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BASIC COUNTRY PAPER *

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BASIC INDICATORS

The Republic of Cape Verde became independent on 5 July 1975.

A.	<u>Total population</u>	296,094	(1980)
	<u>Active population</u>	92,066	(1980)
	<u>GDP</u>	10,488.5	million CV escudos (1984)
	<u>GNP per capita</u>	US\$ 360	(1983)

GDP/sector - excluding public administration (1982)

Agriculture	12.9
Fisheries	1.6
Industry	5.1
Construction and public works	22.5
Transport	13.2
Services	10.9
Commerce	33.8

B. Area: 4,033 km²

Principle towns (1980)

Praia (capital)	38,050	inhabitants
Mindelo	36,558	"

C. Agriculture (thousands of tonnes 1984):

Beans	5,4
Manioc and common potato	4,1
Bananas	3,5
Vegetables	3,0
Maize	2,5
Sweet potato	2,1
Other fruit	1,0
Rum (hl)	1,600

D. Mining industry: Salt, pozzolana

Energy: Petroleum, wood, biomass

Transport:

Roads (km)

Airport - Sal International Airport and airfields on almost every island

E. Imports CIF (1984)

Total value: 5,385.9 million CV escudos

Principal products: Foodstuffs, beverages, building materials, equipment

**Principal sources: Portugal, Holland, France, West Germany, USA, Spain
United Kingdom, Sweden**

Service imports (1984)

Total value 2,029.1 million CV escudos

F. Exports FOB (1984)

Total value: 225,1 million CV escudos

Principal products: Fish, clothing, bananas

**Principal destinations: Portugal, Central African Republic, Guinea-Bissau,
Holland**

Service exports (1984) 2,101.9 million CV escudos

Principal sources of revenue - Sal Airport, sea transport, tourism

G. Transfers (1984) : 3,976.2 million CV escudos

Balance of payments (1984) : 587,2 million CV escudos

Internal debt (1984) : US\$ 82,7 million

**External Debt Service (1984) : 11 per cent of total exports and
private transport**

- Sources:**
- A. Directorate General for Planning**
 - B. Directorate General for Planning**
 - C. Directorate General for Planning**
 - D. Directorate General for Planning**
 - E. Bank of Cape Verde and Directorate General for Planning**
 - F. Bank of Cape Verde and Directorate General for Planning**
 - G. Bank of Cape Verde and Directorate General for Planning**

GENERAL SURVEY

1. Territory and Climate

The Republic of Cape Verde covers an area of approximately 4,033 km². It lies 300 miles west of Dakar, the capital of Senegal and consists of 10 islands, 9 of which are permanently inhabited, and 5 reefs.

The climatic conditions, that are characteristic of the Sahelian zone, are marked by recurrent droughts, the last of which proved to be extremely severe. The wet season was short, but rainfall intense, and has led to the destruction of crops and the erosion of soil.

Some 10 per cent of the country's total area is cultivated, of which approximately 90 per cent is concentrated on the islands of Santiago, Santo Antao and Fogo.

2. Population

According to the last census, in 1980 the Republic of Cape Verde had 295,063 inhabitants. Roughly half were living on the island of Santiago near the capital, the town of Praia.

The urban population is estimated at 25,2 per cent of the total and is concentrated in the towns of Praia and Mindelo.

The influence of emigration upon resident population growth has been considerable; population growth corrected by the effects of emigration did not exceed 1 per cent per year during the 1970 - 1980 period, whereas, during this same period, the natural growth rate was around 2,5 per cent per year.

Though declining, the reproduction rate remains high (6,3 children per mother of child-bearing age). Infant mortality reached 84,8 per cent in 1979 - 1981 and life-expectancy 60,7 years in 1980.

PRINCIPAL MACRO-ECONOMIC INDICATORS

So that an overall picture may be had of Cape Verde's economic evolution since independence, the main features of its economic structure (see Table 1) should be provided. They are as follows:

1. Gross domestic product

During the period between 1976 and 1980, the GDP rose at an average annual rate of 11 per cent in real terms. Since then the rate of growth has slowed down.

In 1984 its level approached the country's total consumption - both public and private (as opposed to 73 per cent during the period between 1977 and 1979) - equivalent to 67 per cent of total expenditure (as opposed to 48 per cent between 1977 and 1979).

The structure of the GDP (see Tables 2 and 3) is indicative of an insufficient material base for the economy, both in view of the country's

scant natural resources, as well as the unfavourable climate, which makes agricultural activity precarious and uncertain. As a result, the tertiary sector and particularly commerce and public administration services, has a prominent place in the GDP structure. The manufacturing sector is still in a very early phase of development.

Table 1
Domestic Expenditure

	Value (in millions of ECV)		% of GDP	
	1982	1984	1982	1984
Consumption	7,516.1	10,189.7	95.4	97.2
GDI	4,561.2	5,399.3	57.9	51.5
Change in stocks	-34.2	-12.5	--	--
Total expenditure	12,043.1	15,576.5	152.9	148.9
Exports	1,426.3	2,327.0	15.8	22.2
Imports	-5,411.3	-7,415.0	68.7	70.7
Resources gap	-4,165.0	-5,088.0	52.9	84.5
GDP	7,878.5	10,488.5	100.0	100.0

Source: Provisional accounts for 1982/84 DGP (current prices)

Table 2

**Structure of the Gross Domestic Product
Excluding Public Administration
(in per cent)**

	1980	1981	1982
Agriculture - Livestock	21,7	18,5	12,9
Traditional fisheries	—	—	—
Industrial fisheries	2,1	1,3	1,6
Manufacturing sector	5,1	4,4	5,1
Water; electricity			
Building, public works	14,5	16,3	22,5
Transports	11,0	12,3	13,2
Services	10,8	10,8	10,9
Commerce	34,8	36,6	33,8
TOTAL	100,0	100,0	100,0

Source: Directorate General for Planning (DGP)

Table 3

Evolution of the Production Sector at Current Prices
(in millions of ECU)

	1980	1984	Z
<u>Primary Sector</u>	1,130.3	1,366.4	20.9
Agriculture, livestock, traditional fishing	1,031.3	1,233.7	20.0
Industrial fisheries	99.2	132.7	34.0
<u>Secondary Sector</u>	932.4	1,895.6	103.3
Manufacturing sector	240.7	487.2	102.0
Construction and public works	691.7	1,408.4	104.0
<u>Tertiary Sector</u>	2,676.4	5,337.4	100.4
Water, electricity	-19.8	-11.6	—
Transports	522.7	1,560.8	199.0
Services	515.7	1,097.9	113.0
Commerce	1,657.8	2,730.3	65.0
TOTAL	4,739.2	8,639.4	82.0

Source: Directorate General for Planning (DGP)

2. Foreign Trade

In 1984 imports represented 70,7 per cent of the GDP and about 73 per cent of consumption. The export/import ratio is very low. However, the favourable performance of the services earnings (related in particular to the use of the international airport of Sal by foreign airlines) and especially of the transfers from abroad (aid and emigrants' remittances - see Table 4) have contributed to the relatively comfortable balance of payments situation (see Table 5).

