

Industrial Strategy Policy
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The objectives of industrial development identified in the Government's Program include taking advantage of Mozambique's natural resources and strategic location, the diversification of domestic industry, the promotion of new industries including the development of micro and small enterprises, the increase of added value to goods and services, import substitution of intermediate goods, increased exports along with the stimulation of regional development.

To achieve these objectives Government needs to adopt an industrial policy and strategy. In this context, using the powers given under article 153.1 (e) of the Constitution of the Republic, the Council of Ministers has determined that:

- The Industrial Policy and Strategy, which is annexed and incorporated as part of this Resolution, is approved.

Approved by the Council of Ministers
Let it be published

The Prime Minister, Pascoal Manuel Mocumbi

Industrial Policy and Strategy

Introduction

Under the Constitution of the Republic of Mozambique, the industrial sector has been ascribed a key role in the development of the national economy.

The responsibility given to this sector is also included in the Government's Programme as part of the struggle to eliminate poverty and the promotion of sustainable economic and human development.

Industry's potential for technological links and externalities as well as for internal and inter-sectoral linkages is the underlying premise for ascribing a key role to industry in the economy. Without such internal and external linkage and integration, the economy cannot develop.

Thus, industry must develop a dynamic, modernizing role in the economy, stimulating its qualitative transformation and growth. In other word, industry should act in close co-ordination with other sectors and particularly with agriculture. Using the inputs from other sectors of the economy, industry would receive, transform and add value. In the

long run, industry will in turn supply other sectors with productive inputs, which will ensure the increase of production and productivity.

Industry has, in the past, carried out the role of economic stimulator and, looking at other countries, in Sub-Saharan Africa, could do so again.

After a period of industrial decline, notably in the period 1990-1994, this sector of the economy has recovered from a state of lethargy and has registered successive and significant increases in the productive indexes during the recent years of 1995-1996 as a result of the efforts put into the sector.

In such circumstances and taking into consideration the premises mentioned above, the conclusion drawn is that, in order to achieve the goal of industrial development, there is a need to establish an industrial policy that would regulate industrial activity in an organized and systematic way.

An industrial policy, together with an industrial strategy, constitutes a frame of reference that, in order to respond to the expectations of the business community in respect of the recovery, re-launching and development of industry, will be continuously adapted to the actual situation of the economy and to direction by the Government.

For these reasons, the definition of an industrial policy, including its goals, guiding principles and priorities as well as its strategy, will permit:

- a. The explicit setting of the objectives and the priorities of industrial development, within the framework of the overall economic policy;
- b. The outlining of the principal alternatives that will guide the development of the sector and the definition of the economic policy measures that will stimulate and guide industrial development in the direction of the proposed goals of industrial policy; and
- c. The introduction of greater foresight and transparency in the Government's intentions and actions in order to restore trust between Government and the internal and external business community.

PART I

INDUSTRIAL POLICY

1. Definition of Industrial Policy

The industrial policy is a collection of principles, measures and activities, which through the increase of industrial production, productivity and quality, contribute to the

achievement of social and economic development. It is based upon entrepreneurial initiative particularly in the areas of agro-industry, textiles, clothing manufacture, metalwork, construction materials, fishing industry, mining and energy, the sustainable use of natural resources and the use of technology which promotes employment as well as giving special consideration to the increase of the supply of consumer commodities and productive activities.

2. Objectives of Industrial Policy

In order to fulfill the role that it has been given within the national economic policy, the industrial policy should create a modern, competitive industrial base that must increasingly reduce its external dependence. For the short term, to the medium and long term development of the sector must pursue a series of specific, interlinked objectives, namely:

- a.** Support the value added use of natural resources;
- b.** Contribute to the balance of external trade
- c.** Contribute to the satisfaction of basic needs; and
- d.** Promote the development of labour intensive technologies

2.1. Value Added Use of Natural Resources

The existence and development potential of ample natural resources, which has been reinforced by the rehabilitation of agricultural production and commercialization, offers a dynamic and attractive framework for industrial development based upon the synergies produced from strong inter-sectoral links.

These resources mainly include those derived from agriculture, forestry, fishing, minerals, energy, etc, as well as the enormous potential, which results from the strategic location of the country, such as, for example, the “development corridors”.

These objectives are pursued in order to:

- a.** Develop inter-sectoral linkages
- b.** Increase the nationally added value
- c.** Diversify the industrial fabric by the exploitation of those resources which until now, have not been taken advantage of industrially; and
- d.** Develop comparative and competitive advantages based upon the availability of natural and geo-economic resources.

2.2. Equilibrium of External Trade

The reduction of the trade imbalance with other countries constitutes one of the major priorities of the economic policy of the Government. Industry should participate in the

overall effort to balance relations with other countries, to generate and save foreign exchange.

To achieve this objective, priority must be given to:

- a. The recovery and improvement of traditional export industries;
- b. The development of industries with export potential;
- c. Import substitution, in particular, at the level of manufacturing inputs that can be produced locally

2.3. Satisfaction of Basic Needs

The eradication of poverty is a central objective of the Government's economic development policy. Rural development figures as a determinant factor for this policy. In this context, the industrial sector should contribute to development.

The pursuit of this objective requires that priority be given to industries that promote:

- a. The supply of essential consumer goods, inputs and means of production, such as tools for working in the field and other productive items to help improve the return from agriculture and thus contribute to rural development.
- b. The direct and indirect job creation and improvement in the qualifications of the workforce.
- c. The development of micro, small and medium industries since these sub-sectors represent a great productive potential within the national industrial fabric; and
- d. The production of raw materials and accessories, infrastructure and equipment.

