Glossary

AGOA	African Growth and Opportunity Act (a United States law)
ACP	Africa, Caribbean and Pacific
SADC	Southern African Development Community
WTO	World Trade Organisation
EU	European Union
USA	United States of American
AD	Anti-dumping
USITC	United States International Trade Commission
EBA	Everything But Arms
MMTZ	Mozambique, Malawi, Tanzania and Zimbabwe
IRPC	Corporation tax (*Imposto sobre o Rendimento de Pessoas Colectivas*)
PRE	Economic Recovery Programme (*Programa de Reabilitação Económica*)
SACU	Southern African Customs Union
EPAs	Economic Partnership Agreements
SMEs	Small and medium-sized enterprises
MSME's	Micro and small and medium-sized enterprises
MCT	Ministry of Science and Technology (*Ministério da Ciência e Tecnologia)*
MIC	Ministry of Industry and Trade (*Ministério da Indústria e Comércio*)

IPEX	Institute for Export Promotion (*Instituto de Promoção das Exportações*)
CPI	Centre for Investment Promotion (*Centro de Promoção de Investimentos*)
MISAU	Health Ministry (*Ministério da Saúde*)
DGA	Directorate General for Customs (*Direcção Geral das Alfândegas*)
BM	Bank of Mozambique (*Banco de Moçambique*)
ATM	National Tribunal (*Autoridade Tributária de Moçambique*)
MF	Ministry of Finance (*Ministério das Finanças*)
MINAG	Ministry of Agriculture (*Ministério da Agricultura*)

Executive Summary

The textile and garment industry plays an important role in the development of the national economy, contributing to the reduction of poverty rates. This sector also allows the level of national income to increase by promoting intra- and inter-sectoral linkages.

In the 1980s the textile industry was shaken by problems linked to the structure of the economy, the civil war and natural disasters. During the Economic Recovery Programme (PRE), adopted in 1987, the industry faced great obstacles to produce and compete in the domestic and international market.

The main textiles industries ceased to operate, with only a part of the garments industry continuing to function. These consist of small- and medium-sized enterprises which lack competitiveness compared to their regional neighbours.

Mozambique should take advantage of the good agro-ecological conditions for cotton production, a competitive labour force, the availability of water and electricity, preferential market access to developed markets and the SADC Free Trade Area to construct a competitive textile and garments industry.

To reach the strategic objectives, a number of strategic options were selected, namely:

1. **Cotton sub-sector:**

Option A1: Cotton production for the national market, and
Option A2: High-quality cotton production for export.

2. **Textiles sub-sector:**

Option T1: Cotton yarn production for the national industry and for export;
Option T2: Capulana production, and
Option T3: Small-scale production of traditional products.

3. **Garments sub-sector:**

Option C1: Development of basic products for the national market and for export;
Option C2: Production of traditional clothes, and
Option C3: Production of uniforms and other articles for State and private sector organisations.

With the implementation of this strategy the sector will be able to increase its share of national production and create higher levels of employment and income.

1 . Introduction

The growth of the textile and garment industry in Mozambique is associated with the need to take advantage of its natural potential in terms of the cotton production, sisal and other fibres that serve as raw materials for these industries. Its establishment in the country dates back to the 1960s with the creation of the first textile factory (Textafrica).

During the years running up to independence, other textile and garment factories were installed as the sector was promoted by the government and incentivised by a foreseen industrial park.

After independence, the international community provided credits which were used to continue the designed investment plans and to initiate new projects.

At the start of the 1980's the national textile industry declined due to the effects of the war of destabilisation; the price hike of raw materials on the international market, especially oil; natural disasters, and changes in the economic relationship between Mozambique and its partners in the socialist block, to which part of the output had been exported.

In this context the textile and garment industry recorded gradual falls in the level of productivity which were not easily observable in the period of central economic planning.

With the adoption of the Programme for Economic Rehabilitation, in 1987, the process of restructuring the state enterprises began with privatisation of the companies. Companies under the control of the new *concessionaires* faced high fixed costs due to the high employer numbers which could not be layd off and problems linked to the use of obsolete technology. It was not possible to produce high quality products at competetive prices for the domestic and international market.

Due to these reasons all textile factories went bankrupt while only a small number of garment manufacturers continued their activity.

This strategy enviasages the development of the garment industry as a first step to promote the entire textile and garment sector. It aims for the country to produce intermediate products within the domestic market and improve the trade balance by taking advantage of opportunities granted by trade preference schemes and by the free trade area of SADC.

In order for Mozambican garments to benefit from SADC FTA preferences, the re-establishment of the national textile industry is necessary as a second step.