In view of the need to resort to external loans as a complement to the grants for financing investment within the framework of the First National Development Plan, Cape Verde's foreign debt has considerably increased; however, its impact on the debt service (which is estimated at 11 per cent of the value of exports of goods and private transport) has been moderate, due to the concessional nature of the loans obtained.

Table 4

Foreign Aid and Emigrants' Remittances
(in millions of ECV)

	1980	1981	1982	1983
Foreign aid	1057	931	1769	2270
Emigrants' remittances	1610	1539	1620	1473
TOTAL	2667	2470	3389	3743
In per cent of GDP	102.7	75.3	74.5	64.4
In per cent of imports	75.9	49.2	57.7	53.8

Source: Ministry for State Planning and Co-operation and World Bank (estimates)

Table 5

Balance of Payments
(in millions of ECV)

	1980	1981	1982	1983	1984(a)
I. Current account	<u>-175.7</u>	<u>-1,050.9</u>	<u>-500.6</u>	<u>-1,087.9</u>	<u>-1,002.5</u>
a) Trade balance	<u>-2,846.4</u>	<u>-3,878.2</u>	<u>-4,922.9</u>	<u>-6,008.9</u>	<u>-5,160.8</u>
Exp. (FOB)	366.2	304.8	215.5	139.3	225.1
Imp. (CIF)	-3,212.6	-4,183.0	-5,138.0	-6,148.2	-5,385.9
b) Services	<u>243.1</u>	<u>37.8</u>	<u>659.7</u>	<u>1,181.2</u>	<u>988.8</u>
Freights	-29.8	-44.6	-38.2	-14.5	-208.7
Insurance	2.1	1.7	1.4	-2.1	-0.9
Investment income	136.2	25.5	-205.1	-344.3	-103.5
Other transports (b)	212.3	580.3	1,013.0	1,726.8	1,499.0
Other items	-77.7	-525.1	-11.4	-184.7	-197.1
c) Transfers	<u>277.9</u>	<u>2,789.5</u>	<u>3,462.6</u>	<u>3,739.8</u>	<u>3,976.2</u>
Private	1,596.4	1,759.6	1,866.0	2,367.2	1,803.0
Public	1,182.6	1,029.9	1,596.1	1,372.8	2,173.4
II. Capital account	<u>94.8</u>	<u>90.9</u>	<u>1,134.8</u>	<u>1,069.2</u>	<u>367.2</u>
Private	1.2	1.1	81.4	20.8	13.2
Public	93.6	907.9	1,053.4	1,048.4	87.6
III. Errors and omissions	<u>-40.4</u>	<u>169.6</u>	<u>330.7</u>	<u>303.6</u>	<u>381.2</u>
IV. Overall balance	<u>230.1</u>	<u>27.7</u>	<u>670.9</u>	<u>284.9</u>	<u>587.2</u>

Source: Bank of Cape Verde

(a) Provisional data

(b) Includes airport taxes, assistance to aircraft, St. Vicent port taxes

3. Characteristics of the monetary and financial situation

3.1. Structure of the financial system

Before independence two Portuguese financing institutions were operating in Cape Verde: The Banco Nacional Ultramarino (agency) which was responsible for the issuing of money and performed the role of a commercial bank, and the Banco de Fomento Nacional (branch) in Mindelo, operating as a development institution.

Following independence in 1976, the Bank of Cape Verde (BCV) was set up as a central bank (it is the bank of issue and manages the account of the Treasury).

The BCV took over the branch offices of the BNU and BFN, and thus assumed the functions of both a commercial and a development bank. The head office of the bank is located in the city of Praia and has two main branch offices - one in Mindelo and another in Sal, besides other less important ones located on other islands.

At present, the BCV runs a credit line from the World Bank of 4 million dollars and, for that purpose has set up a credit analysis department at its head office, along with a branch office in St. Vincent.

The Caixa Económica Postal (a postal savings institution) set up over fifty years ago, became a public enterprise in late 1985, called the "Caixa Económica de Cabo Verde", under the guidance of the Prime Minister. Its main functions are: To receive demand and time deposits; to grant personal loans and undertake credit transactions for housing. Despite the increase in the volume of deposits, its contribution to the financial system of Cape Verde is very slight (in 1983 its share was no more than 5 per cent).

3.2. Money and credit

As the BCV is the most important finance institution, the present monetary system resembles a single-bank system. Since independence, the aim of monetary policy has been to build up large foreign exchange reserves. However, this goal has been hampered by credit expansion stimulated by the increase of imports.

The credit policies pursued have respected the characteristics of the open economy of the country.

The BCV operates on the basis of an informal system of credit ceilings determined in accordance with the level of foreign exchange reserves and the credit requirements of the economy.

Credit for the public sector is limited to 15 per cent of the current revenue of the previous year. This rule has rarely been overridden, with the exception of 1981 and 1983, when the Government was compelled to resort to further credit to finance work on the St. Vincent shipyard.

In order to decide which loans are to be granted, whether they be to State enterprises or to those of the private sector, the BCV requests detailed information regarding investment of the funds concerned, so as to consider the merits and interest of such operations.