2.4. Technology Development

Technology development is imperative if the quality of production and the increase of productivity and competitiveness of the internal and external markets are to be improved.

The development of the technology of national industry requires:

- a. Modernization of existing viable production lines;
- b. The development of industries which encourage the use of technological externalities;
- c. The development of capacity for technological innovation and assimilation; and
- d. The development of human capital (education, training, applied research, etc)

3. General Principles and Priorities of Industrial Policy

3.1. General Principles

The definition of the industrial policy is framed by the following general principles:

- a. Conformity with the principal options for the Nation's economic policy
- b. Definition of industry as an essentially private sector activity
- c. Necessity for the rehabilitation and modernization of the industrial infrastructure
- d. Construction of new industrial plants
- e. Geographically balanced development within the national territory
- f. Respect for the preservation of the environment and conservation of natural resources; and
- g. The development of human capital

3.2. Criteria for Setting Priorities

The definition of criteria for setting priorities permits industrial development to be directed towards the objectives that have been defined. Prioritization is warranted for projects that:

- a. Contribute significantly to the increase of the added value of national industry; especially important are: incorporation of national inputs to growing production; technological innovation and the development of links between the different industries;
- b. Existence of export opportunities
- c. Import substitution particularly of basic and intermediate goods
- d. The increased cohesion of the industrial fabric and the creation of conditions for the growth and feasibility of other industries.

3.3. Priority Areas

3.3.1. Transforming Industries

3.3.1.1. *The Food Industry and Agro-Industry*

In terms of development opportunities and priorities, the food and agro-industries must be placed first. This is justified by:

- Their actual importance – production half of the overall value of industrial production
- Mozambique's enormous agricultural potential with the greatest number of short to medium term development possibilities.
- The capacity for the development of inter-sectoral links.
- The potential for foreign exchange earnings and/or savings
- The fact that these industries directly and indirectly respond to the public's basic needs, including employment.

Additionally, this type of industry offers the best opportunities to contribute to the de-concentration of industry, not only in terms of the location of industry close to the sources of raw material but also because certain segments of such industry are particularly appropriate for the creation of small and micro-businesses.

Within this sub-sector there are the following priorities:

- The segments that have the capacity to develop internal and inter-sectoral links and are part of longer chains of production; and
- The segments with export potential

Within these categories, sub-sectors to be highlighted are:

A. Commodity Supply Industries for the Internal and Export Markets

Sugar Industry: the potential for development is great judging by the previously high levels of production (325,051 tons in 1972 compared with 29,288 tons in 1996). This is a big employer of labour (in the 1970's, 45,000 workers were employed in this industry; currently the number of persons working directly in this industry is 14,000). This industry has potential integration links with other sectors and has enormous export potential (120,000 tons sugar were exported in 1979 compared with 25,000 tons in 1996) especially if preferential quotas are taken advantage of.

Cotton Industry: this industry offers great potential for the increase of the domestic components in the textile industry and also for import substitution of edible oils, thereby reducing the dependence on imports. It can absorb the available abundant labour. While there is a large export potential, priority should be given to the supply of local industry in order to increase the domestic added value. The key points for the development of this sector are an increase of the area under cultivation and production.

B. Export Oriented Industry

The traditional export industries are part of this group. With the exception of agriculture, none have developed strong internal and inter-sectoral linkages. Therefore these are accorded priority because of their capacity to generate foreign exchange.

Cashew Industry: The development of this industry must take into account the need to expand through the renewal of the cashew tree plantations, including the evaluation of the possibility of introducing hybrid species. In the narrower industrial context, the sub-products of cashew oil, juice, preserves, dried fruit and alcoholic beverages need to be developed.

Tea Industry: The development effort should be focused on improving the quality to compete in external markets. Production would be increased first through the recovery of the most productive areas and the rehabilitation of production lines with sufficient capacity to process the production from the recuperated zones.

Copra Industry: Similar to the cashew industry, the industry's potential for vertical and lateral integration in the production of oils, soaps, rations, lotions, etc, must be developed.

C. Import Substitution Industries

Cereals: A long productive chain is supplied by this industry (threshing, grinding, milling, bakery products, sweets, pastries, pasta, rations) and responds directly to the needs of the majority of the Mozambican public. Its development should be correlated with the increase of cereal production to avoid dependence on imports.

The development of small units dispersed throughout the country should be given special emphasis.

Fruit and Vegetables: The industries involved with fruit and vegetable conservation and fruit juice concentrates has development potential. Citrus fruit cultivation for juice manufacture for export should be prioritized.

Others: Other food commodities such as beverages (and beer in particular) are solely for import substitution since they are still raw material import dependent. Mineral water sources should be investigated and dully exploited. Other areas, given the lack of sufficient domestic production (such as preserved meat products) warrant a longer-term development perspective.

3.3.1.2. Textile, Clothing and Shoe Industries

The textile, clothing and shoe industries have a traditional position and weight within industry. These industries employ large numbers, in particular female labour, and also have an important development role in terms of their impact on agriculture, especially cotton growing.

The cotton textile and clothing manufacturing industries are priorities because of the opportunities for increasing the domestic content and for exports. This last aspect requires that attention be given to quality control and to external marketing.

Investment in rehabilitation pre-dominates the needs of all sectors of this industry: the preparation and spinning of yarns from fibers, weaving and finishing of fabrics; the manufacture of coverings, raffia sacks and rugs, woven goods and clothing. New

investment opportunities have been identified in the sub-sectors of the manufacture of cotton/polyester cloth, toweling, denim cloth and yarns for weaving.