2. Diagnosis of the Textile and Garment Sector

2.1 Profile of the sector

Cotton production in Mozambique began in 1856, although it was only in 1920 through the Majestic Companies that it became commercial. In the period running up to independence, Mozambique had one of the largest vertically integrated textile and garment industries in Africa, encompassing the whole value chain from harvesting the fibre to spinning it, from weaving the cloth to producing garment. In the period immediately following independence the sector experienced a dramatic decline in cotton production and the disappearance of the textile industry. Currently, the production of seed cotton and lint is once reaching the peak levels of the past.

The Cotton Subsector

The cotton subsector encompasses two important processes, namely the cultivation of seed cotton and the transformation of the seed cotton into lint which can be sold on the international market. More than 75% of the production is located in the provinces of the North and Centre of the country, namely Nampula, Cabo Delgado, Niassa and Zambézia. The small agricultural concessions represent 98% of the total production with the remaining production coming from private agricultural companies and consortiums. Table 1 illustrates the seed cotton production during its peak year of 1973 and more current production levels from 2003 to 2006. Mozambique's seed cotton production potential is believed to be above 400,000 tonnes per annum.

Table 1 – Seed cotton production in Mozambique 2003-2006 (tonnes)

Peak production (1973)	2002/2003	2003/2004	2005/2006
144.061	54.000	93.000	120.000

The cotton fibre quality is mainly determined by the length of the growing season and by precipitation levels. The majority of Mozambican cotton fibre is classified as Type III and is amongst the longest African cotton fibres produced outside Egypt. The average length of the fibre is $1\frac{1}{8}$ inches, with a minimum length of $1\frac{3}{32}$ inches. This length raises the price by 10 to 20% on the world market if supplied without contaminants When fibre of this length is properly cleaned and graded it can be used to make an exceptionally wide array of yarns ranging from 5 to 50 counts or even 60 count yarns with exceptional quality standards enforced. Yarns in this broad range can be used to produce everything from fashionable "ring spun" denim jeans[1] (5—10 count yarns) to t-shirts and fashion forward knit and woven shirts. On the home textile front, yarns of these grades could be used in mid to higher end bed sheeting and fine towels.

Although cotton grown in Mozambique is suitable for a wide range of products, Mozambique cotton is ideal for ring spun 100 percent cotton yarns of 30-36 count resulting in a competitive and sought after product. Yarns of this count could be utilized in a wide range of knit products from t-shirts and underwear to knit shirts and sweaters.

Joint ventures between the Mozambique government and international investors have been established to manage the conversion and sale of seed cotton into lint cotton. The JVs were established in the form of concessions whereby local farmers are required to sell their seed cotton harvest to geographically defined ginners. In return, the JVs provide critical financing and outreach programs for small farmers. The prices for seed cotton are set by government agents to insure small farmers a minimum price level and hence stability of income. The remaining production, which is not under the control of the JVs, is managed by less than a dozen of private associations.

a) Seed Cotton production

The level of seed cotton production in Mozambique is amongst the lowest in Africa and between 1/3 and 1/2 of the international norm. The factors which limits seed cotton production include:

- Under-use of fertilisers and pesticides
- Low-yield cotton varieties

[1] Low to mid range open end spun denim would result in a product over engineered and could not fetch the true value of the longer staple fiber, effectively reducing the value of Mozambique's longer staple fibers. Similarly, utilizing first grade Mozambique cotton to produce uniforms or blankets for the local market would not maximize the value of Mozambique's cotton (quality issues such as contamination aside).

- Low cultivation level of households (which makes up the majority of production)
- Shortcomings in the network of technical assistance for producers
- Shortage of finance

b) Cotton quality

During the harvest, farmers face innumerable risks of contaminating the fibre on the branch. When contaminants penetrate the fibre they are very difficult to remove, severely reducing the quality of the resulting yarn and cloth. The most common contaminants are synthetic fibres and dirt from the sacks used to harvest the seed cotton. Furthermore, the problem spreads when uncontaminated fibres from one farm are mixed with contaminated fibres from another. Mozambique's seed cotton was known for being amongst the most contaminated in Africa. The situation has been improving in recent years due to quality improvement programmes which form part of the innovation and technology programmes which aim to increase productivity and overall production levels.

There are various ways in the selection and classification of cotton, which can guarantee higher prices for the fibre and it is thereby possible to increase production while reducing wastage.

c) Concession system

The JVs manage geographically-defined markets and are responsible for all the agricultural land, processing, financing and marketing of seed cotton and fibres. As such, they operate as virtual monopolies within geographical limits where producers have to sell their product.

Although the recovery of the cotton sub-sector is attributable to the concessions system, this system has reached its limits. The system has been identified as being responsible for the low levels of production and the inability to manage cotton quality and improve the coverage of small farms.

Furthermore, the lack of competition has eliminated most of the incentives for small farmers to invest in their land, given that uniform prices are established.