According to available information, the overall money supply and its evolution is as follows:

Table 6
Factors Affecting Money Supply, 1980 - 1984
(end of period)

	1980	1981	1982	1983	1984
	(annual changes in millions of ECV)				
Net foreign assets	<u>230.2</u>	<u>27.7</u>	<u>671.3</u>	<u>284.6</u>	<u>-24.1</u>
Net domestic assets	<u>572.2</u>	<u>595.9</u>	<u>523.8</u>	<u>645.0</u>	<u>1,379.2</u>
Net claims on general government	-47.6	418.4	-75.7	153.2	-75.2
Claims on non-financial public enterprises	43.4	182.7	274.7	169.0	2.7
Claims on private sector	-27.8	253.1	95.2	453.3	-164.3
Other items (net)	199.2	-258.3	229.6	130.5	1,596.0
Money and quasi-money	<u>644.5</u>	<u>522.2</u>	<u>818.7</u>	<u>743.9</u>	<u>848.0</u>
Capital accounts	<u>157.9</u>	<u>101.4</u>	<u>376.4</u>	<u>185.7</u>	<u>507.1</u>
	(annual changes in per cent)				
Net domestic assets	48.3	33.9	22.3	22.4	39.2
Net claims on general government	-55.4	319.8	-16.7	40.6	-14.2
Claims on non-financial public enterprises	400.2	30.9	35.5	16.1	0.3
Money and quasi-money	32.0	19.6	25.7	18.6	17.9

Source: 1984 Report, IMF

In the 1980 - 1983 period, the system's domestic financial assets rose at an average rate of 26 per cent, slightly above the inflation rate^{1/} for that period. For 1984, a growth rate of 19 per cent is estimated.

^{1/} In accordance with the IMF's estimates in the 1980 - 1983 period, the inflation rate recorded in Cape Verde averaged 21 per cent per year. Forecasts for 1984 point to a slackening off to 18.5 per cent per year.

3.3. Foreign exchange

Since January 1980, the exchange rate of the Escudo has been pegged to a weighted basket of currencies corresponding to the nine leading trading partners.

The exchange rate of the Escudo in terms of the US dollar is fixed administratively each day, on the basis of the quotations for the dollar and the remaining basket currencies.

During the 1980 - 1984 period, the Escudo depreciated some 111 per cent against the US dollar and 66 per cent against the SDR (Special Drawing Right). In relation to the Portuguese Escudo, it appreciated 29 per cent.

4. Principal sectoral characteristics

4.1. Agriculture

Agriculture is predominantly of a subsistence standard and the level of production is closely linked to rainfall, the efforts made to fix the soil and retain the water. Maize and beans are the principal dry-land crops while sugar cane is the major irrigated crop.

Livestock production is an additional source of income in the rural zones and comprises mainly pigs, goats and fowl, and, on a smaller scale, sheep which have been particularly affected by the drought.

Forests account for a very small part of the cultivated area and the forestation efforts (considerably affected by the drought) are mainly designed to change the environment.

Though of minor significance, fishing is nevertheless an important source of supply for the domestic market and means of obtaining foreign currency. The fishing sector is divided into two sub-sectors: One traditional one operating on a small scale, essentially supplying the domestic market and the other, operating on an industrial scale through INTERBASE. This is a public enterprise operating with bigger vessels capable of reaching the more remote zones and whose entire catch is intended for the export market. Tunny is the most characteristic species caught.

4.2. The mining industry

This activity is basically concerned with the extraction of salt, on the island bearing the same name, and pozzolana on the island of Sao Antao. In 1984 the salt output recovered slightly from the decline noted in previous years, following the accumulation of stocks. The quarrying of pozzolana was, for many years, a relatively important activity as it was to a large extent intended for export, and the output actually reached 30,000 tonnes per year. Towards the end of 1982, the MAC (a public enterprise dealing with building materials) took over the working of the existing deposits (following a six-year shutdown), though in an incipient fashion (5/6,000 tonnes per year).

4.3. The manufacturing industries

The manufacturing sector which is in its infancy and consists of small and medium-sized units, has poor technological resources. Its contribution to the GDP is negligible. However, the clothing, paint and pharmaceutical industries already play a significant role in import substitution. The major firms are public, operating in the construction materials sector (MAC), as well as operating in the construction sector and in the pharmaceutical goods sector (EMPROFAC). As regards the mixed enterprises, special mention should be made of MORABEZA (clothing), SITA (paints) and MOAVE (flour mills).

The small-scale distilling of rum from sugar cane carries significant weight in industrial activity.

The biggest project over the last three years has been the completion of the repairs shipyard in Mindelo in 1983 at an approximate total cost of 40 million dollars. This dockyard is owned by CABMAR (a State shipyard concern) and is managed by CABNAVE (a mixed capital enterprise, partly owned by Dutch and Portuguese shipyards).

However, dispersion of the world fishing fleet to other areas, coupled with the worldwide crisis that has affected the shipbuilding and marine repairs sector, have led to severe cutbacks in its capacity utilization.

But more recent data regarding this activity allow one to somewhat weather this storm of pessimism that overshadowed the first operating phase.

4.4. Building and public works

Since 1980, construction and building materials have proved to be the most dynamic sectors of the country's economy and account for one quarter of the GDP and one fifth of employment.

Despite the increasing activity in the building and public works sector, severe housing shortages have still to be tackled, as well as community housing facilities and basic infrastructures.

Beside this, the building boom has been provided for by systematically resorting to the import of building materials. The proportions reached are a matter of concern as they act as an imbalancing factor in the country's trade balance.

Several natural resources are available - pozzolana, limestone, gypsum and ornamental stones - but have been mined on a small scale only. However, a better utilization would provide a significant contribution to the development of the building sector.

4.5. Commerce

This sector plays a major role in the Cape Verde economy and is responsible for one third of the GDP. More than half of the added value is derived from the trading profit on imported goods and one quarter from margins on the sale of fuels to foreign shipping. Due to its insularity and considerable dependence on overseas countries, the trading activity is decisive to the working of the economy and in providing the vital needs of the population.

4.6. Transports and communications

The link between the islands and with other countries is largely dependent on shipping. Inter-island traffic is operated by a public enterprise, ARCA VERDE, and private enterprises. Harbour administration is the responsibility of a public enterprise, ENA/POR.

Efforts undertaken to improve the port facilities have been significant - in Mindelo, within the framework of the shipyard project; in Praia, with the support of the World Bank - while further projects are envisaged for the Maio and Pogo Islands.

Inter-island and international air transport are handled by the TACV, a public enterprise. In 1981/82, the International Airport of Sal underwent enlargement and was re-equipped. This led to a marked increase in the direct and indirect benefits involved in its utilization.

