Centres (IV.C.14.2.3)

The establishment of technology centres for the various sectors was recognized by the mission as a good way of introducing new technologies, of fostering product testing in the various sectors and also of creating the nucleus of a future Industrial Standards and Quality Control Centre. There would thus be a Centre for Food Technology, which has been given priority, a Centre for Shoe Technology, a Centre for Paper Technology and a Centre for the Technology of Shipbuilding and repair. Technical and financial assistance will be required for the planning and establishment of these centres, which will all be of modest size, technical and financial assistance will be required.

The programme for the IEU's (Integrated Engineering Units) and for the CPDMTI (Centre for the Promotion and Development of the Machine Tool Industry) of which it forms part is an effective programme which has reached some degree of maturity, some of its projects already having been implemented.

STATISTICAL APPENDIX

FIGURE 1

AREA, POPULATION AND EMIGRATION

Area Population and Population Density

Provinces	Area (Km^2)	Population (31/12/1985)	Population Density
Niassa	129056	592045	4.6
Cabo Delgado	82625	1081794	13.1
Nampula	81606	2765943	33.9
Zambezia	105008	2877438	27.4
Tete	100724	956451	9.5
Manica	61661	737706	12.0
Sofala	68018	1225838	18.0
Inhambane	68615	1147195	16.7
Gaza	75709	1119614	14.8
Maputo Province	25756	535762	20.8
City of Maputo	602	951761	1581.0
TOTAL	799380	13991547	17.5

Change in Total Adjusted Population

(1 August) Year	Population (1000 Hab.)	Average Annual Increase (1000 Hab.)	Average Annual Rate of Increase(%)
1950	6465.5		
1955	6953.7	97.6	1.5
1960	7595.3	128.3	1.8
1965	8406.8	162.3	2.0
1970	9407.7	200.2	2.3
1975	10627.3	243.9	2.4
1980	12130.0	300.5	2.6
1985	13809.9	335.9	2.6

Mozambican Miners in South Africa

Year	Numbers
1975	118030
1977	41364
1980	45824
1981	41268
1982	45491
1983	39731
1984	51510
1985	61156

Source: Statistical Information - 1985; NSO/NPC

FIGURE 2

DISTRIBUTION OF THE ACTIVE POPULATION BY SECTORS (1980)

Sectors	Total Active Population		Wage-Earners	
	1.000 persons	%	1.000 persons	%
Agriculture	4693.9	84.2	218.9	24.6
Fishing	61.0	1.1	15.2	1.7
Mining	73.4	1.3	204.6	23.0
Industry and Energy	273.4	4.9	64.0	7.2
Construction	42.1	0.8	33.0	3.7
Transport and Communications	77.0	1.4	72.5	8.1
Trade	112.2	2.0	63.1	7.1
Education and Culture	32.2	0.6	30.5	3.4
Health	15.2	0.3	14.5	1.6
Other Services	196.1	3.5	174.9	19.0
TOTAL	5576.5	100.0	891.3	100.0

Source: Statistical Information 1975-1984, National Planning Commission.

FIGURE 3

DISTRIBUTION OF THE ACTIVE POPULATION IN THE INDUSTRY AND ENERGY SECTORS BY PROVINCE (1980)

Province	1.000 persons	%
Niassa	3.6	1.3
Cabo Delgado	8.7	3.2
Nampula	42.9	15.7
Zambézia	42.4	15.5
Tete	6.2	2.2
Manica	12.3	4.5
Sofala	52.5	19.2
Inhambane	13.0	4.8
Gaza	14.1	5.2
City of Maputo	63.3	23.2
Maputo Province	14.4	5.3
TOTAL (Industry and Energy)	273.4	100.0

Source: Statistical Information 1975-1984, National Planning Commission.

FIGURE 4

DISTRIBUTION OF SALARIES BY SECTOR
(Unit: Thousands of contos)

	1980	1981	1982	1983	1984	1985
Agriculture	5200	5200	5200	5100	4900	4900
Industry and Construction	10300	10400	10400	10700	10100	10100
Transport and Communications	3400	3600	3600	3700	3700	4000
Services and Other	12000	14200	15800	17500	19500	20438.4
TOTAL	30900	33400	35000	37000	38200	39438.4

Source: Statistical Information - 1985, NSO/NPC.
Mission estimates.

FIGURE 5

CONSUMER PRICE INDEX (1980=100)

Headings/Years	1980	1981	1982	1983	1984	1985
Food Products	100	101	123	155	194	290
Non-Food Products	100	103	117	156	208	239
Services and Other	100	102	116	154	206	238
TOTAL	100	102	120	155	202	261
RATE OF CHANGE (%)	-	2	17.6	29.2	30.3	29.2

Source: Statistical Information - 1985; NSO/NPC

FIGURE 6

GLOBAL SOCIAL PRODUCT
(constant 1980 prices)

Unit: 10^6 contos

Sectors	1973	1975	1977	1980	1981	1982	1983	1984	1985
Agriculture	36.9	24.8	29.8	30.8	31.1	30.8	24.0	24.4	24.6
Industry	43.1	28.0	28.4	32.6	33.6	29.0	23.2	18.0	14.3
Construction	14.5	4.0	3.6	4.8	4.7	4.9	5.0	4.5	4.3
Transport and Communications	12.2	9.1	7.8	8.1	9.0	8.3	6.6	5.1	4.5
Trade and Other	6.2	5.5	5.2	5.9	5.8	5.8	5.5	5.8	5.5
TOTAL GSP	111.9	71.4	74.8	82.1	84.1	78.8	64.4	57.9	53.3

Source: Statistical Information - 1985 NSO/NPC.

FIGURE 7

STRUCTURE OF GLOBAL SOCIAL PRODUCT AT CONSTANT PRICES (1980)

In per cent

	1975	1977	1980	1981	1982	1983	1984	1985
Agriculture	34.7	39.8	37.5	37.0	39.0	37.3	32.1	46.2
Industry	39.2	37.9	39.7	40.0	36.8	36.0	31.0	26.8
Construction	5.6	4.8	5.8	5.6	6.2	7.8	7.7	8.1
Transport	12.7	10.4	9.9	10.7	10.5	10.2	8.8	8.4
Trade and Other	7.8	6.1	7.1	6.7	6.5	8.7	10.4	10.3
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Figure 6

FIGURE 8

CHANGES IN GLOBAL SOCIAL PRODUCT

(constant 1980 prices)

In per cent

	Average annual Rate of Change 1973-84	Average Annual Rate of Change 1973-84	Average Annual Rate of Change 1980-81	Average Annual Rate of Change 1982-1985
Agriculture	-3.2	-30.4	+1.0	+5.8
Industry	-8.7	-63.2	+4.3	-23.8
Construction	-10.5	-70.3	+6.9	-2.2
Transport	-7.3	-56.5	+3.6	-18.9
Trade and Other	-2.3	-22.6	+2.8	-1.3
GSP	-6.2	-50.3	+3.0	-12.0

Source: Figure 6

FIGURE 9

GROSS DOMESTIC PRODUCT AND NATIONAL INCOME (CURRENT PRICES)

Unit: 10^6 contos

Heading	1980	1981	1982	1983	1984	1985
Total Consumption	77.8	81.5	95.4	101.0	115.4	151.4
Government Consumption	13.8	16.6	19.0	21.3	22.2	24.2
Private Consumption	64.0	64.9	76.5	79.7	93.2	127.3
Gross Domestic Capital Formation	14.8	16.3	17.9	9.1	11.4	10.1
Total Resources	92.6	97.9	113.3	110.2	126.9	161.6
Net Imports	14.4	16.4	21.0	19.0	18.1	14.5
GDP mp	78.2	81.5	92.3	91.2	108.8	147.0
SRPFEx[1/]	0.6	-0.1	-1.0	1.1	0.3	0.2
GNP mp	78.8	81.3	91.3	92.3	109.1	147.2
Depreciation (a)	4.8	5.0	5.0	4.0	4.0	4.0
Indirect Taxes	8.3	8.6	9.1	9.3	9.8	7.3
Subsidies	0.3	0.7	0.5	0.5	0.9	0.5
National income = net national product fc	66.0	68.4	77.8	79.4	96.1	136.5
SRPFEx[1/]	0.6	-0.1	-1.0	1.1	0.3	0.2
Depreciation	4.8	5.0	5.0	4.0	4.0	4.0
GDP fc	70.2	73.6	83.7	82.3	99.8	140.3

(a) Estimated

Source: Statistical Information - 1985; NSO/NPC.