It is likely that the allegedly low price of cotton on the branch is not linked to low-cost production, but rather with the low quality technical assistance that the management institutions offer to the cotton producers.

d) Markets for cotton

Lacking a spinning industry, Mozambique exports 100 percent of cotton lint produced, principally through the JVs and international cotton traders. There are few direct linkages to end customers. Table 2 lists the destination of Mozambique's cotton exports by country.

Table 2 – Destination of Mozambican cotton lint exports

County	Percentage of exports
Portugal	38.4
Brazil	15.5
India	12.6
Others	33.5

e) Constraints and opportunities of the cotton sector

Table 3 – Constraints and opportunities of the cotton sub-sector

Constraints	Opportunities
1. Low professional capacity 2. Logistical and infrastructural shortcomings 3. Difficulties accessing finance 4. Under-utilisation of fertilisers and pesticides 5. Low-yield varieties of cotton 6. Inefficient programme of agricultural cultivation 7. Contamination and faulty classification of cotton 8. Limitations of the concessions system 9. Lack of use of the cotton remnants 10. Low productivity owing to malaria and HIV/AIDS	1. Potential for high-quality domestic cotton production 2. Favourable conditions for the production of organic cotton *3.* Government programme *Made in Mozambique* 4. The state's interest in promoting investment in the textile and garment sector 5. The possibility of reopening dormant factories 6. Likely rise in the price of cotton and cotton products in the major markets with the elimination of subsidies to cotton producers in the USA under the WTO Agreements 7. Duty-free access for qualifying textiles and garments under the following preference schemes: the EU's Everything But Arms (EBA), the Cotonou Agreement and AGOA

Textile Sub-sector

After independence in 1975, Mozambique's nascent textile industry sprung into action with six major textile firms engaged in the key activities encompassing the entire textile supply chain: spinning, weaving and knitting, dying and finishing of fabric. Not all of these operations depended exclusively on cotton fibre, since some were located in the South of the country, far from the major cotton growing areas in the North. Instead, the Southern mills served the local markets with low cost polyester fabrics. Northern mills, favoured by their location to local cotton crops, produced cotton uniforms and cotton blankets from second and third grade cotton, again, primarily for local markets.

At the beginning of the 1990s, hampered by the effects of the war and due to poor market opportunities, the firms were gradually closed.

Significant textile machinery remains in Mozambique in various states of repair. Most equipment is over thirty years old and include over 30,0000 spindles and possibly 100 shuttless looms that may be revived for producing for the local market.

Garments Sub-sector

The garment industry in Mozambique is currently comprised of three medium-sized factories, which employ about 600 workers in the cutting and sewing of speciality uniforms for the national and South African market. A visit to local markets reveals numerous local tailors and a significant micro-enterprise based stitching industry. Pre-production capabilities, such as pattern and marker making are absent.

2.2 Business environment for the textile and garment industry

2.2.1 Labour Law

The recently promulgated labour law foresees significant changes towards a more flexible labour market. In order to further increase flexibility, productivity and employment levels, the government is working on complementing labour laws which will benefit the textile and garment industry. In this context, the textile and garments sector can put in place practical mechanisms to improve working conditions as a fundamental factor for attaining improved levels of production and productivity at work.

2.2.2 Tax

The following are the main elements of the tax system:

- Value-Added Tax (known as IVA in Mozambique) is a flat tax of 17%, applicable to goods and services (including imports);
- Corporate tax (known as IRPC) is 32%;
- Income tax (known as IRPS) is progressive from 10% to 32%;
- Further taxes for specific activities;

For the textile and garment sector Mozambique offers a total corporate tax exemption during the first 10 years of operation and a 50% reduction for the following 5 years.

As shown in Table 4, this incentive performs relatively well with the principle textile- and garment-exporting countries.

Table 4 – Rates of corporation tax in Mozambique and the main competing countries

Country	Corporate Tax	Notes
Mozambique	Zero (0%) for the first 10 years of production and 50% for the following 5 years.	Free Trade Zones (FTZ) are available to benefit from further incentives for exporters.
India	Zero (0%) for the first 5 years	For companies in Free Trade Areas 50% reduction after five years.
Lesotho	Zero (0%) for the first 10 years	Many companies pay the government a tax of 12%, since they passed the 10 year limit; the government seeks to renew the incentive in the face of global competition.
Cambodia	Zero (0%) for the first 8 years	9% after the first 8 years
China	Zero (0%) for the first two years; from then on, 50% of the local rate	Many exceptions for garment companies vary from city to city and region to region. Special incentives for companies that import new textile technologies

Apart from corporate tax exemptions, some countries offer further incentives such as training financing to increase the productivity and improve skills among workers. This is provided through government training programmes (Cambodia, Dominican Republic, Egypt etc.) or shared training costs with the companies (South Africa, Lesotho, Malaysia). Other common incentives are the provision of subsidised factory shells, export processing zones with adecuate infrastructure and priority customs clearance.