Table 7

Production Structure in 1985
(in 1985 prices)

	Production	Added value	Added Value as per cent
Agriculture	1,790	1,465	12.5
Fisheries	735	465	3.4
Manufacturing sector	1,870	670	5.7
Energy	315	-25	
Construction	3,630	1,765	15.0
Transport	3,195	1,850	15.8
Commerce	4,165	3,200	27.3
Direct services	1,575	1,080	9.2
State services	2,795	1,245	10.6
TOTAL	20,700	11,715	100
DTI (a)		860	
GDP (market prices)		12,575	

Source: Directorate General for Planning

(a) Duty and taxes connected with imports

4.7. The State enterprise sector

The State enterprise sector (SEE) is of major importance in the economic structure of Cape Verde. In 1984 it was responsible for:

30 per cent of the GAV
25 per cent of wages
45 per cent of imports
69 per cent of exports

Several enterprises are in several financial straits, due to unfavourable results, weak capital allocation and delays in payment on the part of the State.

The main unfavourable factors affecting the SEE are as follows:

- Market problems, linked to shortcomings in the transport system and the small market scale, exporting difficulties;
- Problems related to maintenance repair and purchase of spare parts;
- Problems of management, an area in which almost all enterprises are in need of support.

MANUFACTURING SECTOR IN THE DEVELOPMENT OF CAPE VERDE^{1/}

1. Historical aspects

At the time of independence, the manufacturing sector, consisting of a few small units, particularly bakeries and rum distilleries, played a minor role in the Cape Verde economy.

It was soon realized that a voluntarist policy aimed at developing the industrial production was one of the decisive factors in the establishment of a technical and economic base and, in particular, in the solution of the major national problems. Whether in the context of political guidelines - the conclusion of the two PAICV congresses held in 1981 and 1983 - or in essentially economic terms - Long-Term Development Prospects and the First National Development Plan - the statements made were explicit in this respect.

In the first of the three stages in which the direction of the development effort was divided up (in this case National Reconstruction, which included implementation of the First National Development Plan), the adoption of an ambitious industrialization strategy was considered to be a necessary challenge (the "industrial challenge") for the development of Cape Verde.

Despite its inherent difficulties - lack of natural resources, a small domestic market and the unfavourable cost of factors, among others - it was felt that due to the limitations peculiar to the agricultural sector in particular, in order to make the Cape Verde economy viable it would require an industrial development process which (besides achieving the fundamental

^{1/} Based on the "Document de Stratégie du Développement Industriel" by Dr. Aurora Murteira. CTP du Projet CVI 84/002, March 1986.

development objectives) would generate a surplus by which investments could be financed and the external debt service paid. To a certain extent these guidelines were expressed by the First National Development Plan (NDP).

2. The role of industry following independence

So that industry could assume the role of driving force of the Cape Verde economy, as stated in the major political, economic and social guidelines for the future of the country, the First NDP established the following priorities for industrial development:

- To meet the domestic requirements for consumer goods;
- To fight against unemployment;
- To reduce the trade balance deficit;
- To take advantage of the natural resources.

In order to accomplish such goals, industrial policy would have to envisage setting up import-oriented units (although the promotion of exports should not be neglected) so that by 1985 the following targets would be achieved:

- The manufacturing sector should account for 11 per cent of the GDP, meaning that industrial production would grow at an average annual rate of 40.1 per cent;
- Industrial exports (essentially from CABNAVE) should amount to roughly 24.0 per cent of total exports.

It was also felt that it would be useful to specify those economic sectors considered to be best qualified to accomplish the objectives in mind. They should preferably meet the following conditions:

- They should not depend decisively on economies of scale so as to be profitable;
- They should not be intensive in the utilization of scarce factors of production, such as energy and water;
- They should be labour-intensive and, in the near future, intensive in terms of skilled labour, so as to become competitive.

For this purpose a study^{1/} was carried out in 1980 under the auspices of UNIDO in which it was argued that the industrial development of the country should be founded on the following four major industrial groups:

- a) industries based on maritime resources;
- b) agro-food industries;
- c) construction materials;
- d) metalworks.

^{1/} "Perspectives Industrielles à Long Terme", by Raphael Chapponière.

In order to achieve the objectives indicated, the First NDP allocated an investment sum of 4,312 million CV Escudos to industry, at constant 1982 prices. In other words, an annual average investment of 1,078 million CV Escudos (equivalent to almost 2,6 times the figure for 1981 when the highest investment figure since independence of 470 million CV Escudos was recorded). This sum corresponded to roughly 20 per cent of the different sectors' development expenditure, which clearly reflects the importance attached to the manufacturing sector.

The number of posts required for the establishment and operation of the industrial unit was estimated at 1,450.

The investment programme was to be revised in 1983 and the budgets for 1983 and 1984 were reduced although they were to rise considerably for 1985. The annual plan for 1984 was to considerably reduce investment and employment as compared to the programming established. Over the first three years during which the plan was implemented, 2,451.7 million CV Escudos were invested in industry; in other words, an average annual investment of 817,2 million CV Escudos, which means almost twice the figure recorded in 1981, when the largest investment of the post-independence period took place (420 million CV Escudos).

Table 8 briefly displays the programming (initial, revised and yearly) and the degree of performance.

Table 8

First National Development Plan - 1982-1985
Performance of the Investment Programme

	Investments (millions of CV Escudos at current value)				
	1982	1983	1984	1985	TOTAL
Initial Projection (82)	491.3	1,555.0	1,645.6	1,582.9	5,275.7
Revised Projection (83)	491.3	974.0	913.9	2,240.0	4,619.2
Annual Plan	491.3	974.0	426.7	203.5	2,095.5
Performance	858.3	1,351.3	242.2	102.2	2,544.0

The relatively low rate of performance in terms of investment as compared to initial expectations arises from the fact that a number of the projects initially planned were not launched such as the cement plant, the salt-pans of Maio, the rehabilitation of ONAVE, the brewery and the light metalwork complex, largely due to the poor domestic capacity to prepare studies and follow-up projects, as well as delays in the negotiations with the donor countries. These projects should be carried out during the course of the Second Plan.

The objectives pursued, such as the creation of jobs, the reduction of the external imbalance and the targets set for exports and the participation of the sectors in the GDP fell well below what one would have wished for. This is due to the following factors: The capital/employment ratios of the projects carried out were, on average, higher than anticipated; the ratio of capacity utilization created remains very low (roughly 40 per cent); the export-oriented projects encountered difficulties in winning foreign markets.