1/ Balance of income from foreign assets owned by residents of Mozambique, and assets in Mozambique owned by non-residents.

FIGURE 10

PER CAPITA NATIONAL PRODUCT AN

	Unit	1973	1980	1981
Population on 1 Aug.	10^3	10071.8	12130.0	12448.8
National Income Per Capita	MT	n.a	5441	5459
GDP fc. Per Capita	MT	4209	5787	5912
Exchange Rate 1 US$/MT	-	24.56	32.40	35.35
N.I. Per Capita	US$	n.a.	167.9	155.4
GDP Per Capita	US$	171.4	178.6	167.2

Source: Figure 1, 9 and mission estimates.

D INCOME

		Current Prices	
1982	1983	1984	1985
12775.9	13111.7	13456.2	13809.7
6089	6056	7142	9884
6551	6277	7417	10160
37.37	40.18	42.44	40.40
161.2	150.7	168.2	244.6
173.5	156.2	174.8	250

FIGURE 11

GROSS DOMESTIC PRODUCT (at factor cost)

(current prices)

Sectors	1980		1981		1982		1983		1984		1985	
	10^3 contos	%	10^3 contos	%	10^3 contos	%	10^3 contos	%	10^3 contos	%	10^3 contos	%
Agriculture	25480	36.3	26708	36.3	30792	36.8	31351	38.0	41465	41.5	54288	38.7
Mining	249	0.4	415	0.6	316	0.4	326	0.4	295	0.3	248	0.2
Manufacturing	8962	12.8	9285	12.6	9614	11.5	9615	11.7	9980	10.0	9938	7.0
Electricity and water	660	0.9	583	0.7	386	0.5	728	0.9	64	0.1	36	..
Construction	3360	4.8	3358	4.6	4116	4.9	5425	6.6	6363	6.4	7856	5.6
Services	31489	44.8	33301	45.2	38476	45.9	34855	42.4	41633	41.7	67934	48.5
GDP f.c. (*)	70200	100	73600	100	83700	100	82300	100	99800	100	140300	100

(*) - Totals estimated by the NSO/NPC; see Statistical Information - 1985

Source: Mission estimates

FIGURE 12

INVESTMENT BY CATEGORY

(current prices)

Unit: 10^3 contos

	1980	1981	1982	1983	1984	1985
Construction	4800	5000	5700	6249	6040	5700
Machinery	5929	6419	8231	5868	5520	4800
Other	2310	3770	3118	1432	1000	800
Changes in Stocks	1733	1203	-110	-4501	-2450	-500
GFCF	14772	16392	16939	9048	10110	10800

Source: Information supplied by the NSO/NPC.

FIGURE 13

BALANCE OF PAYMENTS

Unit: Contos

Headings	1980	1981	1982	1983	1984
Balance of Trade	-16825400	-18391600	-22918400	-20284800	-18842800
Exports FOB	9096900	9926000	8655300	5286600	4060500
Imports CIF	25922300	28317600	31573700	25571400	22903300
Balance of Invisibles	3040000	1860000	980000	2390000	1040000
Receipts	5550000	6310000	6470000	6660000	5010000
Transport	3000000	2900000	3150000	1670000	1460000
Workers' Remittances	1730000	2280000	2400000	3020000	2420000
Other	820000	1130000	920000	970000	1130000
Payments	2510000	4450000	5490000	4270000	3970000
Transport	830000	970000	1070000	1320000	1040000
Workers' Remittances and Technical Assistance	820000	1040000	890000	800000	1090000
Interest	280000	1380000	2460000	1150000	1030000
Short term	30000	400000	620000	200000	160000
Medium and Long Term	250000	980000	1840000	950000	870000
Other	580000	1060000	1070000	1000000	810000
Grants	1810000	2030000	3000000	3600000	7120000
Balance of Current Account	-11975400	-14501600	-18938400	-14294800	-10682800
Balance of Capital Account	11440000	14570000	15110000	13910000	11800000
Inflows	17380000	27410000	28840000	19130000	12800000
Short Term	2510000	5850000	8660000	4040000	1560000
Medium and Long Term	14870000	21560000	20180000	15090000	11240000
Outflows	5940000	12840000	13730000	5220000	1000000
Short Term	240000	5030000	7010000	2490000	420000
Medium and Long Term	5700000	7810000	6720000	2730000	580000
Changes in Reserves	1050000	790000	4440000	890000	-570000
Errors and Omissions	-514600	-858400	-611600	-505200	-547200

Source: Bank of Mozambique.

FIGURE 14

FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983	1984
Rate of Cover: (exports:imports)x100	31.0	44.7	35.1	35.0	27.4	20.6	17.7
Foreign Trade Weighting (exp.+imp.):GDP mp.x100	n.a.	n.a.	44.8	46.9	43.6	33.8	24.8
Weighting of the Trade Balance Deficit (Net Trade Balance):GDP mp.x100	n.a.	n.a.	21.1	22.6	24.8	22.2	17.3

Source: Figures 9 and 13.

FIGURE 15

DISTRIBUTION OF TOTAL EXPORTS BY PRODUCTS

(Current Prices)

Unidade: 10^3 contos

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1985	1985
Cashew	779.4	1049.0	1467.7	1437.8	1445.5	2101.6	1890	1646.8	647.1	650.0	498.7
Prawns	276.2	374.7	365.8	532.2	753.1	1029.3	1852	1454.3	1253.5	1199.1	1441.6
Cotton (fibres)	439.4	537.8	288.5	434.8	760.7	266.5	881	652.9	684.2	341.0	230.6
Sugar	575.3	536.9	260.1	182.0	951.7	797.0	888	331.8	346.4	244.2	294.6
Tea	177.1	199.8	409.6	407.5	680.1	938.0	502	969.8	591.2	458.2	104.2
Wood	374.8	191.4	154.6	152.8	206.4	186.6	260	123.7	24.4	50.8	37.6
Coal	176.8	143.0	143.7	41.3	157.7	121.7	344	157.9	22.4	22.6	13.7
Citrus	62.2	35.3	15.6	40.0	68.2	83.8	170	100.0	79.7	137.2	132.5
Tantalite Ores	32.2	26.8	21.4	44.1	205.7	163.7	140	34.0	69.4	58.0	-
Cement	15.9	32.8	178.4	210.9	146.7	130.2	109	120.9	-	36.0	-
Tyres	-	-	-	-	n.d.	n.d.	61.8	258.8	-	-	-
Sisal	115.9	81.5	137.7	137.3	197.4	129.1	103	100.1	37.9	33.0	4.1
Copra	163.6	212.6	334.8	416.6	580.8	297.3	173	111.4	86.8	79.0	219.2
Copra Oil	71.3	94.4	93.9	40.5	84.3	88.1	94.6	44.7	-	-	18.1
Molasses	67.6	68.5	50.7	64.8	175.9	114.9	151	64.4	16.0	23.3	23.2
Cashew Kernel Oil	40.9	44.4	81.2	181.0	267.7	60.3	65	32.9	14.8	5.9	13.2
Clinker	-	-	9.5	11.2	29.4	21.2	27	35.6	-	9.4	-
Petroleum Products	370.2	225.0	328.7	708.7	1111.2	2055.0	1848	1420.9	876.0	230.5	167.3
Other	1311.1	670.2	581.2	300.8	488.3	512.7	366.6	994.4	536.8	481.8	110.3
Total	5050.4	4524.1	4923.0	5344.3	8310.8	9097.0	9926	8655.3	5286.6	4060.5	3309.2

Source: Statistical Information 1975-1984, MSO/NPC.

