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THE TEXTILE AND GARMENT SECTORS IN MOZAMBIQUE

An Appraisal

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Dates:19 January – 26 February 2004

Submitted by: Chemonics International, Washington DC,
Southern Africa Global Competitiveness Hub, RAPID, Gaboronne
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Submitted to: United States Agency for International Development

Maputo, Mozambique

February 2004

USAID Contract No: 690-1-00-00-00149-00 RAPID

CONTENTS

DEDICATION

This study is Dedicated to the people of Mozambique: to the old and the dead who suffered for so long in bringing Mozambique a chance to share in global development as a free country and an equal partner; to their fine descendants many of whom are working so hard to avail themselves of the opportunities now presented; and to the clever, warm and ambitious young, whom it is hoped will benefit directly or indirectly from this Study

PREFACE

Details of the substantive origin and request for this Study are to be found at the beginning of Chapter 1, Introduction, under the first sub-heading, Rationale. The initial investigation, research and Draft was undertaken by the Chemonics' Advisor, John Cockcroft, on Secondment to the United States Agency for International Development (USAID) Private Sector Enabling Environment Office in Maputo, from USAID's Regional Global Competitiveness Hub Office in Gaboronne, otherwise known as the Project for Regional Activity to Promote Integration through Dialogue and Policy Implementation (RAPID).

This period divided into approximately three parts: initial Briefings and a four-day field trip to Textile mill and Garment factory sites, utilising a light aircraft in the company of six other persons from the Ministry of Trade and Industry, USAID, Institutions and the Private Sector, each identifiable by an asterisk against their names in the subsequent page, Persons Seen and Acknowledgements; a two week period largely involved in interviews in Maputo; and a subsequent Draft writing period. Mr.Peter Minor, of Nathan Associates, Washington DC, then liased with Mr. Cockcroft on a continuous basis, whilst re-formatting according to USAID presentational requirements.

ACKNOWLEDGEMENTS

The author wishes to thank all the Mozambiquean and American persons whom he encountered during the course of his work. In particular he wishes to accord his thanks to Mr. Timothy Born, Team Leader, Private Sector Enabling Environment Division of the USAID office in Maputo, for his vision, energy and realism in conceiving a four-day visit to all relevant sites described herein, who attempted to maintain an impartial interest throughout and to whom the author was accountable; to Ms. Nilsa Miquidade, Head of the Department of Industrial Policy at the Ministry of Industry and Trade (MIT) who, on behalf of the Government, requested the study from USAID and who also maintained an objective interest throughout; to Mr. Alihai Dassat, for his friendship and most impressive interpretation services and personal skills in all the Consultants' meetings and visits; to Mr. Ashok R. Menon, of Nathan Associates, currently seconded as Senior Trade Policy Advisor to the Mozambique MIT for his numerous personal kindnesses and perceptive comments; and to Mr. Hipolito Hamela, Senior Economist, plus Fernanda, both in the above Division at USAID, for their continuous assistance during a preliminary visit in November 2003.

LIST OF PERSONS SEEN

During this Visit, January-February 2004

Ms. Nilsa Miquidale*, Head, Department of Industrial Policy, MIT, Maputo
Mr. Tim Born*, Team Leader, Private Sector Enabling Environment Office, USAID, Maputo
Mr. Alihai Dassat*, Chairman of several garment companies, Maputo/Mozambique.
Mr. Ashok*, Nathan Associates, Currently Senior Trade Policy Advisor at MIT,
Dr. Joao Ribas, Admistrador of the Grupo Joao Ferreira dos Santos and Chairman of the National Cotton Growing Association
Mr. Hmad, Proprieter of MICA, Maputo and his colleague,
Mr. Addas A. Ezzeddine of the Mozambique International Trading Company, Lda.
Mr. Yves Robert Lamusse, Director, the Palmar Group, Mauritius and his colleague,
Mr. Joao T. Nogueira, Director General and Country Manager, Belita, Beira.
Dr. Paulo Dias Sandramo, Administrador, Texafrica, Chimoio.
Dr. Carlos Ribeiro, Pres. Cons. Administracao, Riopele and member of the Grupo de Empresas Pfaff, Portugal.
Mr. Mussa Usman, Director-Adjunto, Centro de Promocao de Investimentos (CPI), Maputo.
Mr. Kenneth Gunn, Team Leader, Firm Competitiveness Office, Projecto par Desenvolvimento Empresarial (PODE), Maputo.
Mr. Steven Dils, Industrial Development Assistant, United Nations Industrial Development Organisation (UNIDO).
Dr.Robert Kirk, Vice-President, The Services Group (TSG) Arlington, Virginia, engaged in trade- related issues for MIT.
Mr. H**.** Pateguana, Senior Civil Servant concerned with the Sector in MIT.
Mr. Joao Viseau, Aga Khan Foundation;
Ms. Elizabeth Jaffie, US Embassy in Maputo;
Mr. Fergio Chitara***,** Director of the Confederation of Trade Associations;
Mr. Helder Salomao Magaia*, Junior Economist in the Technical Unit for Regional