During the three-year period, a number of projects of major interest to the economy were carried out such as the repair shipyard at St. Vincent^{1/} (the largest venture undertaken in the country), the Public Enterprise for the Conservation and Repair of Equipment (SONACOR), and the Pasta Factory (FAMA). The construction of the Industrial Paint Company (SITA) was also considerably advanced.

In addition, studies were prepared related to different projects such as edible oils, plastics, oxygen and acetylene and metal-casting, which will form part of the Second NDP.

As regards policy measures, the First NDP advocated the following for the manufacturing sector:

- Institutional reinforcement of the sector and improvement of its planning capacity;
- The establishment of an agency for the promotion and support of small- and medium-sized enterprises;
- The formulation of a system of incentives for the purpose of promoting industrial development and boosting exports.

As regards the first of the measures, institutional reinforcement of the sector, in 1983 the Secretary of State for Industry was established and its respective services defined. Among them was a Study and Planning Bureau.

While still in 1983, the UNDP/UNIDO/CV project "Support for Industry" began. Its main objective is to boost the sector's planning capacity. Within the framework of this project, the round-table conference on industrial development proved to be extremely important. It provided an opportunity for different participants in the industrialization process to get together and, for this reason, led to serious considerations regarding the development of industry.

As part of the continuation of the above project, and following negotiations with the World Bank, a line of credit was opened totalling 4 million US dollars, designed to finance industrial projects, while an Industrial Development Unit is being organized for the purpose of promoting such projects considered eligible for financing.

^{1/} The high performance ratio is explained by the fluctuation in the exchange rate of the dollar in relation to the Cape Verde Escudo.

THE PRESENT STATE OF THE MANUFACTURING INDUSTRIES

1. Characterization of the sector

Over the last ten years, Government action has been characterized by an effort to industrialize, but mainly due to the sluggish pace symptomatic of the start-up of an industrial development process and the difficulty in building up an environment favourable to the materialization of private initiatives, the role played by manufacturing industries in the economic context of Cape Verde still remains somewhat limited. The importance of the manufacturing sector is essentially assessed as follows:

- It represents 8 per cent of total production;
- It employs 7 per cent of the labour force and sells abroad about 49 per cent (including ship repairs) of the total sales of goods of the country.

These percentages far from demonstrate the efforts made, mainly during the period agreed upon for the implementation of the National Development Plan. One need only add that, of the production capacity set up, only 40 per cent is being utilized. Full utilization of this capacity may, for the future, represent an important factor of industrial growth without requiring new investments.

The evolution of this sector since 1980 may be seen in Table 9 for a set of indicators.

Table 9

Principal Indicators of the Manufacturing Sector

	1980	1984	Growth 1980-1984 (%)	Average Annual Growth (%)
Gross value of production (thousands of CV Escudos)	513,400	1,193,086	232,4	23,5
Employment	1,876	3,080	164,2	13,1
Gross productivity (2)	274	396	144,5	9,6
Wages	116,216	337,404	290	30,5
Investment (thousands of CV Escudos) (3)	35,000	151,118,8	432	44,1
Exports (thousands of CV Escudos)	62,588	94,692	151,3	10,9
No. of units (1)	108	188	174,1	14,9

- (1) Excluding rum production plants
- (2) Thousands of CV Escudos/employment
- (3) Public investments

The main conclusions regarding the growth of the manufacturing sector since the beginning of the decade, at constant prices, are the following:

- The number of industrial units (excluding rum) increased 75 per cent.
- The number of workers, which currently stands at roughly 3,100, increased by 1,200.
- At constant 1980 prices, the gross production is 2,3 times higher than this year's.
- The exports of manufacturing goods grew at an average rate of 10,9 per cent per annum, although a considerable amount of the investments made were designed to substitute imports.
- Public investments rose at a strong pace, and reached a level that was 4,4 times higher than the 1980 figures.
- Productivity rose at an average annual rate of 9,6 per cent, thus below the salary increase rate (30,5 per cent), which does not help the products' external competitiveness.
- The share of industrial production in total production rose from 6,1 per cent in 1980 to almost 8 per cent in 1984.

2. The industrial structure. The data available allow one to characterize the industrial structure of Cape Verde. This basic information may be found in Table 10.

Table 10

Number of Businesses, Employment, Gross Production and Productivity in 1984

Industries	No. of Businesses	Employment		Gross Product		Gross Pro- ductivity Value in BCV 10 ³
		No. of Em- ployees	X	Value in BCV 10 ³	X	
<u>Marine Resource</u>						
<u>Based Industries</u>	<u>6</u>	<u>404</u>	<u>13,1</u>	<u>61,217</u>	<u>4,6</u>	<u>151,5</u>
- Salt extraction (a)	2	190	6,2	34,957	2,6	184,8
- Fish canning	4	214	6,9	26,258	2,0	122,7
<u>Agro-Food Industries,</u>						
<u>Beverages + Tobacco</u>	<u>205</u>	<u>791</u>	<u>25,7</u>	<u>713,352</u>	<u>53,6</u>	<u>901,8</u>
- Meats and preserves	4	139	4,5	83,985	6,3	604,2
- Flour mills	1	36	1,2	212,029	15,9	5,089,7
- Bakeries	82	437	14,2	207,530	15,6	474,9
- Biscuits	6	80	2,6	33,965	2,7	449,6
- Animal foods	1	35	1,1	41,379	3,1	1,182,3
- Rum	107	negligible		28,127	2,2	-
- Cool drinks	3	30	1,0	8,028	0,6	267,6
- Tobacco	1	34	1,1	96,309	7,2	2,832,6
<u>Building Material</u>						
<u>Industries</u>	<u>34</u>	<u>616</u>	<u>18,5</u>	<u>189,000</u>	<u>13,4</u>	<u>311,2</u>
- Porcelana (b)	1	23	0,8	4,000	0,3	173,9
- Carpentry (c) and furniture (f)	28	304	16,4	160,000	12,1	317,5
- Ceramic articles	3	13	0,4	1,410	0,1	108,5
- Plaster, lime and plaster-made goods (d)	1	32	1,0	3,250	0,2	145,0
- Monics and tiles	1	4	0,1	469	-	117,3
- Cement goods (e) (f)	1	40	1,3	14,382	1,1	37,5
<u>Metalworking Industries</u>	<u>30</u>	<u>864</u>	<u>28,0</u>	<u>220,670</u>	<u>16,6</u>	<u>255,4</u>
- Civil metal engineering + mechanical engineering.	28	495	16,0	92,170	6,9	186,2
- Shipping industry	2	369	12,0	128,500	9,7	348,2
<u>Other Industries</u>	<u>17</u>	<u>405</u>	<u>13,1</u>	<u>151,321</u>	<u>11,4</u>	<u>373,6</u>
- Clothing	6	156	5,1	59,000	4,4	379,2
- Footwear	1	68	2,1	33,500	2,5	492,6
- Printing + graphic arts	7	160	5,2	44,729	3,4	279,6
- Pharmaceutical goods	1	15	0,5	10,262	0,8	682,8
- Tyre retreading	2	6	0,2	3,880	0,3	646,6
TOTAL	259	3,080	100	1,330,071	100	431,8