FIGURE 16

IMPORTS OF MERCHANDISE BY TYPE OF USE (a)

(Current Prices)

Unit: 10^3 contos

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Consumer Goods	3126.9	2427.0	2639.5	4907.4	4798.3	6590.6	6303.5	6362.1	7134	7723.1	7169.5
Food	1555.5	1229.9	1115.7	2716.7	2589.7	3499.5	4043.6	4369.5	5261.1	5718.2	5223.8
Non-Food	1571.4	1197.1	1523.6	2190.7	2208.6	3091.1	2259.9	1992.6	1872.9	2004.9	1945.7
Raw Materials	4454.9	4125.8	5021.1	7055.3	8009.0	12552.7	12975.6	14292.2	9309.3	8197.3	7007.8
Chemicals	687.2	950.9	1301.1	1774.2	1936.4	2054	2545.9	2955.4	1922.7	1062.7	1084.9
Metals	762.0	516.3	693.3	1116.7	525.7	1507.1	1851.7	1119.8	1264.6	809.3	814.2
Crude and Products	1585.4	1687.2	1737.7	2840.2	4470.2	7105.3	5906.0	8043.9	3887.0	4273.3	2983.0
Electric Power	n.a.	n.a.	n.a.	n.a.	n.a.	30.0	189.0	296	360.0	366.0	247.0
Other	1220.3	971.4	1289.0	1324.2	1076.7	1856.3	2483.0	1877.1	1875.0	1686.0	1878.7
Spare parts	1365.0	1272.2	1600.4	1976.8	1634.1	1837.8	3689.9	4060.9	4237.8	3013.1	2019.8
Machinery	1798.6	1233.0	1560.4	3259.0	4133.9	4941.1	5348.6	6890.3	4890.3	3969.8	2100.9
Total	10745.6	9058.0	10821.2	17198.5	18575.3	25922.2	28317.6	31573.7	25571.4	22903.3	18298.0

Source: Statistical Information 1975-1984 and 1985, NSO/NPC.

(a) Includes Grants.

FIGURE 17

1. Exports by Regions and Countries

	1975		1980		1982		1984		1985	
	10^6 MT	%	10^6 MT	%	10^6 MT	%	10^6 MT	%	10^6 MT	%
OECD	3199.6	63.4	5083.7	55.9	3453.2	39.9	2391.6	58.9	2315.3	70.0
Of which:										
USA	694.9	13.8	2148.1	23.6	1364.0	15.8	592.8	14.6	615.9	18.6
Spain	122.3	2.4	407.2	4.5	668.9	7.7	369.5	9.1	769.3	23.2
Holland	205.3	4.1	840.0	9.2	100.5	1.2	154.3	3.8	41.2	1.2
Japan	228.2	4.5	382.0	4.2	508.8	5.9	483.2	11.9	540.3	16.3
Portugal	1201.1	23.8	365.0	4.0	356.5	4.1	373.6	9.2	184.9	5.6
UK	207.2	4.1	410.7	4.5	103.3	1.2	194.9	4.8	37.9	1.1
Socialist C.	0.4	..	893.2	9.8	970.8	11.2	625.3	15.4	586.2	17.7
Of which:										
GDR	-	-	852.8	9.4	798.9	9.2	503.5	12.4	411.8	12.4
Others										
Of which:										
South Africa	409.6	8.1	336.3	3.7	159.4	1.8	n.a.	n.a.	n.a.	n.a.
TOTAL	5050.4	100	9097.0	100	8655.3	100	4060.5	100	3309.2	100

Source: Statistical Information - 1985; NSO.

2. Imports by Regions and Countries (*)

	1975		1980		1982		1984		1985	
	10^6 MT	%	10^6 MT	%	10^6 MT	%	10^6 MT	%	10^6 MT	%
OECD	6550.6	61.0	9443.2	36.4	12351.1	39.1	12013.7	52.4	9292.9	50.8
Of which:										
USA	573.9	5.3	967.3	3.7	738.6	2.3	1317.0	5.8	2110.2	8.7
France	537.9	5.0	1094.3	4.2	2451.0	7.8	1457.5	6.4	1041.7	5.7
Holland	192.5	1.8	304.0	1.2	419.1	1.3	1136.8	5.0	837.7	4.6
Portugal	1612£2	15.0	1165.4	4.5	1922.2	6.1	1907.0	8.3	1203.7	6.6
FRG	1116.3	10.4	773.2	3.0	1134.1	3.6	805.1	3.5	555.7	3.0
UK	804.8	7.5	666.7	2.6	758.6	2.4	967.5	4.2	561.2	3.0
Socialist C.	56.0	0.5	3581.0	13.8	6146.1	19.5	6039.7	26.4	4655.1	25.4
Of which:										
GDR	-	-	1691.4	6.5	3021.8	9.6	933.9	4.1	482.7	2.6
USSR	-	-	496.3	1.9	1373.3	4.3	4454.5	19.4	3565.9	19.5
Other	4139.0	38.5	12898.1	49.8	13075.7	41.4	4849.9	21.2	4350.2	23.8
Of which:										
South Africa.	1833.3	17.1	2854.2	11.0	2552.6	8.1	2686.7	11.7	2139.4	11.7
	10745.6	100	25922.3	100	31573.7	100	22903.3	100	18298.2	100

(*) - Includes grants

Source: Statistical Information - 1985; NSO.

FIGURE 18

DESTINATION OF EXPORTS BY PRODUCT AND COUNTRY (CURRENT PRICES)

Unit: 10^3 contos

	1975	1976	1977	1978	1979	1980	1981	1982	1985
Cashew	779.9	1049.0	1467.7	1437.8	1445.5	2101.6	1890.0	1646.8	498.7
USA	478.5	712.4	964.5	906.4	785.3	1284.7	1251.1	1015.3	320.5
GDR	-	-	-	72.7	201.6	348.1	276.6	257.3	66.0
Other Countries	301.4	336.6	503.2	458.7	458.6	458.1	362.2	374.2	112.2
Prawns	276.2	374.7	365.8	532.2	753.1	1029.3	1852.0	1454.3	1441.6
Spain	27.8	60.0	5.5	23.5	87.2	403.0	815.1	648.0	769.3
Japan	52.9	128.3	132.8	254.9	291.4	336.8	662.3	460.3	526.6
Other Countries	195.5	186.4	227.5	253.8	374.5	289.5	374.6	346.0	145.7
Cotton Fibre	439.4	537.8	288.5	434.8	760.7	266.5	881.0	652.9	230.6
Portugal	423.7	527.2	268.5	378.5	760.7	266.5	394.8	247.0	141.6
GDR	-	-	-	-	-	-	338.3	220.0	..
Other Countries	16.0	10.6	0.0	56.3	0.0	0.0	147.9	185.9	89.0
Sugar	575.3	536.9	260.1	182.0	951.7	797.0	888.0	331.8	294.6
USA	136.2	296.4	260.1	182.0	951.7	797.0	433.9	331.8	294.6
Portugal	138.2	-	-	-	-	-	-	-	-
Other Countries	300.9	240.5	0.0	0.0	0.0	0.0	454.1	0.0	-
Tea	177.1	199.8	409.6	407.5	680.1	938.0	502.0	969.8	104.5
Holland	21.8	55.9	99.4	94.7	333.4	634.8	453.5	-	2.4
UK	107.2	121.5	232.9	212.8	245.1	271.1	34.1	-	28.8
Other Countries	155.3	22.4	77.9	100.0	101.6	32.1	14.1	969.8	73.0
Other Products	2802.5	1825.9	2131.3	2350.0	3719.7	3964.6	3913.0	3599.7	739.3
Exports Totals	5050.4	4524.1	4923.0	5344.3	8310.8	9097.0	9926.0	8655.3	3309.0

Source: Foreign Trade Statistics, NSO/NPC.

FIGURE 19

EXPORTS TO AFRICAN COUNTRIES (CURRENT PRICES)

Unit: 10^3 contos

	1975	1976	1977	1978	1979	1980	1981	1982	1983
South Africa	409.6	349.6	304.3	311.3	396.8	336.3	319.5	159.4	194.4
Zimbabwe	133.6	15.5	-	-	-	231.1	786.3	256.6	87.8
Others	323.2	252.7	257.0	459.1	484.2	359.7	425.5	927.4	738
Total	866.4	617.8	561.3	770.4	881.0	927.1	1531.3	1343.4	1020.2

Source: Foreign Trade Statistics, NSO/NPC.