* Denotes co-member of Party for extensive field-trip

In November 2003:

Ms. Olga Massango Gomes, Directora National Adjunta, Ministry of Industry & Commerce (we wish her a swift and complete recovery);
Mr. James LaFleur, Associate of Booz Allen Hamilton, seconded to the CTA;
Mrs. Leslie Johnston of Technoserve;
Members of USAID staff in Maputo:
Mr. Julius Schlotthauer, Senior Economic Development Advisor
Mr. David Stephens,Mission Environmental Officer
Mr.Hipolito Hamela, Senior Economist

LIST OF SITES VISITED

Texafrica, Chimoio

Emma, Chimoio

Belita, Beira

Textil de Mocuba, Mocuba

Texmoque, Nampula

Texmanta, Pemba

Riopele, Marracuene, nr. Maputo

Texlom, Matola, nr. Maputo (in November 2003)

+

Retail Shops, Maputo: Several for textile fabric and ready-made clothing sales

Street Markets, Maputo: Several for second-hand clothing sales

ACRONYMS

AAITPC	Asia-Africa Investment & Technology Promotion Centre
ACP	Africa, Caribbean Pacific (partnership usually expressed ACP/EU)
AGOA	Africa Growth and Opportunity Act (also AGOA's I, II & III)
AKF	Aga Khan Foundation
BDCSDI	Beira Development Corridor (SDI)
BIM	International Bank of Mozambique
BoP	Balance of Payments
CBI	Caribbean Basin Initiative (trade with the US)
COTONOU	Name of city in Africa that hosted EU trade Agreement
CPI	Centre for the Promotion of Investment
CTA	Confederation of Trade Associations
DIFID	Department for International Development (UK)
EPZ	Export Processing Zone (several factories)
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries.
IFC	International Finance Corporation (WB)
IFZ	Industrial Free Zone (i.e. individual factory)
LDC	Lesser Developed Country (avg. income < $US 1500/annum)
MDCSDI	Maputo Development Corridor (SDI)
MFA	Multi-Fibre Agreement
MIT	Ministry of Industry and Trade
NAFTA	North Atlantic Free Trade Area
NPV	Net Present Value
PMU	Project Management Unit
PODE	Projecto para o Desolvimento Empresarial
PSC	Project Steering Committee
RPM	Revolutions per min. (looms)
RSA	Republic of South Africa
RAPID	Reg. Activity to Prom. Integ. via Dialogue & Policy Imp. (USAID)
RATES	Regional Agricultural Trade Expansion Support Project (USAID)
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDI	Spatial Development Initiative
SOW	Scope of Work
TSG	The Services Group (USA)
UNIDO	United Nations Industrial Development Organisation (Vienna)
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organisation (Geneva)

EXECUTIVE SUMMARY

A statement by the CEO of Protol, Mozambiques' largest telecommunications company in June 2000-1, in a joint publication by the United Nations and the International Chamber of Commerce, 'An Investment Guide to Mozambique', neatly summarises the business environmental climate continuing to apply at the beginning of 2004: ' While the investment scene is overshadowed by weaknesses in the business environment, the potential for growth in Mozambique remains enormous and growth is likely to continue in the future. Appropriate policies to reduce bureaucracy and instability while providing support for the private sector can contribute enormously to the progress and success of Mozambique, in particular through business linkages. Mozambique must start looking inwards at its strengths and comparative advantages so that it can then look outwards and compete'.

The statement overall is as relevant to the Textile/Garment Sector(s), as to other sectors of the economy, particularly when potentials for 'business linkages' are taken into account. For the purposes of this Study, the Textile Sector will be said to embrace a Stage 1, Cotton Lint Production and Ginning; a Stage 2, comprising yarn and fabric manufacturing facilities that are collectively referred to as The Mills; and a Stage 3, Garment Factories and Production.

Government, in conceiving this Study, in conjunction with USAID, has objectively recognised the need to look for any 'strengths and comparative advantages' that could still derive, from a once buoyant and integrated Sector. Even as recently as 1999, Stage 1 production of Lint replicated historical peaks of 120,000 tons. Following a steep decline, for definable reasons, the Stage is rapidly recovering, and last year produced over 40,000 tons and directly engaged about 250,000 persons. Even in the early 1990's, integration was a strong sector characteristic, with for example, 30,000 tons of Mozambique lint passing downstream to the largest Stage 2 mill alone. Even existing Stage 2 assets could utilise at least 40,000 tons of Mozambique cotton p.a.