3.3.1.3. Metalworking and Electro-mechanical Industries

Metalwork and Electro-mechanics are highly “industrializing”. They have a huge structural impact and an ability to pull other industries along with them. They possess a capability for the development of internal and inter-sectional integration and technological externalities.

Metalwork is still of major importance for industrial maintenance since the debilitated state of industrial infrastructures is still a grave problem within the sector. For these reasons, the development of metalwork is one of the principle priorities of industrial policy.

The development of this sub-sector must bear in mind the need to extend metalwork throughout the national territory through the establishment of micro and small industries. The priorities for this are:

- a. Base Metal Work Industries: foundries, forges, thermal treatment and parts machinery.
- b. Industries with Strong Internal and Inter-Sectoral Integration: The best possibilities lie in those industries which can develop links with the construction industry and public works as well as agriculture, such as: hardware and locks, plumbing materials, lighting fixtures and materials, machinery and auxiliary equipment for the movement and transport of materials, maintenance and repairs, metal structures, water pumps, mills, tools, etc, manufacture of internal combustion motors, etc.

3.3.1.4. Construction Materials

Two factors work together to feed the development potential of the construction materials industry:

1. The enormous demand resulting from the need for postwar (re)construction;
2. The existence, throughout the country, of raw materials, which can be taken advantage of for the manufacture of construction materials.

Additionally, the construction material industries respond directly to the Nation’s basic housing and infrastructure needs and contribute to foreign exchange savings.

Actions should be undertaken in the short to medium term to take advantage of the current favorable combination of circumstances. An effort should be made to locate the industries near to the deposits of raw materials, which will also contribute to industrial

de-concentration. In the same way and at same time semi-industrial/ artisanal production of construction materials should also be encouraged.

The rehabilitation of existing viable installations, still in operation is a priority task. The expansion of the sector, in the short to medium term, should be carried out preferably through the development of small scale, semi-industrial/artisanal production using alternative, low cost technology (bricks, ceramics, lime, adobe blocks, etc.)

3.3.2. Fishing

The fishing industry is equally important in terms of its contribution to the supply of the internal market, exports, labour intensity as well as its ripple effect on the rest of the national economy.

3.3.3. Extractive Industries

The potential for the extractive industries is enormous. Their development will greatly to adding value to natural resources and to the increase in exports.

The huge investment needed for geological exploration, for the preparation, implementation of projects, for transport, energy and others infrastructure constitutes the principal obstacle to the development of the extractive industry.

3.3.4. Energy

This area is of vital importance, without which industry cannot adequately function. Particular attention should be paid to taking advantage of all of its possibilities, in particular the comparative advantage resulting from Mozambique's broad endowment in renewable and non-renewable energy resources, namely: coal, hydro-carbons, biomass, wind, solar and hydro-resources.

3.4. Development Opportunities

3.4.1. Transforming Industries

3.4.1.1. Metallurgical Industries

The development importance of the metallurgic industry derives essentially from its very nature structural impact, as well as the linkages it can develop with other sectors such as metalwork, construction and ultimately the mining sector. This sector can also contribute to technology development.

The priorities in this area include iron and steel as essential commodities and within these categories, rolling mills and foundries. Others investment opportunities can be examined for the short to medium term. The feasibility of such investments depends on the confirmation of Mozambique's mineral wealth as well as the ability to attract and mobilize foreign investment.

Thus, project opportunities to be explored are: direct reduction of iron ore using natural gas from Mozambican reserves, production of iron alloys, aluminum smelting, titanium production from existing heavy mineral sand deposits, Moatize cooking coal, cobalt and tantalum.

3.4.1.2. Chemical Industries

This area is of interest for development with regard to:

- The opportunities for adding value to natural resources
- The large capacity of basing intermediate chemical industries to develop technological externalities and inter and intra-sectoral linkages.

However the development of this area must consider the introduction of changes within the current structure. With this view, the following merit prioritization:

a) In terms of rehabilitation

- The products, which generate inputs for other economic activities: rubber manufacturer, batteries, glass, plastics, fertilizers and pesticides.
- Intermediate products for industrial consumption, etc.
- Oils and soaps to meet the basic needs of the public and for developing linkages with agriculture and other branches of the chemical industry. Although rehabilitation activities will predominate, new investment opportunities could arise in the production of edible oils.

b) In terms of development

During the medium to long-term, a wide range of new industries could arise with the exploitation of existing investment opportunities based on natural resources and which favour the development of a more competitive and export oriented industry. These include natural gas, hydroelectric potential, metallic and non-metallic minerals and the cultivation of soil based and aquatic plant cultures. Some of the existing opportunities, which should be investigated, are:

- In the medium-term: production of methanol, sulphuric acid, aluminium sulphate, copper oxychlorate, essential oils, natural dyes, medicinal plants and essences.
- In the long term: production of ammonia, ammonia nitrate, hydrogen peroxide, calcium carbide, Cyanamid, magnesium phosphate for fertilizers, potassium

The development of these sectors, projected for the medium to long-term, will require new installations and new lines of production.

Since these projects require large investments and the acquisition of know-how, foreign investment should be considered.

In recognition of the importance of the pharmaceutical industry, it should be given incentives and should be developed in such a way as to permit the production of medicines for the internal and other markets with export possibilities.

3.4.1.3. Packaging Industry

The packaging industry has significant impact in nearly all areas. Its development should take into consideration the need to have a larger percentage of local components in the production of packaging. It is also important that packaging is subjected to standardization norms.