FIGURE 20

TERMS OF TRADE 1980-1984

(1980=100)

	1980	1981	1982	1983	1984
Index of Export Prices	100 (24.3)	102.8 (2.8)	81.8 (-20.4)	86.2 (5.4)	98.6 (14.4)
Index of Import Prices	100 (10.0)	111.1 (11.1)	122.4 (10.2)	131.0 (7.0)	141.0 (7.6)
Terms of Trade	100 (18.9)	92.5 (-7.5)	66.8 (-27.8)	65.8 (-1.5)	69.9 (5.2)
Index of Quantities Exported	100 (-16.3)	92.3 (-7.7)	99.8 (8.1)	54.3 (-45.6)	34.3 (-36.8)
Index of Quantities Imported	100 (27.0)	90.1 (-9.9)	85.4 (-5.2)	60.7 (-28.9)	47.7 (-21.4)

Note: The values in brackets correspond to the annual rates of change (in per cent) of each of the variables shown in this figure.

Source: Data supplied by the National Statistical Office.

FIGURE 21

GROSS INDUSTRIAL PRODUCTION

(Constant 1980 Prices)

Unit: Contos

Sector/Branch	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
M.of Industry and Energy	6602731	5701154	7162923	8062305	8540654	9757321	8338819	8828579	[illegible]	3884411	2413061
Electric Power	646000	[illegible]	1053000	1335000	1515000	1319000	1040000	[illegible]	[illegible]	63000	71041
Petroleum	3006731	3071154	4101923	5415305	5283654	6214000	4506796	[illegible]	[illegible]	903036	0
Chemicals	197000	300000	416000	373000	237000	219000	330462	[illegible]	[illegible]	112000	91377
Paints	300000	250000	100000	175000	120000	173000	130407	150025	[illegible]	111797	85367
Rubber					302000	614000	770630	[illegible]	[illegible]	380000	751144
Metallurgy	300000	250000	105000	202000	145000	100000	[illegible]	[illegible]	[illegible]	213000	[illegible]
Heavy Metalworking	174000	130000	87000	230000	2000	3000	290000	[illegible]	[illegible]	380074	143007
Ship Repair				23000	12000	52000	104000	[illegible]	303000	208073	243406
Fabricated Metal Products	700000	500000	400000	352000	320000	205121	140634	127404	[illegible]	379700	240624
Electrical Equipment	260000	293000	321000	274000	177000	376000	254544	320040	[illegible]	[illegible]	364772
Glass	51000	70000	100000	120000	152000	86000	78475	71300	[illegible]	73716	[illegible]
Paper and Paperboard	260000	280000	320000	336000	277000	309000	284115	250767	247001	280721	177619
Refrigeration										280406	114308
SEILA	9601000	9217006	9606000	11303000	9634000	10005000	10093479	9440453	9087815	9465377	7456016
Hygiene and Cleaning Products	80000	80000	80000	76000	40000	23029	33279	23252	[illegible]	80171	84312
Matches	(1)	(1)	(1)	(1)	47630	58000	92044	109665	76300	56647	30207
Plastics	220000	200000	100000	175000	110000	173000	142933	203060	[illegible]	130270	197536
Light Metalworking	400000	350000	[illegible]	206000	246000	183000	283900	160636	161408	236154	254620
Wet and Dry Batteries	(2)	(2)	(2)	(2)	125000	282000	193275	140812	141586	97002	66624
Textiles	1500000	1400000	1300000	2162000	1700000	1194000	1701000	1409024	1440044	1040701	1154156
Garments			1352000	1300000	1400000	1520000	1342224	1401411	1719338	1000045	1206238
Footwear and Tanning	343000	401000	393000	500000	329000	314000	614630	401777	[illegible]	305643	325008
Flour Milling	860000	847000	1096000	1039000	1091000	1043000	1126066	1045600	961131	1376198	1321608
Salt	130000	130000	130000	120000	145000	180000	216200	84362	87617	46562	57069
Oil and Soap	1123000	1106000	1074000	1321000	1019000	1705000	2041066	1650032	1283121	744733	422823
Beverages	3105000	2974000	2509000	3094000	2575000	2503000	2204365	1925440	3047402	1574477	1004620
Tobacco	1831000	1729000	1192000	1022000	782000	811000	979052	811075	660006	994201	621929
Furniture										215147	265150
Sausage-making										31300	36870
Dairy Products										114919	104056
Other Food Industries										147741	248319
Other Manufacturing Industries										16095	13150
M. of Mineral Resources	689000	625000	441000	328000	314000	356000	581057	376300	208915	200057	135914
Mining	281000	234000	211000	226000	177000	203000	[illegible]	224081	170208	178379	106169
Coal	400000	391000	230000	102000	137000	153000	221122	152229	30700	29678	29745
S.S. for Fishing	1013000	921000	956000	649000	682000	1335000	1662194	1315204	1318170	1293677	1432935
M. of Agriculture	7456178	7596000	7377200	6809500	7054999	8097437	8063428	6299099	3360825	2712514	2311781
Beneficiation						983000	1184098	1273011	583980	606958	389871
Animal Feeds						295000	303271	280408	151267	133664	80349
Cashew				1645000	1469000	1758000	1687994	1355918	467702	387463	276796
Cotton						1287000	1095775	840851	570982	330000	587031
Sisal						155000	143457	90691	98936	37909	26103
Sugar	2945000	1789000	2030000	2478000	2720000	2185000	2284003	1620243	949757	506367	304956
Wood Industries	1319178	1010000	757200	692500	760999	1434437	1284830	821096	536201	730182	646675
M.of Construction and Water Resources	518000	443000	591000	616000	528000	659000	691947	659853	491815	267266	183065
Cement	339000	279000	400000	438000	349000	344000	385344	399380	380224	146076	106620
Building Materials						225000	306603	260473	191590	121190	77244
M.of Information	150000	150000	150000	126000	189000	174000	187000	157085	183206	392415	412455
Gross Industrial Production (*)	28029909	27453154	28385123	30763085	29150653	32569834	33633680	29011757	23240937	17993716	14346017

(1) Included in chemicals until 1978.
(2) Included in electrical equipment until 1978.
(*) The value of gross industrial production not included in the Nomenclature was included under this general heading until 1983.

Source: Statistical Information - 1985; NSO/NPC.

FIGURE 22

CHANGES IN LEVELS OF OUTPUT BY BRANCH
(at constant 1980 prices)