In this context, the Mozambican Integrated Programme for Technical Professional Education (PIETP), which forms part of the Integrated Programme for the Reform of Professional Education (PIREP), will play an important role.

2.2.3 Domestic market opportunities

The demand for textile and garment products is increasing constantly due to rising population figures and rapid economic growth. Especially the following niches are seeing increasing demand:

- Individuals
    - Common garments for individual use;
    - Kapulanas;
    - Products for domestic use.
- Companies and Organisations
    - Uniforms (hospitals, military and police, schools, other state institutions and private firms);
    - Bagging;
    - Other products.

2.2.4 Constraints which have a negative impact on the textile and garment industry

The following constrains are faced by the textile and garment industry:

- An uncompetitive business environment;
    - High energy costs;
    - A lack of logistical services (port services, border posts and roads);
    - Commercialisation of second hand garment at low prices;
    - Low demand for local products as foreign products are favoured
- Low level of know-how in the sector

Due to the importance of electricity and logistics in the development of the textile and garment sector, a detailed analysis of these inputs is offered below:

a. Electricity

Modern textile factories are highly automated, with spinning, weaving and finishing equipment overloading the electrical grid. In Mozambique, the price for electricity – US$0.7-0.8/KWh – is very high in comparison with the main competitors India and China. Furthermore, irregularity, poor quality and inconsistency (current oscillations) of the electricity grid present a large constraint for the textile industry.

The energy supply suffers frequent cuts and oscillations in the voltage which can damage modern textile equipment. The power cuts not only reduce capacity utilisation but they can impact the quality of yarns spun, fabrics formed and finished. The quality and cost of energy vary immensely from the South to the North of the country. The South posses a more developed electrical grid than the North, where most of the cotton is produced.

The textile industry's need for water results from the need to whiten and finish the yarn used to make cloth. Although the country has abundant water, the consistency of municipal supply is variable, even within the same municipality.

b. Logistics

The majority of cotton seed and lint is produced in the provinces of the North and centre of the country. However, the best infrastructure for the development of the textile industry, above all the garment industry, is situated in the South and centre of the country. The South and North of the country are separated by around 2,000 kilometres, with insufficient infrastructure and transport.

The quality of roads is variable and in some areas there are no bridges to cross the main rivers. Maritime transport from the North to the South of Mozambique can cost the same as transport from Asia to South Africa. Despite this, local reaction times have potential to be improved considerably, given that customs clearance is not necessary.

As far as port services are concerned, extended and variable embarking times will limit access to materials and articles for the various links in the distribution chain. This constraint will determine the type of investment made in the future. Cotton producers, for example, who receive a delayed order of fertilisers and pesticides, will produce less cotton. Spinners, weavers and knitters that do not have access to spare parts, dyes or technical samples of yarns and fabrics loose orders. Apparel producers that deliver products late have their payments reduced by 20 -50% and key customers are lost.

Reliable embarking times are of crucial importance to guarantee that exporters receive the full value of the apparel at the moment of sale. Like all countries of Southern Africa, Mozambique is situated at least 4 weeks' embark time from the main Asian textile producers. However, large cargo ships from Asia do not stop at any Mozambican port, making it necessary to tranship the cargo through South African ports. This creates delays of two weeks or more, while container ships wait for a critical number of containers before leaving to Mozambican ports.

It is possible to resort to road transport to reduce the variability of embarkation times to Durban, but the delays recorded at South African border posts vary from two to three days to get the documentation in order. Delays can be even greater when there are discrepancies in the documentation, since the border posts' communication facilities are inadequate.

The delays recorded at the border are considered to be, in large part, a consequence of the requirement that all cargo transported by road pass through the Road Transport Terminal. Given that the terminal is run by a private operator that charges fees for the storage of containers while they wait for customs clearance, there is a potential conflict of interest resulting in almost always questioning merchandise, above all that of high value like fabrics and other textile products. The rates are based on the value of the cargo and the time in the warehouse.

Also in the case of customs clearance, many local businesspeople express their concern in relation to the lack of competitiveness of the despachante system of customs brokers, which operate as virtual national monopolies in the process of customs clearance. The lack of competition between the brokers results in lower levels of quality and service and significant delays. In some cases the brokers can take a week to clear merchandise that, in normal circumstances, should take only two days.

Merchandise that arrives late normally represents a fraction of the merchandise delivered on time. The maximum value of a piece of clothing is only realised in full when it is delivered to the final user or retailer and when the consumer receives it without delays. Merchandise which does not promptly satisfy consumer demand is often heavily discounted. Worse still, an empty shelf, or an inactive knitting machine represents lost sales, generally higher costs and a lower profit margin for producers. Even with standard items of clothing, like T-shirts, rapid and fluid transport is necessary, not because of fashion but because of the management of the material and the costs of providing cotton lint and dyes in an extremely competitive segment of the market. For these reasons, short and reliable delivery times are crucial in the textile and garment sectors.