Rehabilitation is the priority for this area. Nevertheless the development of demand in the short to medium-term will create investment opportunities in all areas including in glass and cardboard containers, metal containers, sacking, wooden containers, paper bags, plastic film wrap, packing materials, among others.

3.4.1.4. Graphic Arts, Paper and Publishing

Within the development process that Mozambique finds itself, these industries are very important given the other areas that need their outputs and services, such as communications and education.

Little has been invested in this sector. Equipment is obsolete and technologically outdated. Thus, there is limited ability to respond to demand.

The rehabilitation and modernization of its industrial plant require investments to be considered in the short to medium term in order for the sector to become truly efficient and capable of plugging the huge drain of foreign exchange resulting from the importation of various goods, which could be produced domestically.

3.4.2. Tourism

The great importance of this industry resides in the role that it should play for the revival of the Mozambican economy. Through the creation of income and employment as well as a source for foreign exchange earnings, this sector will contribute to the improvement of the quality of life of the Mozambican people.

The Government intends to obtain, on a sustainable basis, the maximum of economic and social benefits from the tourist industry. This goal is to achieve by encouraging a diverse range of tourism, from low-cost to high income.

4. Principal Guidelines for Industrial Development

4.1. The Role of the State

The role of the State is essentially to guide, regulate and monitor the development of industry and to create conditions that stimulate industrial activity.

The intervention of the State is achieved through:

- The establishment of an industrial policy
- The creation of an conducive environment which facilitates investment and production; and
- The implementation of a system of incentives to economic activities including the construction of infrastructure; auxiliary investment especially in training, infrastructure and industry support services.

The State will assume the role of investor whenever auxiliary investments are concerned. This includes investments:

- That create conditions that make new industrial opportunities economically viable; and
- Where the State's participation encourages private investment.

4.2. The Role of the Private Sector

The private sector has an extremely investment in industry including its role in the achievement of the goals of economic growth and development by increasing its participation in the development and implementation of the industrial policy.

Within the context of the economic recovery and development the national business community should play a crucial role. Consistent with the recently approved new measures giving the private sector a leadership role in the process of economic restructuring, additional facilitating measures will have to be undertaken to give access to these benefits.

Foreign investment is important for the implementation of the industrial policy, in particular, with regard to the mobilization of financial resources, the promotion of

technological development, management capacity and access to external markets. The development of a range of opportunities in new industrial start-ups is linked to the available investment opportunities to foreign and national investor participation.

4.3. Restructuring of the State Economic Sector

The State will continue to reduce its involvement in industrial production. The restructuring of the business sector constitutes one of the most important and strategic elements of this industrial policy.

The State will center its attention on post-privatization follow-up and support in order to ensure that the privatization process leads to, among other things, the stimulations of the national business community.

4.4. The Rehabilitation/Modernization of the Industrial Plant

The rehabilitation of the industrial plant is a short to medium term goal. The policy approach to be adopted is however, more than just simple rehabilitation. Emphasis must be given to the modernization of the sector in order to rebuild an industrial fabric that is more cohesive, efficient and competitive, through:

1. The restructuring of the existing industrial plant
2. The development of new industrial programs that create pro-active linkages with other sectors of the economy and promote the national industry's positive externalities; and
3. The adoption of a legal framework that assures its development and efficacy.

4.5. The Development of Micro, Small and Medium Industries (SMI's)

The development of Small and Medium Industries (SMI's) is accorded prominence in the industrial policy and constitutes a watershed for industrial strategy. The importance of this sector derives from the substantial contribution it can make to the expansion of the industrial network, to the growth of production and the creation of employment.

Other characteristics that also favour micro, small and medium industries are:

- Flexibility to adapt to market fluctuations
- Less dependence on imports and ability to adapt to supply difficulties
- Ability to take advantage of production factors and installed capacity
- Minimum need for skilled labour, infrastructure and services
- Ability to take advantage of small raw material supply sources, such as in agriculture and that otherwise would not have a market; and
- Adequacy of existing management skills for their operational needs.

The priority allocated to SMI's should be combined with the development of larger scale projects: basic industries that add value to available natural resources and that result in

the structural transformation of the sector and a more economically viable, efficient and competitive integration of existing industry. From an economic and technological standpoint, the implementation of such projects will depend on the use of economies of scale and access to external markets.

4.6. The Role of the Informal Sector

The informal sector is found throughout the country, but with greater concentration in the major urban center. It makes an important contribution to industrial activities.

This sector has the ability to generate employment, which is reason enough to warrant special attention through the use of appropriate mechanisms that would encourage the gradual passage of this segment of the economy to the formal sector.

4.7. De-concentration of Industry

The State will guide the development of industry to ensure that its location to all parts of the national territory. To achieve this, the following measures will be used:

1. Infrastructural build-up throughout the country
2. Fostering and development of micro and small industry
3. Mobilization of the resources and potentialities of the different regions and localities
4. Strengthening of incentives to encourage industry to locate outside of urban centers.

4.8. Preservation of the Environment

Industrial development must respect the ecological equilibrium, and protect and preserve the environment. In this respect, it is necessary that, prior to approval, all industrial projects be submitted to environmental impact assessments.

The industrial exploitation of natural resources, particularly forestry resources, must be managed in order to guarantee renewal and sustainability.

Appropriate attention must be given to the problem of industrial pollution. Specific legislation will be drafted to regulate the impacts of industrial development on the environment.