In per cent

	Average Annual Rate of Change 1970-1975	Average Annual Rate of Change 1975-1980	Average Annual Rate of Change 1980-1985	Average Annual Rate of Change 1985-1989	Overall Rate of Change 1980-1989
Mining	-2.8	-15.9	+21.8	-39.8	-75.0
- Coal	-9.7	-25.2	+29.5	-48.6	-86.4
- Other	4.2	-9.5	+16.5	-31.6	-68.1
Electric Power	8.3	-22.8	-8.3	-68.8	-94.0
Petroleum	4.3	-13.8	-5.2	-41.2	-79.6
Paints	-11.3	-11.8	-6.1	-12.7	-33.6
Hygiene and Cleaning	-13.7	-15.3	-34.5	-18.3	-65.5
Other Chemical Products	9.4	-8.9	-3.1	-36.8	-74.8
Plastics	-6.6	-17.3	-5.9	-36.1	-72.6
Rubber (a)	-	-	-	-32.4	-69.2
Metallurgy	-4.1	-12.3	+5.0	-26.7	-68.7
Heavy Metalworking	9.1	5.8	+7.0	-0.5	-1.4
Ship Repair	-	-	-	8.0	25.1
Fabricated Metal Products	-23.3	-15.2	-35.1	3.8	12.0
Light Metalworking	-10.8	-14.9	-12.1	-22.5	-53.5
Electrical Equipment	-0.8	3.2	-2.3	11.8	30.6
Building Materials	12.2	-4.7	-	-31.3	-67.5
Cement	-0.3	-9.4	-9.7	-25.3	-58.3
Glass	7.6	2.2	-17.9	-7.8	-21.5
Paper and Paperboard	0.2	-4.5	-8.4	-13.4	-35.0
Printing	3.7	0.7	+14.1	-5.1	-14.4
Textiles	2.8	0.4	-8.5	-4.1	-11.7
Garments	-	-	+1.0	13.1	44.5
Footwear	4.8	-3.0	+7.0	-16.9	-42.6
Matches (b)	-	-	-	-31.7	-68.1
Wet and Dry Batteries (c)	-	-	-	-30.6	-50.0
Sugar	-4.1	-17.8	-2.9	-39.5	-77.8
Oil and Soap	10.4	-7.4	+15.5	-34.9	-72.4
Flour Milling	4.4	1.3	+2.8	-4.7	-13.5
Other Agricultural Processing	5.8	-7.9	-	-30.3	-66.1
- Cashew	-	-	+0.5	-39.0	-77.3
- Cotton	-	-	-	35.2	-72.7
- Other (d)	-	-	-	-19.9	-48.5
Fishing (e)	8.6	2.8	+36.8	-8.0	-22.1
Salt	8.8	-10.7	-19.0	-39.9	-78.2
Beverages	-4.8	-7.3	-12.0	-12.2	-32.3
Tobacco	-9.9	-12.2	-1.5	-16.6	-42.0
Total Nomenclature Headings	2.9	-5.8	+1.3	-21.1	-50.9
Products not in the Nomenclature		5.6	-4.1	+17.1	-80.8
Gross Industrial Production	3.0	-5.7	+3.0	-21.1	-50.8

(a) Excludes retreading of tyres.

(b) Included in "Other Chemical Products" until 1979.

(c) Included in "Electrical Equipment until 1979

(d) As of1980 (inclusive) includes the following products: animal feeds, husked rice, sisal fibres, processed tea, condensed milk.

(e) Includes the manufacture of nets, in addition to fishing.

Source: Figure 21

FIGURE 23

INDUSTRIAL PRODUCTION AGGREGATED BY SUPERVISORY BODY

- Constant 1980 Prices -

Unit: 10^3 contos

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Ministry of Industry and Energy	6503	5701	7164	8852	8549	9757	8331	8027	6386	3654	2413
SEILA	9001	9217	9686	11108	9634	10005	10893	9445	8098	9465	7456
Ministry of Mineral Resources	689	625	441	328	314	356	581	376	289	208	136
Ministry of Construction and Water	518	443	591	616	528	560	692	660	491	267	184
S.S. for Fishing (*)	1013	921	956	649	682	1335	1662	1315	1318	1294	1433
Ministry of Information	150	150	150	126	189	174	187	157	183	392	412
Ministry of Agriculture	7456	7596	7377	6889	7055	8097	8963	6289	3369	2713	2312
Of which:											
S.S. for Cashew	-	-	-	1645	1469	1758	1689	1366	467	387	277
S.S. for Cotton	-	-	-	-	-	1287	1086	849	571	330	587
Sugar Institute	2945	2789	2038	2478	2720	2285	2284	1620	950	506	305
Total Nomenclature Items (**)	25930	24653	26365	28568	26951	30293	30409	26279	21864	-	-
Gross Industrial Production	28030	27453	28385	30764	29151	32570	33634	29012	23241	17893	14346

(*) - Fishing termed industrial and 2 manufacturing plants

(**) - As of 1983 no distinction was made between the various products of the nomenclature

Source: Statistical Information - 1985; NSO/NPC.

FIGURE 24

VALUE OF PRODUCTION IN SELECTED BRANCHES OF INDUSTRY

(Current Prices)

Unit: 10^3 contos

	1980	1981	1982	1983	1984
Garments	1529.3	1472.4	1616.4	2119.0	2104.0
Plastics	185.5	242.6	221.6	298.7	162.9
Textiles	2487.0	2329.0	2048.5	2882.0	1736.0
Refrigeration	81.5	224.5	265.6	321.6	305.2
Beverages	3437.4	3216.2	2835.9	2735.9	2201.4
Printing	479.6	606.4	618.0	678.9	677.3
Matches	31.9	51.0	20.9	42.0	16.4
Glass	217.9	197.7	140.5	221.7	213.0
Food and Tobacco					
Food (*)	1427.0	1561.4	1568.6	1480.5	1508.5
Tobacco	1145.3	1341.7	1531.7	1318.6	1103.7
	(524.0)	(616.9)	(713.0)	(709.7)	(516.2)
Rubber	633.7	753.4	631.6	588.0	263.8
Cement	251.3	387.4	467.6	249.1	166.0
Petroleum	6688.8	5017.6	5087.0	3839.6	1276.1
Sugar	2163.6	2257.0	1597.8	936.1	498.6
Cashew	1399.3	1635.5	1360.0	585.5	299.7
Ship Repair	327.9	418.2	417.5	510.0	468.3

Note: The figures in parentheses do not include consumption tax.

(*) - This branch comprises more firms than are included here .

Source: Mission estimates based on data supplied by the National Statistical Office.

FIGURE 25

VALUE ADDED IN SELECTED BRANCHES OF INDUSTRY

(Current Prices)

Unit: 10^9 contos

	1980	1981	1982	1983	1984
Garments	564.6	-	291.6	467.7	429.9
Plastics	-	145.2	118.4	134.3	66.9
Textiles	1314.6	1172.8	756.4	941.2	672.5
Flour milling and baking	245.0	191.9	288.2	310.6	332.6
Refrigeration	9.5	30.1	64.6	93.3	47.1
Beverages (*)	-	2107.8 (509.8)	2250.2 (188.2)	2323.7 (271.7)	1984.8 (243.8)
Tobacco	71.5	72.5	88.2	16.6	23.1
Glass	82.3	108.3	18.7	102.2	120.5
Printing	145.1	151.1	180.5	227.6	237.4
Petroleum	335.4	-419.8	-1574.8	408.9	-11.9
Rubber (MABOR)	337.0	398.8	379.2	239.6	123.5
Cement	34.8	38.8	139.5	-5.9	-50.8
Cashew	856.8	1033.4	610.3	197.5	53.2
Sugar	908.7	947.9	718.6	468.0	299.0
Ship Repair	293.7	335.5	346.4	450.8	413.8

(*) - The figures in parentheses do not include consumption tax.

Source: Mission estimates based on data supplied by the National Statistical Office.

FIGURE 26

PERCENTAGE OF FOREIGN WORKERS IN SELECTED BRANCHES OF INDUSTRY (1984)

Branch	Percentage of Foreign Workers
Petroleum	1.1
Chemical Industry	2.4
Plastics	0.3
Rubber	4.4
Metallurgy	1.0
Ship Repair	13.4
Refrigeration	3.2
Cement	1.3
Glass	1.5
Furniture	0.5
Printing	0.8
Textiles	0.6
Garments	0.2
Sugar	0.1
Flour and Confectionery	0.8
Cashew	0.4
Beverages	0.4
Tobacco	0.7

Source: Mission estimates based on data supplied by the National Statistical Office.

FIGURE 27

NUMBERS EMPLOYED IN SELECTED BRANCHES OF INDUSTRY

	1980	1981	1982	1983	1984	Proportion of Total Sample (%)
Petroleum	480	449	464	479	492	50.0
Matches	131	233	232	179	175	100.0
Plastics	925	901	885	831	841	42.9
Ship Repair	1299	1404	1422	1489	1430	66.7
Cement	1158	1444	1482	1595	1646	100.0
Glass	971	986	916	912	869	100.0
Refrigeration	657	692	755	759	675	55.6
Printing	2536	2621	2754	2734	2892	80.6
Textiles	10535	10803	11057	11786	12220	62.5
Garments	4963	4104	5106	5642	5684	63.3
Sugar	43968	44022	43692	44173	41417	100.0
Flour and Confectionery	2927	2666	2717	2824	2487	34.1
Tobacco	694	677	670	654	575	50.0
Cashew	694	677	670	654	575	78.6
Beverages	-	3567	3781	3649	3269	59.1

Source: NSO.