Table 5 illustrates the time needed (in weeks) to produce and send a piece of clothing from the time an order is placed with a garment factory in Mozambique. The same data are presented for Lesotho, a nearby regional competitor with a successful garment industry. The data presume that the fabric and materials originate from China, a common practice in sub-Saharan Africa as AGOA allows the use of fabrics from outside the region. This table shows a list of six distinct processes, as well as the summary of the respective data:

- Production of the fabric ordered (in China)
- Shipment of the fabric from China to South Africa
- Disembarkation and customs inspection
- Production of the piece of clothing
- Pre-embarkation inspection
- Delivery to the South African port

In each country, three pieces of information are given for each process: the minimum time necessary, the maximum time necessary, and the difference between the minimum and the maximum, or the variation in the embarkation time. The variation reflects the degree of reliability of embarkation. The minimum time from the placement of the order to the delivery of the piece of clothing in the dock of the nearest South African port is 11.6 weeks for Mozambique and 10.8 weeks for Lesotho.

These delivery times can be compared with those of Asian garment factories, which can deliver clothes at a port in the United States in 10-12 weeks on average. It takes approximately three weeks to send clothes from South Africa to the United States and, for this reason, Lesotho and equally Mozambique experience a delay of one and a half to two and a half weeks in relation to Asian competitors in terms of delivery time – if imported fabrics and materials are used. The duty-free access for African producers explains, in large part, why wholesalers to the USA would tolerate more time than that recorded in Asia.

More important than the minimum delivery time is the reliability, or variability, of embarkation, which is the difference between the minimum and maximum embarkation times. All producers and importers/exporters of goods by sea experience delays at some time; these can be due to seasonal variations in the volume of trade, unforeseen events or natural causes. At other times, the delays have to do with inefficiency in the processing of embarkation in customs, delaying the departure of ships. Table 5 illustrates the delays caused by routine activities. In Mozambique's case, a producer can only guarantee embarkation within a period of 3.7 weeks, practically a month. In contrast, a producer based in Lesotho can guarantee, as a matter of routine, embarkation in the space of half a week.

Table 5 – Time to carry out and deliver orders in Mozambique and Lesotho, in weeks

	Mozambique		
	Minimum	Maximum	

? Start of the order process (Chinese fabric to Southern Africa)			
Manufacture of the fabric	4	4	
Transport of the fabric from Asia to South Africa	4	4.1	
Port Elizabeth (PE) or Durban to the factory			
By road (Durban - Maputo US$ 1.600 /20')	0.3	0.4	
By rail ($300)	--	--	
By ship ($200 / container of 20')	0.3	2.6	
Total transport at least-cost (by rail or ship)	8.3	10.7	
Unloading, customs inspection and release (fabric)	0.4	0.7	
Sub-total of least-cost transport of fabric to the factory gates	**8.7**	**11.4**	
Manufacture of the article of clothing	2.0	2	
Pre-embarkation processes	0.4	0.4	
Delivery to South African port of PE or Durban			
By road (Maputo - Durban $700 / container of 20')	0.3	0.4	
By rail	--	--	
By ship ($200 / container of 20')	0.4	1.4	
?Clothing ready FAS in the South African port	**11.6**	**15.2**	

Of the total 3.7 weeks, 3.4 weeks are a result of delays in embarkation at the port of Durban. These extensive delays are the result of the Durban-Maputo embarkation schedule, which is not published since container ships only take goods to Maputo when there is a sufficient volume which justifies a stop at Maputo port and when this is sufficient to cover the charges applied. This means that a container which arrives from Asia have to wait in Durban for an indefinite period before being loaded onto the first available ship destined for Maputo.

Producers and customs brokers estimate that this period between disembarkation and re-embarkation is, on average, between 14 and 21 days. The alternative available to a producer that is expecting sensitive cargo is to pay eight times the cost of maritime freight and send the container by truck. This option is not only more expensive, but also riskier, given that the goods transported are subject to unforeseen difficulties of various types.

Although a short- or medium-term solution aimed at increasing the frequency of traffic between Durban and Maputo is not expected, the fact is that this continues to be a significant obstacle to the development of a globally competitive industry.

International air transport can be dispatched from Maputo Airport, but it seems that the charges relating to airborne freight from Maputo are much higher than those of other routes for similar distances outside Mozambique, owing to the existence of few airlines, with little competition between them. For this reason, airborne freight cannot be shouldn't be considered as amongst the main means of sending goods internationally.