4.9. Regional Integration

The economic, political and social situation, which characterizes the Southern Africa Sub-region, has created conditions and an environment favorable for increased co-operation and gradual economic integration.

Industrial policy and strategy must take into account the sub-regional context and regional frameworks of the Mozambican economy in order that regional integration will be advantageous for Mozambique. The rational use of available resources, the degree of industrial efficiency and the establishment of basic industries, which require economies of scale, could provide significant benefit for the intra-regional co-ordination of industrial development programs, through for example, SADC.

PART II

THE STRATEGY FOR THE DEVELOPMENT OF INDUSTRY IN MOZAMBIQUE

1. Needs and Goals of the Industrial Strategy

Adoption of appropriate measures has become necessary to ensure the recovery and sustainability of the industrial sector. The constraints, which affect the development of the industrial sector, cannot only be viewed as endogenous. It is necessary also to deal effectively with the exogenous factors in order to improve progressively the environment within which companies operate.

Accordingly, the adopted strategy for industrial development must include a number of directives that will guide the development of activities and strategic planning for the sector. The strategy must provide for the adoption of tools for action and strategic management in order to make dynamic, efficient and competitive. In particular, the strategy seeks to achieve the following objectives:

- a.** The creation of a more favorable environment for industrial activity
- b.** The promotion of industrial investment
- c.** The rehabilitation and modernization of the industrial sector
- d.** Promotion of the private sector
- e.** Industrial growth
- f.** Industrial development along the lines defined in the industrial policy; and
- g.** The development, within the context of regional integration, of a strong and competitive industrial sector.

The strategic direction of industrial development must, be carried out along the major lines, as defined in this policy, which mark the boundaries of the State's intervention and serves as a point of reference for private sector decisions. The implementation of this strategy should, with the greatest possibilities of success, permit the achievement of the industrial policy.

2. Stages of Industrial Development

Taking into account the starting point, the realization of the industrial policy objectives requires a short, medium and long-term view.

2.1. **During a First Stage**, which comprises the short and medium term (5 and 10 years, respectively), the intention is to consolidate the growth that has occurred in this sector, to continue with its rehabilitation and modernization and, to improve conditions for its expansion. Thus:

- **In the short term (1997-2002):** the strategy is to continue those actions designed to break open the strangleholds that have stifled the sector, through rehabilitation, facilitation of credit for operating capital, the acquisition of spare parts, taking some immediate measures including, strengthening of customs controls on industrial goods entering the country and, the pursuit of tax system reform.
- **In the medium term (1997-2007):** The objective is the recovery of the sector through continued rehabilitation and encouragement of new manufacturing start-ups. Rehabilitation will not be limited to the replacement of installed capacity, which will only perpetuate the country's technological underdevelopment, the distortions and dependency of the industrial sector, but rather, it will focus on the modernization and increased productivity of the sector.

In effect, the strategy is for the structural development of the sector. The implication of such structural development is that the rehabilitation of the sector must be accompanied by the redirection, diversification of production and by technological change.

The creation of new enterprises, above all in integrated and structural ventures, has the goal of taking advantage of market opportunities. However, the recovery of traditional export industries and the strengthening of the local components used in industrial production can permit significant advances and for this reason merit prioritization.

Moreover, during this phase, efforts will be directed at the creation of conditions for the sector's long term, sustained growth:

- Creation of a favorable environment
- Increased productivity
- Technological updating
- Infrastructure development, training
- Promotion of exports; and
- Regional integration

2.2. **During a Second Stage**, which covers the long term (1997-2012), the structural changes will give way to the true beginnings of the expansion of the sector. The growth of the sector will be stimulated by exports. The focus should be on the development of an export-oriented industry based upon making use of the

New industries will be started. In this regard, consideration should be given to the development of basic industries that will transform the underlying structure of the sector and provide a more economically viable, effective and competitive frame for existing industry.

Based on economic and technological, the feasibility of such projects presumes the use of economies of scale and access to external markets. A sub-regional perspective will be required to make such projects viable.

For the same reasons, these areas require the mobilization of foreign investment.

3. Principal Directions for Strategic Action

3.1. Promotion of the Private Sector

The private sector is still fragile, handicapped by lack of capital, lack of sufficient technical qualification of personnel, weak management skills and the absence of an industrial tradition. In these circumstances, the State shall carry out a policy to encourage the role of the national private sector. Among the activities intended to strengthen and enlarge the national private sector and develop a business culture are highlighted:

- a. The creation of a more favorable business environment for investment and production
- b. The promotion of small and medium industries (SMI's)
- c. The implementation of professional promotion, education and training programs; and
- d. The establishment of investment incentives.

3.2. Promotion of Micro, Small and Medium Industries (SMI's)

The development of industry in Mozambique is based on the prioritization of a cohesive and competitive network of micro-industries and SMI's. This priority will be combined with the development of larger sized industries that will structurally transform the sector and provide a more economically viable, effective and competitive frame of micro-industries and SMI's.