FIGURE 28

TOTAL REMUNERATION OF EMPLOYEES IN SELECTED BRANCHES OF INDUSTRY
(Current Prices)

Unit: 10^3 contos

	1980	1981	1982	1983	1984
Garments	257.0	207.1	266.1	295.2	311.6
Textiles	495.4	500.1	634.3	711.3	689.1
Plastics	49.1	41.1	49.3	54.7	56.5
Refrigeration	45.7	50.7	54.8	58.5	n.a.
Beverages	n.a.	255.9	230.6	n.a.	243.9
Agro-Industries	n.a.	n.a.	n.a.	29.0	30.0
Matches	7.8	8.7	9.0	8.4	7.5
Glass	66.8	66.8	63.7	59.0	67.5
Food and Tobacco	227.6	216.3	217.8	247.7	212.5
Printing	197.3	269.7	282.5	213.0	234.9
Rubber (MABOR)	83.9	85.5	93.7	94.5	86.9
Tyre Retreading	n.a.	n.a.	n.a.	n.a.	5.5
Cement	92.6	116.9	121.6	136.9	126.9
Petroleum and Products	63.1	56.9	59.9	54.5	49.0
Sugar	1374.1	1454.4	1522.5	1579.9	1457.7
Cashew	374.0	494.5	633.1	401.2	315.3
Ship Building	59.3	80.7	89.3	106.0	98.9
Metal Fabrication	n.a.	n.a.	n.a.	n.a.	171.2
Wet and Dry Batteries	13.4	13.4	7.3	8.7	7.6

Source: Mission estimates based on data supplied by the National Statistical Office.

FIGURE 29

AVERAGE ANNUAL REMUNERATION
(Current Prices)

	(Contos) Nationals		(Contos) Foreigners		(%) Rate of Change (Average) in Nationals' Average Annual Remuneration
	1980	1984	1980	1984	
Garments	50.4	54.6	235.8	139.3	2.0
Plastics	51.7	66.1	275.0	350.0	6.3
Textiles	46.7	54.3	n.a.	392.6	3.8
Refrigeration	60.9	73.5	770.4	324.0	4.8
Beverages	n.a.	72.8	n.a.	349.2	-
Agro-Industries	n.a.	41.1	n.a.	2087.5	-
Matches	53.0	42.3	335.7	150.0	-5.5
Glass	60.8	68.0	546.1	717.4	2.8
Food and Tobacco	61.5	67.9	421.0	268.8	2.5
Printing	77.8	82.1	n.a.	214.6	1.4
Rubber (MABOR)	89.5	102.4	982.8	1247.6	3.4
Tyre Retreading	n.a.	64.6	n.a.	803.0	-
Cement	75.2	71.8	378.6	490.0	-1.2
Lusalite	52.2	60.2	284.1	323.2	3.6
Metallurgy	44.3	60.2	337.6	288.2	8.0
Petroleum and Derivatives	122.0	96.4	448.6	512.8	-5.7
Sugar	31.2	34.9	138.9	247.4	2.8
Cashew	30.5	47.8	241.2	328.6	11.9
Chemicals	65.0	78.3	n.a.	n.a.	4.8

Source: Mission estimates based on data supplied by the National Statistical Office.

FIGURE 30

SHARE OF IMPORTS IN INTERMEDIATE INPUTS
CONSUMED BY SELECTED BRANCHES OF INDUSTRY

In per cent

	1980-1984	1984
Garments	41.6	30.3
Plastics	n.a.	94.3
Textiles	64.7	60.8
Refrigeration	85.6	83.4
Beverages	n.a.	56.6
Furniture	4.5	3.0
Agro-Industries	n.a.	18.0
Matches	93.3	91.2
Glass	37.6	32.5
Rubber (MABOR)	94.3	90.4
Tyre Retreading	n.a.	0.0
Cement	62.1	77.1
Petroleum and products	100.0	100.0
Sugar	64.2	70.0
Cashew	6.8	5.2

Source: Mission estimates based on data supplied by the National Statistical Office.

FIGURE 31

ENERGY COEFFICIENT OF SELECTED BRANCHES OF INDUSTRY (*)

	Average for the Period 1980-1984	1984
Garments	0.2	0.2
Textiles	2.7	3.4
Refrigeration	1.3	1.2
Beverages	0.4	0.8
Printing	0.6	0.5
Furniture	0.8	0.5
Matches	2.5	3.2
Glass	16.5	13.8
Rubber (MABOR)	2.0	3.2
Tyre Retreading	-	0.6
Cement	19.5	21.9
Cashew	3.1	2.8
Building Materials	1.1	-
Shipbuilding	0.5	0.3

(*) The energy coefficient = $\frac{\text{Energy+Fuel}}{\text{Value of Production}} \times 100$

Source: Mission estimates based on data supplied by the National Statistical Office (NSO).

FIGURE 32

MONETARY SITUATION

Balances in 10^6 MT

Closing Balances	1980	1981	1982	1983	1984	1985
Foreign Exchange Reserves	8 173	6 484	1 441	(1 662)	987	615
Domestic Credit	49 599	62 318	72 988	102 915	124 243	144 190
. Net advances to the State	1 676	6 339	3 858	15 268	22 266	27 028
. Advances to the economy	47 923	55 979	69 130	87 647	101 977	117 162
TOTAL ASSETS = LIABILITIES +CAPITAL ACCOUNTS	57 772	68 802	74 429	101 253	125 230	144 805
Monetary and Quasi-Monetary Liabilities	35 317	45 656	59 481	72 491	83 622	96 527
. Monetary	32 622	42 577	56 265	68 560	80 845	92 618
- Money in circulation	9 137	12 227	17 811	23 532	27 027	29 791
- Sight deposits	23 525	30 350	38 454	45 028	53 818	62 827
. Quasi-money	2 655	3 079	3 216	3 931	2 777	3 909
Collateral deposits	8 627	2 000	2 000	2 000	2 199	2 161
Medium and long-term external debt	n.d.	5 995	10 425	25 725	27 227	34 248
Other items (net)	13 828	15 151	2 523	1 037	12 182	11 869

Source: Bank of Mozambique - 1st Revision (Feb.1987).

FIGURE 33

DISTRIBUTION OF BANK CREDIT TO THE ECONOMY BY BANK AND TYPE OF ECONOMIC ACTIVITY

Balances in 10^9 MT and %

End of Period Balance	1980		1981		1982		1983		1984		1985	
	MT	%	MT	%	MT	%	MT	%	MT	%	MT	%
TOTAL	48.7	100.0	56.6	100.0	72.4	100.0	91.4	100.0	105.5	100.0	114.1	100.0
BM	36.1	74.2	43.3	76.5	56.7	78.3	72.3	79.1	84.6	80.2	90.6	79.4
BPD	10.3	21.1	11.2	19.8	13.4	18.5	16.7	18.3	18.8	17.8	20.7	18.1
BSTM	2.3	4.7	2.1	3.7	2.3	3.2	2.4	2.6	2.1	2.0	2.8	2.5
AGRICULTURE	22.8	46.8	26.3	46.5	34.1	47.1	42.1	46.0	49.6	47.0	56.9	49.9
BM	13.8	28.3	16.7	29.5	22.2	30.6	26.9	29.4	32.2	30.5	37.5	32.9
BPD	8.8	18.1	9.5	16.8	11.7	16.2	15.0	16.4	17.1	16.2	19.0	16.6
BSTM	0.2	0.4	0.1	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.4	0.4
INDUSTRY	12.2	25.1	11.3	20.0	16.3	22.5	23.3	25.5	23.7	22.4	23.0	20.2
BM	9.3	19.1	8.3	14.7	13.2	18.3	20.1	22.0	20.7	19.6	19.8	17.4
BPD	1.5	3.1	1.7	3.0	1.7	2.3	1.7	1.9	1.7	1.6	1.7	1.5
BSTM	1.4	2.9	1.3	2.3	1.4	1.9	1.5	1.6	1.3	1.2	1.5	.13
CONSTRUCTION - BM	2.7	5.5	4.2	7.4	4.9	6.8	6.2	6.8	7.6	7.2	8.2[a]	7.2[b]
TRANSPORT - BM	3.0	6.2	3.3	5.9	5.3	7.3	7.1	7.8	10.5	10.0	11.9[a]	10.4[b]
DOMESTIC TRADE	6.7	13.7	7.4	13.0	7.2	9.9	7.1	7.8	7.4	7.0	6.7	5.9
BM	6.0	12.3	6.7	11.8	6.5	9.0	6.4	7.0	6.9	6.5	6.0	5.3
BSTM	0.7	1.4	0.7	1.2	0.7	0.9	0.7	0.8	0.5	0.5	0.7	0.6
FOREIGN TRADE - BM	1.3	2.7	4.1	7.2	4.6	6.4	5.6	6.1	6.7	6.4	7.4	6.4

Sources: Bank of Mozambique (1st 1987 Revision) and mission estimates.