It's possible to access South Africa's ports and airports through an efficient road network in the South but, in practice, they inaccessible from the North of the country.

2.3 The International Environment

2.3.1 Market access

In the past, sub-Saharan African countries could count on regular orders from the developed world as the Asian producers were limited due to textile and garment quotas. However, the changes currently being witnessed are affecting global textiles and garments trade. These changes include:

- ✓ The end of the Multi-Fibre Agreement on 1 January 2005;
- ✓ Alterations to preferential access agreements (AGOA and others);
- ✓ China's accession to the World Trade Organisation (WTO) in December 2001, and
- ✓ The increase in safeguard measures, such as protectionist measures and “anti-dumping” duties.

Buyers seek out producers which benefit from zero tariffs and quotas and then select the most competitive and efficient regarding price and delivery.

1. African Growth and Opportunity Act (AGOA)

The African Growth and Opportunity Act (AGOA) allows a selected group of sub-Saharan African countries preferential access to the American clothing market since 2000. Mozambique is also part of the Sub-Saharan African countries benefiting from this treaty.

A key clause in the AGOA legislation allows sub-Saharan African countries (with the exception of South Africa and Mauritius) to process fabric imported from anywhere in the world. This “third party fabrics” clause offers instant access to the established global distribution chains to beneficiary countries. This clause was considered a key benefit for many sub-Saharan African countries to be able to launch their garment industries, since textile production in these countries is limited.

One of the last laws passed by the American Congress in 2006 was the AGOA Investment Incentive Act of 2006. This law contains three clauses which are of particular importance for Mozambique:

- ✓ Renewal of the clause covering third-party fabrics until September 2012;
- ✓ The inclusion of a clause which will limit the use of certain fabrics from third countries which are “available” in sub-Saharan African countries;

- ✓ A clause which extends duty-free benefits to textiles wholly obtained in sub-Saharan African countries (excluding South Africa and Mauritius).

The second important clause of the AGOA Investment Incentive Act mitigates the concerns of the development of a regional textile industry, as it closes the door to third party fabrics when the US International Trade Commission (USITC) considers that there are local materials available.

The Act's third clause bestows duty-free benefits on national textiles, fibres and fabrics if they are wholly produced in the less-developed sub-Saharan African countries. The item should be produced entirely from sub-Saharan African fibre. This is a much stronger rule than that applied to garments, which does not demand the fibre being from sub-Saharan African countries. Mozambique could consider the possibility of attracting an integrated national textiles producer that could meet this requirement, establishing a new market niche under the terms of AGOA.

2. Preferential access to the European Union

Today Mozambique can get preferential access to the EU market through:

- ✓ The Interim Economic Partnership Agreement, initialled but still to be signed and implemented, or through the general Economic Partnership Agreement still being negotiated (currently the EU market is open for those countries, including Mozambique, that signed the interim agreement so that they continue to export to the EU tariff- and quota-free, despite the fact the Cotonou Agreement expired on 31 December 2007), and

- ✓ The European Union's General System of Preferences scheme for the Least Developed Countries – Everything But Arms (EBA)

The EU's ACP/Cotonou Agreement is more generous than the EBA programme in the way it allows the use of regional textiles for garments benefiting from preferential treatment when exported to the EU (despite South African textiles never having been approved as eligible for use in garments benefiting from preferential access). In contrast, EBA does not allow the use of textiles from the region nor third-countries and demands that garments exported from Mozambique include materials and fabrics whose weaving or spinning took place in Mozambique.

3. Free Trade Area (SADC)

South Africa could take on an important role as a partner for the development of a garment industry in Mozambique and, eventually, of an underlying textile industry - be it as a source of materials or investments for the production of these goods in a more competitive way. However, Mozambique's preferential access to the South African market through SADC is limited by the SADC rules of origin applicable to textiles and garments which require two stages of processing ("double transformation"). In this case, garments cut and sewn in Mozambique from fabric produced in South Africa are not eligible for exemption from duty, unless the South African fabric was also produced from fibres spun in South Africa.

The key ingredient which is lacking is a provision for "accumulation" of origin amongst the SADC countries. In the case of accumulation, SADC would require that two stages of transformation in any SADC country were required for originating status. In this way, fabrics produced in South Africa and sewn in Mozambique would be eligible for exemption from duty in any SADC country.

Finally, and in relation to SADC, Mozambique is granted a small amount of exports to South Africa under the MMTZ quota for garments produced from third-party fabrics.

2.3.2 Implications of the changes in preferential agreements

In the USA, negotiations on preferential trade agreements have been concluded with five Central American countries and the Dominican Republic. Other negotiations are planned with garments suppliers in the Andes region, Thailand, South Africa (SACU) and North Africa.