The priorities for the small-scale of industrial production are directed towards:

1. Rural and suburban zones
2. Making economic use of local raw materials; and
3. Use of appropriate technology

The strategy of the State with regard to SMI's and micro-industry comprises several lines of actions, among which are:

- The establishment of mechanisms appropriate financing mechanisms that facilitate SMI's and micro-industry's access to finances
- The existing funds operating in this area should expand their activities to the whole of the national territory and implement innovative formulas for micro and small industry
- Development of programs for technological advancement including technologies adapted to rural areas and information about technology
- Training which develops management capabilities and entrepreneurial spirit
- The simplification of procedures for the creation and registration of small enterprises and the adjustment of the fiscal system and labour legislation to be more appropriate for small enterprises in order to facilitate their entry into the formal sector.
- The creation of infrastructure for the small producer through the creation of small parks, appropriate for these scale of projects, in the different regions of the country
- The dissemination of information in areas of interest such as legislation, regulations, incentives, financing mechanisms, investment and market procedures and opportunities, etc; and
- The strengthening and reformulation of the institutions responsible for the promotion and development of local industry in order that might provide a more integrated and efficient assistance through:
 - a. Extension of the scope of their authority to include the group of SMI's and micro-industries
 - b. Gradual expansion of their activity to the entire national territory; and
 - c. Development and expansion of specific programs

3.3. Inclusion of the Informal Sector

Efforts will be made to ensure a better integration of the informal sector within the economy through the creation of rapid and expeditious procedures for registration and legalization. In this context, some of the measures to be taken are:

- a. Use of simple registration forms
- b. Provisional registration without prior inspection
- c. Use of simplified statistical forms
- d. Facilitation of information concerning adjusted credit schemes
- e. Facilitation of access to professional training programs; and
- f. A fiscal policy that is appropriate to the sector.

3.4. Promotion of Foreign Investment

Incentives should be given to foreign investment and, through preferential treatment, should be channeled into the industrial priority areas in general, and into export industries in particular.

The attract foreign investment, the relevant State authorities should take a more incisive position, namely:

- a. Mozambique's promotional activities abroad should be intensified, including dissemination of information concerning industrial investment opportunities
- b. The State shall continue its efforts to create conditions which attract foreign investment; such as political and social stability, a functioning economy, a favorable investment climate and the existence of adequate infrastructure
- c. The State shall encourage the establishment of bilateral double tax avoidance agreements; and
- d. The State should stimulate the association between foreign investors and the local business community through the establishment of joint ventures to encourage the transfer and adsorption of know-how

3.5. Restructuring of State-owned Industrial Companies

The State should focus its attention on follow-up and post-privatization support in order to ensure that the restructuring process achieves the intended objectives. These include strengthening the national business community and stimulation of national productivity. The principal measures comprise:

- a. The continued evaluation of the process of restructuring in relation to the defined objectives
- b. The definition of a program of follow-up and support for privatized companies, including: rehabilitation (techno-economic and financial research, market studies, acquisition of technology, etc.), joint ventures, management assistance, etc, and
- c. The establishment of professional training programs for retrenched workers in order to encourage them to develop small productive activities; these programs would be defined and administered by institutions set up for such purposes.

3.6. Rehabilitation/Modernization of Industrial Plant

The need for rehabilitation is paramount and is applicable to all industrial sectors. The strategy to adopt is more than the simple rehabilitation but must include modernization of the sector. Investment in rehabilitation should be encompassed within a program of modernization and assimilation of new technology that has been adapted to the use of national resources and to the demands of international standards of quality and competitiveness.

The State should develop a program, aimed at small and medium industry, for the support and assistance with rehabilitation efforts.

3.7. Public Investment

The role given to the state consists basically in directing the strategy for the sector, in the creation of favorable conditions for investment and for the proper functioning of industry. Thus, public investment should be directed to:

- a. The development of infrastructure including industrial zones and services (electricity, water, technical assistance and research, quality controls, etc)
- b. Training and data regarding investment
- c. Participation in priority projects provided that this participation is to catalyze investment or responds to another strategic need
- d. Participation in complementary undertakings which create conditions to make other industries viable; and
- e. Fostering of industrial activity

3.8. Simplification and Rationalization of the Regulatory Environment

Despite efforts to establish a market economy, the regulatory environment and the regulatory procedures in Mozambique are still complicated and bureaucratic. Public administration requires greater efficiency. Excessive bureaucracy and inefficiency translates into lost time, increases the cost for business and limits industrial sector investment.

Goals to be pursued are administrative reform, de-bureaucratization and the adoption by officials of an attitude that is less controlling and more facilitating of economic activity. With the goal of supporting economic activity through the creation of a legal framework and procedures that introduces transparency, discipline and accountability in the relationship between the State and business as well as minimising the costs which result from long and complicated procedures, the State shall undertake measures to de-bureaucratize the economy and to simplify the regulatory environment and procedures. This effort will include the following areas:

- a. Investment authorization
- b. Registries and Notaries
- c. Industrial and commercial inspections and licensing
- d. Fiscal system including the concession of incentives
- e. Import and export procedures; and
- f. Implementation of labour legislation

3.9. The Financing of Industry

Industrial development requires appropriate financing mechanisms. The state should seek to implement appropriate solutions in conformity with the available resources of the country. Among these are:

- a) **Banking Mechanisms:**

The establishment by commercial banks of specific lines of credit for industry could reduce risks and channel credit for industry could reduce risks and channel credit to areas or to specific sectors and goals (SMI's, micro-business, rehabilitation, young entrepreneurs, women entrepreneurs, etc).

Measures such as the reduction of bureaucracy and regulatory procedures, the shortening of the periods for approval of credit, the use of credit for combining training with technical assistance, the financing of operating capital, financial restructuring and rehabilitation of businesses, the improvement of financing terms should all be undertaken.

b) Non-banking Mechanisms

The State should encourage the setting up of funds to support industrial development through non-banking mechanisms. The existing funds in operation in this area should extend their activities to the whole of the national territory and should apply innovative credit formulas to micro and small industry.