Source: Based on three-monthly surveys by the Statistics Headquarters, estimated figures for certain construction materials from the National Institute for Cooperatives.

Notes to Table 10:

- (a) Includes services.
- (b) This unit is part of a public enterprise manufacturing cement products.
- (c) Does not include a large number of family-type micro-units. The number of units has already been estimated at some 200, and the average number of workers per unit ranges from three to five.
- (d) At present the existing units produce no construction materials.
- (e) There is only one formally established enterprise manufacturing cement products. The remaining output stems from construction enterprises and private concerns (not accounted for in terms of employment).
- (f) Estimated figures.

There are some 300 industrial units concentrated mainly in the agro-food industries (107 rum producing plants and 98 bakeries) followed by those of construction materials, with special reference to the carpentry and furniture sectors, which already present fair-sized businesses. Metal and steel-work sectors have also assumed a more important position in the country's industrial structure.

Besides these industrial or semi-industrial units (some of which are already modern), there exists an informal sector consisting of very small-scale craft units. However, it is estimated that this sector comprises some 2,000 units and employs roughly 6,700 persons, some of them on a part-time basis. If individually they are of no significance, they do however, as a whole, acquire considerable importance, for they contribute to one of the priorities of the socio-economic development - the creation of jobs. However, no statistical data are available regarding this sector.

In terms of employment, the metalworks predominate and the mechanical engineering sector employs some 500 workers. Carpentry, furniture, bakeries, ship repair and fish canning are, in descending order, other industrial activities.

As regards the gross value of production, the agro-food industries prevail, as they include two of the industries that have highest production figures; bakeries (207,530 million CV Escudos) and flour mills (212,029 million CV Escudos). As for figures in excess of 100 million CV Escudos, these are shared by carpentry, furniture and the ship repair activities.

The above information clearly demonstrates that even in the formal sector one finds very small-sized units, and that the evolution of recent years has given rise to marked differences of scale among the various units.

The scale from 5 to 9 workers includes the largest number of units, and is followed by the scale employing between 10 and 19 workers. This scale, however, includes the greatest number of firms (about 37 per cent of the

total). With more than 100 workers there are five firms involved in fish canning, ship repair, clothing and mechanical repair activities.

3. Productivity and wages. Gross per worker production is also related to the size of the business: The firms that employ between 20 and 49 workers display the highest productivity level within the manufacturing sector, whereas the productivity level of firms with less than 5 workers is the lowest.

Differences in productivity can also be found at a sectorial level (see Table 11). The agro-food sector displays the highest productivity levels, whereas the marine resource based industries record the lowest.

According to data available for certain activities (see Table 11), from 1983 to 1984 the wage increase was greater than that of gross productivity, which suffered a decrease in some industries (fish canning, clothing and biscuit manufacturing). This evolution should be considered in terms of the external competitiveness of the industrial production of the country and calls both for training schemes and a greater utilization of the existing productive capacity, as two key factors in ensuring that Cape Verde finds a better place in the international division of labour.

Table 11

Gross Productivity and Average Wage Levels
in Certain Industries (in thousands of CV Escudos)

	Gross Productivity (1)			Average Levels of Annual Wages		
	1983	1984	Growth Rate %	1983	1984	Growth Rate %
Salt extraction	125,1	184,0	49	52,8	60,0	13,6
Fish canning	214,9	122,7	-43	55,1	66,0	19,8
Flour mills	4,239,8	5,889,7	39	140,2	152,2	28,6
Biscuits	456,9	449,6	-2	51,3(2)	negligible	
Animal foods	1,282,2	1,182,3	0,2	115,9	126,5	9,1
Cool drinks	240,9	267,6	11,1	61,9	67,7	9,4
Tobacco	1,282,2	2,832,6	20,9	120,6	147,1	17,8
Clothing	388,1	378,2	-2,5	79,7	103,1	29,4
Footwear	312,5	492,6	57,6	81,9	88,3	7,8

(1) GDP/Employment

(2) One firm only

SECOND NATIONAL DEVELOPMENT PLAN AND ROLE OF INDUSTRY

With the implementation of the Second NDP (although discussions prior to its approval are still in progress at the Cabinet level), the so-called second phase of the development process will begin.

This phase, recognized as one of extensive development as well as the setting up of the technical and material base, has the following objectives:

- The building up of a solid productive apparatus;
- A balance in external relations;
- A high rate of simultaneous growth of the product, employment and fixed capital.

Confronted with these objectives and the unlikely prospects of other non-industrial economic sectors providing the appropriate response, in the medium term the role of industry became more important. In fact, the main challenges confronting Cape Verde are:

- The creation of a sufficient number of jobs to absorb or contain pressures on the labour market;
- The reduction of the external imbalance to levels compatible with the possibilities of external financing.

These challenges in the present economic situation can expect little from the non-industrial sectors.

As regards employment, only construction, tourism and a few services (although at times of a temporary nature) offer conditions conducive to job creation, insofar as the agricultural and fishing sectors can, at best, do no more than maintain their present levels of employment.

As for the potential contribution to the easing of the external economic imbalance, the following three non-industrial sectors should be mentioned: Tourism, services involved in international transport and fishing. Should the rainfall reach the levels recorded prior to the outbreak of the present drought, agriculture could be included, although even so, the food shortage would remain considerably high.