The EU is also continuing with its EuroMed programme, under which North African, Middle Eastern, Eastern European and Turkish producers are invited to join a PanEuro free trade area.

The free trade partners of the main markets seek to link permanent duty-free access to these markets with new rules of origin, permitting the use of yarn and fabrics originating from unconnected regional blocks. The result will be to strongly attract investment to the textile and garment industries of these countries which, in other circumstances, could have gone elsewhere. Although it is difficult to predict the pace at which these agreements are made and their impact on sub-Saharan African countries, like Mozambique, they increase the number of competitors with duty-free access that will face each other in these markets, which will increase competitive pressures and reduce the advantages of duty-free access. It will also raise the bar in the reduction of reaction times.

Government Intervention Strategy

3.1 Strategic Objectives

A. Increase in cotton production

Above, the fact that current levels of cotton production are below the country's existing potential was noted. The strategy seeks to optimise the production of medium-quality cotton for national industry, high-quality cotton and organic cotton for export.

B. Establishment of a spinning and weaving industry

Measures should be taken to promote the attraction of international investors in the spinning industry. The main benefit of this measure would be, in the initial phases, to improve the dialogue between Mozambique and investors in relation to the constraints on the establishment of a spinning industry in Mozambique. Cotton producers would also benefit from improved prices and direct interaction with technicians from spinning factories, which would result in higher quality cotton production, as well as co-ordination along the length of the value chain of this crop in the country.

These investors could market the yarn in other countries while a proportion [could be used] for capulana [alternatively sarong/kanga] production to supply the internal and regional markets given that its production does not require specialisation or investment on a grand scale [/a great number of investments?].

The local processing of cotton into yarn or cloth, however, without the payment of international logistical costs, could reduce the costs of textile production. For this reason, access to local cotton could constitute a significant benefit for the establishment of a textiles firm in Mozambique. However, more than raw cotton, availability of cheap electricity, water, treatment systems for waste water and transport facilities are necessary. The size of the local market is another aspect which informs the investor's decision of where to establish a textile factory. These considerations suggest the opportunity to stimulate vertical integration in the sector.

C. Establishment of export-oriented garment factories

The establishment of a group of export-oriented companies will constitute an important step towards the creation of a more capital-intensive textile industry, since investors will look for signs that demonstrate that the business environment in Mozambique makes the establishment of this industry economically viable.

D. Taking advantage of the internal market

With the aim of taking advantage of the opportunities the internal market offers through the promotion of national produce, the industries should be equipped to enable them to respond to demand, in terms of quantity and quality, for clothes and school, hospital, military, semi-military and work uniforms.

E. Establishment of small-scale production of traditional products

The textile and garments sector offers opportunities for self-employment in the small-scale production of yarn, cloth and goods for traditional use. These would be products like traditional clothing and decorations that can be produced individually or in producers' associations.

3.2 Strategic directions

Reduced risks and uncertainty in the opening of businesses and the implementation of policies to promote transparency, are the best way to encourage the development of the garment industries. It is in this context that the following strategic directions have been defined:

a) Development of diplomas complementing the Labour Law

Mozambique approved a labour law that established a number of rules in line with those of international competitors. It would be advantageous to develop flexible diplomas, complementing the above law, in such a way as to contribute to stimulate employment and increase productivity.

b) Improvement to embarkation and customs clearance services

Measures linked to improving confidence in the administration of Alfândegas (the Customs Authority) could contribute immensely to mitigating the impact of the long embarkation times, guaranteeing that all the procedures under its control are executed in a consistent manner. If producers could plan embarkation times within Mozambique with a lesser degree of uncertainty, they could potentially reduce the impact of the [infrequent] embarkation schedules.

The planned revision of the Maritime Law will contribute greatly to open cabotage (domestic maritime transport) to national and foreign operators.

c) Provision of suitable factory shells in free industrial zones (export-processing zones)

[Section empty!]

3.3 Strategic options

Mozambique has the attributes for the development of the textile and garments sector along the whole value chain. However, the removal of constraints to the realisation of some options would involve higher costs. For this reason, it makes sense to focus efforts on promoting the development of specific areas, discussed below, with the potential to induce the development of the rest.

Cotton Sub-sector

For this sub-sector the options below were chosen to take advantage of existing production potential and market opportunities:

Option A1: Cotton production for the national market, and
Option A2: High-quality cotton production for export

Textiles Sub-sector

The development of the textiles sub-sector will be induced – if in the medium- and long-term – by the increased productive and export capacity of the garments sector. Therefore for the short- and medium-term the following options were selected:

Option T1: Cotton yarn production for national industry and for export
Option T2: Capulana [/sarong/kanga] production
Option T3: Small-scale production of traditional products

Garments Sub-sector

The short- and medium-term development of the garments sub-sector will be the main catalyst of the development of the textiles sector in the long-term. In this context, while the textiles sector is not fully functional the garments industry will import cloth to produce and supply the national and international markets, taking advantage above all of preferential access. With its development the development of the textile sector will naturally be induced.