To provide better support to national entrepreneurs, the consolidation of the Fund for the Support and Rehabilitation of the economy should be undertaken.

Risk capital constitutes the sharing of risk and it is a financing instrument, appropriate for the situation in Mozambique where, the private entrepreneur has difficulty in putting together the equity capital and guarantees required.

The development of capital markets, shortly to become operational, is another instrument that is appropriate to a situation where the business community is dependent on bank finance.

Leasing is of great interest as a mechanism for financing of equipment for the rehabilitation/modernization of industrial business. The initial efforts should be encouraged and expanded greatly.

3.10 Protection and Incentives for National Industry

The continued recovery of Mozambican industry, debilitated by long years of war and stifled by adverse environmental conditions and policies, requires protection that is selective and includes strong incentives, until such time as the technological and market conditions are established that permit it to be competitive and efficient. The protection given to industry today is insufficient. In order to confer a greater protection and incentive for the recovery of national industry, measures will be taken in co-ordination with the industrial community. Priority shall be given to those industries with the greatest contribution to:

- a.** The growth of industrial production
- b.** The increase of added value with less dependency on imported inputs; and
- c.** The creation of links with other sectors of the national economy

The following general measures shall, among others, be taken:

- a. The continued reinforcement of customs controls on the borders in order to put an end to illegal importation
- b. The undertaking of tax reform, including the adaptation of the new customs schedule to the current needs of industry
- c. The improvement of the investment climate and easing of procedures for investment approval and registration
- d. The establishment of advantageous terms for access to credit
- e. The prioritization of the supply of domestically produced raw materials to industry; and
- f. The reinforcement of pre-shipment inspection. Protective measures and specific incentives for industry shall be implemented selectively and for limited periods of time, namely:
 - 1. The application of customs rates that protect the domestic market in raw materials, commodities and other products; and
 - 2. The establishment of appropriate fiscal incentives. The application of these measures will be preceded by studies of the specific beneficiary industry in order to guarantee the selectivity, coherence, efficiency and phasing of its implementation.

3.11 Improved Access to Imports

The difficulties in access to imports of raw materials and intermediary inputs has been one of the principal problems faced by industry causing a stranglehold on industrial production. The lack of spare has similarly accelerated the degradation of the industrial plant.

The recovery of the industrial sector is thus largely dependent on improvements be in the area imports. The government shall undertake measures to facilitate industry's access to imports including the simplification of import procedures.

3.12. Promotion of Exports of Industrial Products

Taking into account the small size of the internal market, the long-term growth of the industrial should be stimulated by exports.

The State should encourage the development of exports, through measures such as:

- a. The establishment of export credit facilities
- b. The facilitation of the administration of incentives, the revitalization of export markets and in particular the establishment of (bonded) customs warehouse
- c. Development of data concerning trade and export markets
- d. The encouragement of quality management in industrial production; and
- e. The organization of promotional activities such as trade missions and expositions for products manufactured by local industry.

3.13. Industrial Free Zones (IFZ's)

In a highly competitive market such as that of the IFZ's the success of a new IFZ in attracting investors will depend on its level of international competitiveness relative to other existing IFZ's. The State shall adopt the appropriate measures in respect of both the promotion of IFZ's and the terms applicable to IFZ's establishment and operation.

3.14. Location of Industry as an Instrument of Balanced National Development

The State shall continue to provide direction to the location of industry as a means to better share the benefit of industrialization throughout the country. The strategy to be followed includes: the establishment of infrastructure; the granting of advantages and incentives for locating outside the principal urban centers; and the development of micro and small business that are better adapted to rural circumstances.

The exploitation, within a global, long-term strategic framework, of the country's comparative advantages in terms of location is a guideline for State investment in infrastructure and for the siting of industrial investment.

The strategy for industrial investment location is to foresee the opportunities that could result from the comparative advantages enjoyed by Mozambique, such as a wealthy endowment of natural resources, with transport, communications and energy facilities. Further, this strategy should be integrated within the framework of a spatially efficient organization of economic activity throughout the national territory and within the larger sub-regional context.

A major achievement for the strategy for spatial industrial development would result from the transformation of the current transport corridors into development corridors. The goal is to make productive processes integrate with and branch out into the areas traversed by the existing transport corridors in order to facilitate the passage from a service to a diversified economy. The fundamental lines of such a strategy are to:

- a. Provide the business community with the incentives to consolidate and make the Nacala, Beira and Maputo Development Corridors viable catalysts for the expansion of the economies in these different regions.
- b. Stimulate the replacement, the improvement or the new installation of industry, in particular agro-industry, in areas crossed by the corridors and in their rural and coastal extensions.
- c. Stimulate the creation of poles of development in zones with industrial and energy potential.
- d. Develop infrastructure, equipment and services for ground, maritime and rail transport and for communications along the longitudinal lines of Mozambique,

- e. Increase the national capacity to encourage industrial development through the creation of industrial free zones in the Nacala, Beira and Maputo port areas.

In order to extend the development corridors, it is necessary to stimulate in these corridors and in the adjacent areas the expansion, progression, reinforcement and incorporation of all the potential productive activities, in particular agriculture, fishing, agro-industry and tourism.

3.15. Promotion of Technological Development

Technological development is one of the key questions in industrial policy. Taking into account the technological underdevelopment that characterizes the industrial sector, great effort should be made to modernize and update technology in order to attain industrial efficiency and competitiveness.