(a) - 0.1 x 10^9 MT for the BTSM.
(b) - 0.1% for the BTSM.

FIGURE 34

INTERNATIONAL CO-OPERATION BY SECTORS AND DONORS

(10^3 U.S. $)

	UNDP		Multilateral		Bilateral		Other		Total	
	1983	1984	1983	1984	1983	1984	1983	1984	1983	1984
Industry										
Technical Assistance	386	555	247	358	3,319	5,654	-	-	3,952	6,567
Financing Capital Investment	-	-	-	-	4,431	57,331	146	-	4,577	57,331
Agriculture, Forestry and Fishing										
Technical Assistance	2,826	4,593	286	429	15,570	16,500	-	-	18,682	21,522
Financing Capital Investment	-	-	-	-	14,146	69,937	16,595	26,638	30,741	96,465
Support for the Trade Balance										
Technical Assistance	-	-	-	-	-	6	-	-	-	6
Financing Capital Investment	-	-	-	-	44,448	14,200	-	-	44,448	14,200
Planning and Development Policies										
Technical Assistance	29	65	97	445	16,274	3,833	-	-	16,400	4,313
Financing Capital Investment	-	-	-	-	25,914	920	93	-	26,007	920
TOTAL	3,241	5,213	630	1,232	124,102	168,271	16,834	26,638	142,807	201,354
Per cent	2.3	2.6	0.4	0.6	86.9	83.6	10.4	13.2	100	100

Source: UNDP/Maputo

FIGURE 35

STRUCTURE OF INTEREST RATES (%)

(prior to 1 January 1987)

	Per Annum				
	State Sector	Co-operative Sector	Family Sector	Private Firms	Individuals
Deposits					
Sight deposits	-	2	1	1	2
Fixed term deposits:					
. 180 days to 1 year	-	3	3	2	3
. 1 to 2 years	-	4	4	3	4
. more than 2 years	-	6	6	4	6
Loans					
Agriculture					
Fixed capital	4	3	4	5	-
Working capital	5	5	4	6	-
Fishing					
Fixed capital	5	3	4	6	-
Working capital	6	3	4	7	-
Industry and Tourism					
Fixed capital	5	4	-	6	-
Working capital	6	4	-	7	-
Transport					
Fixed capital	5	-	-	6	-
Working capital	6	-	-	7	-
Trade and Hotels					
Fixed capital	5	4	-	6	-
Working capital	7	4	-	8,5	-
Residential	5	4	-	5	8 a 10
Rationed consumption	-	-	-	-	8 a 10

Source: Bank of Mozambique.

FIGURE 36

STRUCTURE OF INTEREST RATES (%)

(as of 1 January 1987)

Per Annum

	Family and Co-operative Sector		Business Sector		
	Minimum Rate (-90 days)	Maximum Rate (+ 5 years)	Min. Rate	Max. Rate	Unified Rate
Deposits					
Sight deposits					3
Fixed-term deposits					
. 90 days					12
. 91 to 180 days					13
. 181 to 365 days					16
. 1 to 2 years					18
. More than 2 years					20
Loans					
(90 days to + 5 years)					
- Priority activities:					
. Group I: agriculture, light industry, traditional exports, fishing, mining	13	20	14	22	
. Group II: public transport, construction, dealers in agricultural products, other industries, private dwellings	13	21	15	23	
. Group III: hotels and other priority activities	16	22	16	24	
- Services and small and medium-scale firms of economic importance	16	25	18	28	
- Other activities	25	35	25	35	

Note: For periods between 90 days and 5 years the rates lie between the minimum and the maximum.

Source: Bank of Mozambique.

APPENDIX I

TUTELAGE OF MANUFACTURING INDUSTRY
(activities supervised)

1. Ministry of Industry and Energy (MIE)

- Electric power
- Petroleum refining (M.U. for Petroleum)
- Metallurgy (M.U. for Metallurgy)
- Heavy metalworking
- Metal fabrication (Gabricom)
- Electrical machinery and materials (M.U. for Electrical Engineering)
- Refrigeration and air conditioning equipment (M.U. for Refrigeration)
- Rubber and rubber goods
- Glass and glassware
- Basic chemicals (M.U. for Chemicals)
- Fertilizers and pesticides (M.U. for Chemicals)
- Paints, varnishes and lacquers (M.U. for Chemicals)
- Explosives (M.U. for Chemicals).
- Miscellaneous chemicals products (M.U. for Chemicals)
- Paper, paperboard and paper products (M.U. for Chemicals)
- Shipbuilding and repair - steel vessels (MIE)
- Shipbuilding and repair - wooden and other vessels (S.S. for Fishing)
- Office equipment (M.U. for Electrical Equipment)
- Support for industrial machinery (EQUITEC, E.E.).

State Secretariat for Light and Food Industry

- Textiles from cotton and other fibres (M.U. Textiles)
- Garments (M.U. for Garments)
- Footwear and tanning (M.U. for Footwear and Tanning)
- Animal and vegetable oils and fats (M.U. for Oil Products)
- Soap including toilet soap (M.U. for Oil Products)
- Milling and baking (M.U. for Food Products-UDRAT)
- Noodles, confectionery and cakes (UDRAT)
- Dairy products (UDRAT)
- Other food products (UDRAT)
- Processed tobacco (UDRAT)
- Canned fruit and vegetables (M.U. Agro-Foodstuffs)
- Cleansing products (M.U. for Matches and Hygiene)
- Raw, homogenized and refined salt (M.U. for Salt)
- Plastic articles (M.U. for Plastics)
- Wet and Dry Batteries
- Miscellaneous Metal Products (M.U. for Beverages)
- Wood furniture (M.U. for Wood Furniture).

Secretary of State for Fishing (SSF)

. Building and repair of wooden and fibre boats
. Canned fish
. Manufacture of fishing nets.

Ministry of Construction and Water Resources (MCA)

. Cement and lime
. Pottery and cement products.

Ministry of Agriculture (MA)

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

Ministry of Information

. Printing and publishing.

Ministry of Health (MS)

. Pharmaceutical products.

Secretary of State for Cotton (MA)

. Cotton ginning and pressing.

Secretary of State for Cashew (MA)

. Preparation of cashew kernels.

National Sugar Institute (MA)

. Raw and refined sugar.