This clearly demonstrates the significance of the role of driving force attributed to the manufacturing sector in the socio-economic development of Cape Verde. Therefore, the performance under the Second NDP will depend on the strategy that is to be outlined for this sector.

This strategy is, however, conditioned by a set of factors given below, though only briefly.

Many of the bottlenecks focussed may be overcome; others, due to their structural nature, will have to be assumed. As a whole, they represent a huge challenge to the entrepreneurial capacity of the country.

1. Prospects of industrial development

Conditioning factors and potentialities

Conditioning factors

- (a) Weaknesses of the industrial apparatus. Devoid of any industrial tradition at the time of independence and in view of the sluggishness inherent to the industrial process, it is not surprising that the industrialization effort of the last few years has not led to very significant results. The way to industrialization may not be achieved merely by means of an ensemble of ventures but, fundamentally, by building up an environment favourable to the materialization of industrial activities.
- (b) The lack of a marketing policy - due significantly to the weakness of the sector and to the fact that it is relatively new - which must be defined very soon as it involves actions the effects of which require a certain time to mature.
- (c) A restricted domestic market; few inhabitants with a low per capita income which does not allow one to take advantage of economies of scale or to profitably produce certain goods.

The projected growth of the domestic market for the year 2000 represents about 3,5 times the present market - 310,000 inhabitants with a per capita income of US\$ 355 in 1984 and in the year 2000, 500,000 inhabitants with a per capita income of US\$ 700.

Though positive in market terms, this growth is far from capable of sustaining strong industrial growth.

- (d) The scarcity of natural resources. Cape Verde is short of water and conventional sources of energy. It has only a few mineral resources which are, moreover, unevenly distributed among the different islands. On the other hand, the available resources should be exploited and something may, for instance, be done regarding construction materials and renewable sources of energy. However, external dependence in terms of raw materials, intermediate products and capital goods will seriously affect production costs. For this reason, high levels of productivity are required so as to provide a competitive edge to production.
- (e) Shortcomings as regards personnel training at all levels, especially among executives and management staff (though indispensable to swift, efficient growth of the industrial sector) which must be overcome.
- (f) The geographical configuration of the country: Its insularity is, in itself an unfavourable factor that is even more marked by the fact that the country is dispersed into 9 islands. Besides a greater requirement for expenditure on infrastructure - especially with regard to transport - higher costs on the international market should also be considered: Imported inputs become more costly and export costs in particular become relatively higher.

- (g) Limitations regarding the financing of the projects. Cape Verde has benefitted from a favourable balance of payments due to emigrants' remittances and external aid. However, forecasts point to greater difficulties ahead.
- (h) Limitations of an institutional nature, above all concerning the preparation, administration and follow-up of projects, and the lack of industrial policy instruments in order to provide the necessary support to investors.
- (i) A wage discrepancy to the detriment of the Civil Service, which leads the top staff to lose interest in the Service or even leave it.

Potentialities

- (a) A positive balance sheet for government following independence. Results obtained from a state of economic and social weakness at all levels, as deep-seated as that which was inherited from the system of colonial dependence, inspired the confidence of the donor countries and made it possible to face up to the challenges such as that of industrialization.
- (b) Human resources are undoubtedly a positive factor to be developed. The Cape Verde worker is, in the context of developing countries and, above all, the less developed ones, interested in his work and possesses an above-average cultural and professional standard. Appropriately designed training will lead to worthwhile results within a short space of time.
- (c) Its geo-economic position, favourable to an intercontinental relationship will help it to foster foreign trade and, as a result, to find external markets for manufactured goods, especially if this is backed up by an appropriate, dynamic marketing policy and suitable maritime transport.
- (d) A considerable level of investment which may provide profit returns through increases in the existing rate of capacity utilization. For this reason industrial growth is less demanding in financial resources.
- (e) Some natural resources which should be exploited: Mineral resources which may be used as construction materials or even exported to West African countries that are importers of some of these goods; maritime resources in terms of fish and shellfish and the production and export of salt.
- (f) A popular capacity to think up and make products with limited available resources from embroidered goods to clothing, paper flowers, sisal and straw goods and even musical instruments.

If appropriately guided and supported, it will be an important factor in the creation of jobs and regional population equilibrium in addition to which it can provide foreign currency, either through tourism or even exports.

2. Industrialization strategy: The turning point and continuity

During the First NDP the strategy adopted for the manufacturing sector was centred on the attempt to launch industries designed to meet certain domestic requirements, both for consumer goods as well as for intermediate products through a viable exploitation of the limited natural resources. In this model, exports did not assume a central role, although attempts were made to maximize the opportunities that arose, as is demonstrated by the largest venture in the industrial sector, undertaken during the First NDP: The shipyards of St. Vicent.

Though it was not a pure import substitution model (the foreign currency revenue expected as a result of the provision of industrial services by the Mindelo shipyards may have exceeded the savings obtained through the domestic production of certain imported goods, had the sector not been hit by a world crisis) fundamentally, the basic philosophy was nevertheless that.

Various conditioning factors mentioned earlier soon pointed to the limits of a model of this type, which led the Cape Verde authorities to formulate and test another which would not be exhausted so quickly. If the limitation of the domestic market was considered to be one of the major obstacles to the establishment of the import substitution model (limited size, not only in demographic but also in economic terms), the shortage of certain factors fundamental to the industries such as water and energy (should no conditions be created to overcome them) may impair the viability of a future model centred only on exports, as a means of taking advantage of the geo-economic position of the country.

Therefore, the industrialization model for the Second NDP should be classed as a transition and turning-point model arising from the intersection of a particular import substitution method (in the process of exhaustion) and the promotion of exports. It will be a period of transition and instruction wherein conditions should be set up to enable the industrialization of the country to direct its attention mainly to the external markets. The key criterion upon which the selection of industrial projects will be based applies to those industries which, while helping to satisfy domestic needs, can generate available exportable surpluses.

The geo-economic position of this country, strategically located at the crossroads between Europe, Africa and the Americas will be chosen as the central vector of this turning-point and continuity model. However, the industries that are to make this turning point possible will not be substantially different from those chosen as priorities within the framework of the import substitution model (agro-foods, construction materials and metal-works). The marine resource based industries and those providing industrial services (ship repairs) complement the above as sectors which, in view of their geo-economic position in the country, are to be developed. These sectors of activity had already shaped the strategy of the NDP from a viewpoint that was predominantly directed towards import substitution, thus explaining the continuity.