The strategy in this area is to create a national capacity for technological innovation, development and adaptation, with emphasis on rurally appropriate technology. This strategy involves, among other things:

- a. The development of a spirit of technological adaptation and innovation in business.
- b. The encouragement of foreign investment as a means of technology transfer.
- c. The encouragement of quality controls in order to master new technology.
- d. The encouragement of engineering offices and research organizations.
- e. The development and dissemination of scientific and technological data through the creation of an information network connected with the existing centers of technological data on the sub-regional, regional and world-wide level.
- f. The provision of incentives for technological development through the grant of fiscal and other benefits.
- g. The development of linkages between technological research the education system and the improvement of the curriculum content of scientific and technological concepts; and
- h. The acquisition and assimilation of new technology.

Technological development has a cascading effect on, among other things, the quality of inputs, the training of the workforce, the level of productivity and employment, the standardization and quality of products and in the structuring of capital and consumer assets.

Thus the technological choices to be made should take into account a series of factors, namely:

1. The available options
2. The evolution of the international technological frontiers

3. The professional qualifications of the workforce and the national capacity for technological absorption
4. The current and projected comparative advantages of the national economy
5. The costs and benefits underlying the adoption of particular technologies
6. The environmental impact
7. The development of the national capacity for technological creativity, innovation and rationalization; and
8. The compatibilisation of specific technologies in order to exploit national resources more intensely and rationally.

3.16. Promotion of Quality

The improvement of the quality of national production of goods and services is essential to ensure their competitiveness in both the internal and the external markets.

Through activities involving standardization, metrology, certification and quality control, the capacity of the National Institute of Standardization and Quality (INNOQ) will be strengthened in order to encourage and co-ordinate the national policy on quality.

Within this framework, the following measures will be progressively implemented:

- a. The creation and promotion of a national system of quality control
- b. The drafting, adoption and dissemination of norms.
- c. The development of a national subsystem of metrology, which will include the creation of metrological laboratories and the certification of measurements.
- d. The establishment of a library that will permit the dissemination of relevant information.
- e. The training of personnel on a national level on the different matters related to the areas of oversight by INNOQ; and
- f. The development of closely coordinated relations between related institutions and organizations

Also within the scope of quality control, a national institution for accreditation, with regional and international recognition, should be developed and established.

3.17. Industrial Data

The establishment of an information system for industry is a basic preoccupation. The information system should take into consideration the diversity of information requirements, among which are: micro and macro economic statistical data and technological data.

3.18. Development of Infrastructure and Support Services

The development of industry is, to a large extent, subject to the availability and the quality of infrastructure and support services (transport, communications, energy, water, sanitation, etc).

The State shall undertake the implementation of its program of infrastructure rehabilitation and construction.

4. Development of Human Resources

The strategy for development of human resources within industry involves:

- a. *Upper Levels of Management Personnel:*** The measures necessary to encourage management-training programs will be undertaken. Institutions of higher learning that are specialized in this area of instruction should carry out the principal role. It is also necessary to stimulate the realization of technical visits by groups of managers to countries with a greater industrial development.
- b. *Middle to Upper Level of Manufacturing Personnel:*** This area is characterized by in-service training, based on technical assistance to individual manufacturing establishments as well as training abroad through apprenticeships for short periods in companies.
- c. *Administrative Personnel:*** Training of administrative workers in industrial enterprises should be encouraged, particularly in the areas of accounting, computers, language and documentation. It will be necessary to consider not only the increase in the number of basic courses but also in the availability of higher-level courses.
- d. *Laboures:*** The development of basic training centers, schools and professional training institutes should be supported to carry out training of labourers in short to medium term courses. Companies should also be encouraged to provide training for their employees.

In order to carry out this strategy and insure the quality of the human resource training, the collaboration between the private sector, institutions of higher learning and the Ministry of Education in the definition of the training curriculum is fundamental.

5. The Legal Framework for Industrial Sector

Although the process of legislative reform of the sector has been initiated, it is nonetheless urgent to accelerate the adaptation of this legislation to the new national dynamic and the new position of the state in the economy in order to clarify the guiding principles and to establish a more favorable environment for industrial activity.

This legislative reform should encompass, on a priority basis, the following areas:

- a.** Legislation for the overall organization of the sector
- b.** The applicable regime for access to and the exercise of industrial activity
- c.** The licensing, registration and recording of recording of industrial establishments
- d.** Industrial property
- e.** Technology transfer
- f.** Environmental protection; and

- g.** Revision and modernization of mining legislation

6. Conclusions

The development perspectives of national industry are, in large measure, linked to two basic factors, that is, real growth of industrial production and access to new export opportunities.

Taking into consideration that:

- a.** The satisfaction of the demands for industrial goods will be determined by the increase in investments and in consumption within the national economy.
- b.** The growth of national income will have an exponent the demand of industrial goods.
- c.** The growth of national income will have an exponent the demand of industrial goods.
- d.** The current level of industrial production is still substantially lower than it was in 1973 and in the period 1980-1989.
- e.** As a result of new investments, there is currently increased activity in the industrial sector.
- f.** The dynamics of the process of privatization has led to a notable impact on the reorganization of industrial production; and
- g.** The internal opportunities already referred to should be additional to export opportunities.

The evaluation of the principal economic indicators suggests that industry have a potential for a more rapid growth. Industrial production should, in the future, occupy a position of leadership in the makeup of the gross national product. This view is based on the capacity for internal economic recovery and the expected inflows of investment, such as , for example, the development corridors, the exploitation of the reserves of natural gas, marble, graphite, precious and semi precious gem stones, coal and heavy mineral sands as well as the construction of the aluminium smelter, the Maputo iron and steel plant.