Appendix II

DESCRIPTION OF FIRMS INSPECTED BY THE MISSION

Reference		Location	Legal Structure	A	B	C	D	Type of Rehabilitation
1	Soc. Moçambicana de Gases Comprimidos, SARL (Mogas)	Maputo	Private	x				
2	Fosforeira de Moçambique	Machava	Private (Mixed)		x			Overhaul and replacement of machinery. Technical assistance.
3	Soc. Moçambicana do Acumulador Tudor, SARL	Maputo	Private	x				
4	Caju de Moçambique, E.E.	Machava	State		x			Rehabilitation of factory.
5	Papel/Papelcor-Industrias Papeleiras	Maputo	Interventioned		x			Rehabilitation of factory. Engineering support. Training.
6	Nabor Moçambique-Manufacturas de Borracha, SARL	Maputo	Private	x				
7	Vidreira de Moçambique, E.E.	Maputo	State		x			Overhaul of machinery. Training
8	Petromoc	Matola	State				x	
9	Fasol/Saborol	Matola	Interventioned		x			Overhaul of machinery.
10	Pintex	Machava	Interventioned		x			Overhaul of machinery. Tech. assistance.
11	Facol	Machava	Interventioned			x		To be merged with Pintex.
12	Carmoc	Maputo	Private (Mixed)		x			Technical assistance.
13	Soveste-Production Unit No. 2	Maputo	State		x			Technical assistance
14	Fabrica Vestuario Zorba Lda	Maputo	Mixed		x			" "
15	Indust. Confec. Forreiras Lda	Maputo	Private		x			" "
16	Fapan	Maputo	Interventioned		x			" "
17	Indust. de Fungos de Maputo	Maputo	State	x				
18	Otex	Maputo	Private		x			Technical assistance.
19	Plastimoc E.E.-Prod. Unit No.3	Maputo	State (in Form.)		x			Overhaul of mach. Tech. assis. Training.
20	" " " No.1	Maputo	State (in Form.)		x			" " " "
21	Comp. Ind. Matola-"A" Complex	Matola	Interventioned		x			" " " "
22	" " "B" Complex	Matola	Interventioned	x				
23	Sogeco-Fabrica Vitoria	Maputo	Interventioned		x			Overhaul of machinery.
24	Sacopal	Matola	State			x		
25	Palmar Comercial e Industrial	Matola	State			x		
26	H. Jones & Sopal, Lda	Maputo	Private		x			Rehabilitation of factory.
27	U F A	Maputo	Interventioned		x			Technical assistance.
28	Enacto (units 1 and 3)	Maputo	State (in Form.)		x			Rehab. of factory. Tech. assis. Training.
29	Fabrica de Calcas TED	Maputo	Private				x	
30	A Forjadora	Maputo	Interventioned		x			Rehab. of factory. Technical assistance.
31	Agro-Alfa	Maputo	State		x			Rehab. of factory. Tech. assis. Training.
32	Moçambique Industrial	Beira	Private		x			Overhaul of machinery.
33	Comp. Nacional Algodoeira	Beira	Private			x		
34	Rumb	Beira	State (in Form.)		x			Rehab. of shipyard. Technical assistance.
35	Metacma (Bases)	Beira	State (in Form.)		x			Technical assistance.
36	Metacma (Smelting)	Beira	State (in Form.)			x		
37	Metacma (SARTRL)	Beira	State (in Form.)		x			Rehab. of factory. Tech. assis. Training.
38	Celocpo	Beira	Interventioned		x			Technical assistance.
39	Fumefor	Beira	Interventioned	x				
40	Comp. Textil do Pungue	Beira	Private					
41	Fumol	Beira	Interventioned				x	
42	Classica	Beira	Interv. or State		x			Rehabilitation of factory.
43	Cmec	Machava	State		x			Overhaul of machinery.
44	Empresa Estatal Mobiliario Madeira (Unit 8)	Maputo	State				x	
45	Constal-Mosstal	Machava	Interventioned	x				
46	Electromoc	Maputo	State		x			Technical assistance
47	Cifel	Maputo	Interventioned	x				Overhaul of mach. Tech. assis. Training.
48	Movipesca	Maputo	State		x			Technical assistance.
49	Enafrio	Maputo	State	x				
50	Springer Moçambique	Maputo	Interventioned		x			Technical assistance.
51	IDR	Matola	Mixed		x			Overhaul of machinery. Tech. assistance.
52	Cavan	Maputo	Interventioned		x			Rehabilitation of factory.
53	Fab. Bicicletas de Moçambique	Maputo	Mixed		x			Technical assistance.
54	Cimentos de Moçambique	Matola	State		x			Rehabilitation of factory.
	TOTAL		No.	9	36	5	4	54
			%	7	67	9	7	100

LEGEND

Type A = Firms which can start operating as soon as they have been rehabilitated, provided they are able to obtain the production inputs they need.

Type B = Firms which could move up to type A after rehabilitation of their plant and equipment.

Type C = Firms recommended for closure.

Type D = Firms which do not appear to fit any of the above categories.

APPENDIX III

CHEMICAL, TEXTILE AND METAL LINES OF PRODUCTION ("FILIERES") 1/

Manufacturing branches: textiles, garments, tanning and footwear, chemicals, plastic articles, metallurgy, light metalworking, metal fabrication, ventilation air-conditioning and refrigeration equipment, electrical machinery, apparatus, appliances and other items, heavy metalworking, shipbuilding and repair.

PRODUCTION	
Intermediate goods	
Cotton thread, fabrics, knitwear, elastic, ribbons and lace, tanned hides, leather soles, oxygen, acetylene, carbon dioxide, industrial explosives, paints varnishes and glues (white and contact), cast iron and steel, iron bars and wire, steel tubing, galvanization of sheet metal, tin solder, smelting of non-ferrous metals, nails, screws and rivets, locks, taps, rectification of motors, manufacture of car radiators, brake linings, pinions, caps, gears, springs, perforated brackets, articles of sheet metal, galvanizing, chrome platinging, motor coils, brushes for electric motors, electric cables, sulphuric acid, welding electrodes and drums.	20%
Capital goods	
Industrial heaters, furnaces and stoves, assembly of water pumps and meters, metal furniture, shower fittings and siphons, sprinklers, clips for railway lines, agricultural tools (ploughs, harrows and wheels), hand water pumps, scales, assembly of lifts, assembly of lorries and buses, chassis, couplings, tanks and cisterns, assembly of commercial and industrial refrigeration equipment, assembly of eletrical switchboards and transformers, freight waggons and cranes, metal structures, construction and repair of iron and fibreglass boats.	22%

1/ Refers to chapter III.11: The structure of industry.

PRODUCTION (continued)	
Consumer goods	
Cotton fabrics, diapers and gauzes, blankets, knitwear, cushions, jute and synthetic raffia sacks, sisal sacks, sisal thread and rope, fabrics from artificial and synthetic fibres, wearing apparel, shoes from canvas, plastic, rubber and leather, fertilizers and pesticides, thermoplastic products, plastic [illegible]s, pipe sleeves, plastic foil and bags, injection moulded plastics, ball-point pens, plastic containers (bottles and flasks), aluminium, enamelled and plastic household utensils, cooking stoves, irons, clocks, hand tools for agriculture (hoes, scythes, spades, etc.), bicycles, motorcycles, air-conditioners, refrigerators, freezers, radios, kerosene lamps, fluorescent light fittings, wet and dry batteries.	50%
TOTAL PRODUCTION	**100%**
INPUTS	
Domestic raw materials	
Cotton fibres, sisal fibres, paint fillers, sands, iron, steel and other metallic scrap, firewood, coal and charcoal.	
Intermediate domestic products of the lines of production	
Cotton yarn, fabrics, knitwear, sewing thread, elastic, ribbons, lace, tanning of hides, leather soles, paints, glues, oxygene, acetylene, carbon dioxide, plastic materials and articles, wire, solder, electrodes, screws, rivets and drums	15%
Domestic intermediate products of other lines of production (inter-industry consumption)	
Paperboard and wooden containers, paper and paperboard items, glassware, sawnwood, alcohol, cement, electricity.	5%

PRODUCTION (continued)	
Imported materials, parts and components	
Artificial and synthetic yarns and fibres, cotton fibre, sewing thread, miscellaneous passementerie products, components for shoe and garment manufacture (leather soles, lining, padding, canvas, etc.), plastics, needles, zip fasteners, abrasives, paints and glues, starch, "colonil", leather treatment chemicals, ammoniac, sulphur, basic fertilisers, textile dyestuffs, calcium carbonate, pigments, solvents, ammonium nitrate, plastic foil, tinplate, blooms and billets, sheet iron and steel, sheets of stainless steel, ferrous alloys, coke, coal, electricity, graphite electrodes, castings, steel coils, components, knock-down kits and other parts for assembly, panels for industrial refrigeration, miscellaneous items, miscellaneous chemicals, miscellaneous metal products, etc.	70%
TOTAL INPUTS	100%

Source: Mission estimates based on data provided by the NSO and the M.U.'s.