The modest export experiences involving clothing, pharmaceutical goods and footwear, along with the prospects offered by the exploitation of marine resources (fish and salt) and ship repairs, corroborate the turning point theories in the industrialization model, though not without the requisite prior transition phase designed in particular to establish an export promotion strategy and a technological policy.

The export strategy will have to pay attention (and this will be the major theme determining how Cape Verde is to find a hold in the world market) to the fact that, to a large extent, the present international division of labour results from the criterion of comparative advantages in which the under-developed countries have specialized in the production of low added-value goods. This situation, particularly in Africa, has contributed to a growing deterioration of its terms of trade which, in many cases not even external aid is able to mitigate. The industrial structures of the African countries are more competitive among each other than complementary. This, to a certain extent, accounts for the fact that commercial flows are being directed to the North.

Both the wealth of human resources and the shortage of natural resources, namely water and conventional sources of energy, call for judicious choices of productive combinations and the definition of the labour-intensive industries as priorities.

The technologies to be selected should be sufficiently straightforward as to be handled by the country and, up to a point, within certain limits, cheap enough to allow them to be disseminated. Therefore, when choosing technologies to export, priority should be given to those countries in a position to provide intermediate technological models related to a particular type of industry.

Finally, it should be borne in mind that the industrial strategy for implementation is also conditioned by external factors. Therefore, particular attention should be paid to the following:

- Transport facilities, insofar as the geographical situation of Cape Verde will allow for a significant export growth, given appropriate transport availability, particularly maritime transport.
- Adequate policies regarding wages, personnel training, commerce and transport. These are instruments which are vital to the country's penetration in external markets, as well as those referring strictly to the industrial area.
- The wages/productivity ratio. So that the wages may maintain socially and economically adequate levels without undermining the competitiveness of national production, productivity must rise at a faster pace than wages. This involves the development of human resources; in other words, the strengthening of personnel training means at all levels.

3. The role of different economic agents in the application of the strategy

So long as the present conditions of the economy prevail, the State cannot avoid its central role, that of encouraging and directing industrial development. The State must continue to act directly in the economy, at least in the development of enterprises considered to be of strategic importance to the country in supporting projects which, due to the amount of resources required or risks involved, are beyond the capacity of private operators, or else by virtue of its technological production features with regard to the limited size of the market, may give rise to monopolist situations which, from the national independence standpoint, are negative.

In addition to this, the State can and should play a dynamic role in the mobilization of savings and domestic resources, the attraction of foreign investment providing technologies, know-how and management capacity, which are crucial to the building of a solid industrial base.

For this reason it is desirable that productive public investment be increasingly channelled to the formation of mixed companies (by setting up joint ventures involving both national and foreign initiative) liable to contribute to the development of the country's entrepreneurial capacity.

Besides, a great effort must be made to rationalize the existing public sector. For this purpose, the management capacity of the firm will be reinforced and a new normative framework set up to govern the relations between the State and the companies in which the State has a share of the capital.

With regard to the private sector, a favourable environment must be established through the adoption of different measures in the area of credit, commercialization, the development and transfer of technology. A foreign investment code is also to be adopted. Here, both the "rules of the game" and incentives liable to attract foreign capital will be clearly defined. The setting up of a free zone is also considered to be a further possibility.

The importance of the informal and co-operative sector in the resolving of employment problems is also recognized as well as the need to support them through concrete measures pursued by the State.

4. The major instruments of industrial policy

For the purpose of achieving the required objectives, industrial policy instruments have been adopted and may be divided into the three following groups:

- Those of a legislative nature
- Those acting directly
- Those that concern the essential infrastructures of a physical type (land, transport, energy...), personnel and credit.

As regards legislation linked directly to industry, one must take steps to encourage the promulgation of legal diplomas which clearly express the political will to speed up the process of industrialization and ensure that private operators actively intervene in it.

It is therefore considered particularly necessary to promulgate the Industrial Development Law that will lay down the basic principles and objectives as well as the instruments of industrial policy (fiscal, institutional support etc.), and the Foreign Investments Code.

In the area of promotion, the key instrument consists of the Industrial Promotion Unit (UPI) whose activities will be multifaceted (identification, preparation and promotion of industrial projects, technical assistance to the firms, training, etc.), but always concerned with the launching of new projects. In addition to reinforcing the UPI, for the Second NDP period, development of the following actions is envisaged:

- The setting up of a bureau for the preparation of projects;
- The setting up of an industrial diffusion and information service.

As regards the measures advocated, training is one of the foremost concerns. Obviously the industrialization policy entails the need to modify and update the existing training scheme both at personnel level (intensification and integration of basic subjects such as industrial techniques, management techniques etc.), and at the basic school training level. The specific needs of the industrialization process calls for middle and top management staff in this sector. One priority action for development during the Second NDP period is felt to be the preparation of a Global Training Plan. This should involve an assessment of the structures that already exist in the area of industrial training and requirements of the different participants involved in the industrial development process.

The programme for the development and strengthening of State enterprise in the industry and energy sectors proposes the adoption of a set of measures among which the accent is placed on the setting up of a bureau responsible for the follow-up of the public and mixed enterprises.

As for the transport and communication structures, a number of aspects are mentioned, such as the tariff system to be applied, the regularity and diversification of routes, etc. This subject is of particular importance in the case of export promotion. As regards land availability, as well as the need to speed up the granting of land, one must define and determine industrial zones provided with a minimum of facilities required to engage in the industrial activity.

In the case of financing, an important step forward was taken following the opening of a line of credit from the World Bank for industry at the Bank of Cape Verde.

One should endeavour to lay down the rules known a priori that will ease the making of decisions regarding the financial needs of the firms involved in projects. So as to follow-up and stimulate the process, other credit mechanisms should be contemplated, such as export credit, etc.

Where fiscal and customs legislation is concerned, the frame of reference must be revised and clarified, as the present system is inadequate. The import-export system, which at present is both slow and far too bureaucratic is also extremely important. Profound changes should therefore be introduced to ensure that the proceedings run more swiftly, in accordance with the needs of the enterprises.

Finally, it only remains to contemplate the need to provide greater protection to specific industries, as the uncontrolled entry of products competing with locally manufactured ones have led to serious difficulties for certain industrial units, sometimes jeopardising their very survival.