There being a wide range of options in terms of product and market, the strategy focuses on the following options:

Option C1: Development of basic products for the national market and for export;
Option C2: Production of traditional clothing;
Option C3: Production of uniforms and other articles of clothing for organisations (the state and private sector organisations).

4 Action Plan

4.1 Cotton Sub-sector

The development of the textile and garments sector with a view to vertical integration of the production and value chain necessarily implies the supply of cotton, the main raw material. In this context it is important to maximise the take-up of existing opportunities, which includes the increase of exports and of the income of families in rural areas.

The following actions should be carried out:

a) Identification of areas with potential for cotton production

A study appears to be important owing to the need to guarantee the quality of cotton, which depends on the suitability of the soil. It's equally necessary to carry out specific studies for agro-climatic zoning and the prospects for vertical integration.

b) Agricultural land and learning

The interaction between industrialists in the textiles and garments areas and those involved in the supply of cotton will create favourable conditions for a dynamic learning process. Cotton producers are, in this context, the main target of cultivation activities owing to the effects that cause the low tide. This activity would appear to be important in attracting investors from the textiles area with experience in the vertical integration of the product and value chain. However, the interaction between cotton producers, industrialists (textiles and garments) and all the other actors from the public and private sectors should be promoted.

c) Improvement of cotton quality

The improvement of cotton quality determines the profitability of production and the attraction of investors throughout the value chain. Carrying out training activities will be an important contributor for the achievement of this objective. Also crucial is the sharing of technical guidance about suitable procedures, production practices, harvest (separation according to quality), drying, storage and transport of cotton seed.

To reduce the contamination of cotton it's necessary to equip operators with techniques and means of handling the product and the use of suitable packaging.

Action to protect the environment is equally necessary, including the appropriate treatment of chemical residues.

d) Production of organic cotton

The increasing demands of the international market in relation to cotton quality offer the opportunity to carry out studies with a view to making the production of organic cotton viable.

The studies should include the evaluation of market niches, requirements for certification and the impact on small farmers that use reduced quantities of pesticides and fertilisers.

4.2 Textiles Sub-sector

The following are the priority activities envisaging the development of this sector:

a) Investment promotion in the textiles sector

The revitalisation (restoration of dormant enterprises and establishment of new industries) of the textiles sub-sector requires the adoption of a[n industrial] promotion programme. This should include compiling existing information on the matter and the production of promotional brochures. This material should be made available to potential investors through the investment-promotion bodies and/or other public institutions with internal and external functions.

The campaign for investment promotion should contain a strong marketing component, aimed principally at countries whose tradition or specialisation in the textile sector is unquestionable, as well as to operators specialised in garments in these same countries or the SADC region.

b) Development of products for niche markets

One of the ways to maximise access to textiles markets is the identification of niche markets for certain products, namely:

- ✓ Biological cotton products;
- ✓ Yarn produced from high-quality fibre;
- ✓ Typically African products, and
- ✓ Traditional products produced on a small-scale.

4.3 Garments sub-sector

The state can, through procurement, play an important role in the development of the garments sector, above all in the areas of health and education. Consistent and stable demand for products would stimulate investments and in this way allow the growth of the industrial park.

The development of the garments sub-sector will also be ensured by the following measures:

a) Building the capacity of existing industries

With a view to building the capacity of the garment industry, the following measures are hereby adopted:

- ✓ The promotion of consumption of local products by public and private entities, in particular school and public service uniforms, work uniforms and hospital clothes;
- ✓ The incentive for renewal of the paralysed industries, through the attraction of investors;
- ✓ The removal of obstacles to the development of the sector, which includes:
  - ? The design of diplomas complementary to the Labour Law
  - ? Improvement of embarkation and customs clearance services (use of electric cards in the process of customs clearance)
  - ? Participation in funds for investment in worker training

b) Promotion of the establishment of garment industries

The establishment of new industries will be promoted through:

- ✓ Establishment of Free Industrial Zones (export-processing zones);
- ✓ Establishment of factory shells;
- ✓ Preparing and putting into use the industrial parks of:
  - ? Beluluane;
  - ? Dondo, and
  - ? Nacala
- ✓ Incentive for the establishment of SMEs and the formation of associations for the production of African clothing;
- ✓ Raising awareness of opportunities in the garments sector found:
  - ? In the existing package of fiscal and customs incentives;

? In free access to markets through preferential schemes (AGOA, EBA/EPA, SACU and SADC);

? In the availability:

- Of an experienced and easy-to-train labour force, and
- Of land for the construction of factory shells, designed for use by the garments industry