Currently, all the Stage 2 Mills are dormant. *Large production capacities are lying idle around the country, bogged down in a morass of legal, financial and ownership wrangles, that beg to be resolved.* In the meantime, Stage 1 production will continue to be exported to a remarkably diverse range of global markets, whilst such producers indicate that it would be more profitable to re-integrate into a national supply chain, if such could be resurrected. In the meantime also, the potentials now existing in Sub-Saharan Africa for Stage 3 Garment production, are being vividly demonstrated, by for example, the creation of 20 - 30 such companies in each country, Lesotho, Swaziland and Kenya. Garment employment in such countries is rapidly increasing, with several now in the range 10,000 – 60,000 persons. In Namibia, one company alone employs 7,000 persons. In tiny Mauritius, over 80,000 have now been engaged in Stage 3 production for several years, but over-spill investment into the Continent is taking place from there and from RSA as costs of production become un-competitive.

Much of this Regional progress derives from opportunities accorded under AGOA. But imminent changes in yarn and fabric sourcing rules that will stipulate that only Regional or US yarn and fabric can be utilised for AGOA qualification and that begin to take effect from 2006, will mean that much recently created Stage 3 capacity, could be left high and dry, with possibilities for disastrous socio-economic and possibly political consequences. There is rapidly emerging Regional weak-link in the Regional value-chain, in that Stage 2 production potentials will be in serious imbalance with Stage 1 and 3 potentials. New Regional investment in Stage 2 is now occuring, such as a $US100 million vertical denim plant in Lesotho, three new spinning mills and a vertical mill in Mauritius, but collectively they will be insufficient to service the potentials even of AGOA alone. Some serious new investments are under-capitalised and are unable to realise their potentials, such as a modern spinning mill in Zambia.

Thus several countries are looking to their older Mills. In Tanzania, some 12 out of 14 have recently been subject to a successful privatisation programme. In Malawi, a very large ‘colonial mill’, also with over 100 wide Sulzer looms, has recently been privatised. Again in Tanzania, an old vertical mill with old equipment is now producing fabric for two wide-width state -of- the art Laxmi printing machines with continuous telemetric connection with the maker’s in Austria. This represents an investment of over $US 6 million, including purpose-built factories for the printing and for making-up household textiles and apparel. The former is already being sold in Canada, whilst the latter will eventually be sold under AGOA, following further technology up-grades in spinning and weaving.

In Uganda, where it was said that ‘nothing could be done for the Sector’, because it is land-locked, lint production was having serious problems and the domestic market was totally flooded with second-hand clothing, etc., three remarkable things have been done. First, a spinning mill has been revived, with Japanese management, to spin organic cotton that is knitted into T-shirts and sweat-shirts for niche US markets under AGOA. Second, an Asian family has procured concessions on, or bought, an old coffee warehouse and processing plant which has been converted into an excellent garment production facility, now employing 1400 persons. It is continuing to progress and during February 2004 acquired a $US 12 million order under AGOA. Third, a privatised large vertical colonial mill is now acquiring new spinning machinery, financed largely through cash-flows generated by a unit of over 100 wide Sulzer looms dating from the late-1970’s operating round-the-clock on a 7-day- week.

Such selective and creative initiatives should be of interest to Mozambique. They counter frequently held and outspoken views, that such technologies and plants are too old to compete. Obviously, brand new investment in brand new buildings and machinery is to be preferred but when such are few and far between and when such older resources exist, it certainly makes good sense to *see* if they can put to work again. Here, in Mozambique, the same type of valuable Sulzer loom is lying dormant, 148 of them in Mozambiques’ largest mill. This is a tragic waste of resources. The make of machine is amongst the very best on the planet and such a weaving unit, new, would now cost over $US 20 million. Several looms are to high specification, with 20-shaft dobbies and four-colour weft patterning capability, or both.

A further 32 such machines are festering in a mill near Maputo. ‘Those will never work again’ was a general view after they were left amidst the considerable debris of a collapsed roof during the Great Flood in 2000. But one Mozambique mill, Riopele, the only mill currently showing any signs of life, has very recently purchased four of them. The excellent maintenance team has checked them over mechanically, burnished and polished them until they are as new.

Other such situations exist, as with 24 potentially fine, wide Somet Master looms equipped with dobby and multiple weft insertion capabilities that are lying around *outside* Texmanta in the North of the country. When visited, only one loom was remaining in the Mill, but, in its remarkably good condition, spoke volumes for what might have been achieved. Wiring suggested that there were 48 looms. The general situation at Texmanta just added to the sector lament that meanwhile the Global and Regional Sector is racing ahead and that by the day, it will become progressively more difficult for Mozambique to catch up. Several valuable Benninger warping machines, again costing over $US100,000 each at to-days' prices and amongst the best available, are also scattered about the country as though in a state of total abandonment. All such machines could and should, be brought into production again.

The questions are, how and where?. For the sake of simplification, it will be said that Stage 2 comprised six mills. Now the focus can narrow to three, apart from any lingering equipment issue as just described. To three, because one of them, Mocuba, built as a political statement to be the largest mill in Africa, never actually produced on a commercial basis and now has no machines on production lines. There are several large buildings that may still be potential assets for conversion to industrial units. It has, however, an intact and very well equipped Training School, complete with full scale spinning and weaving and related machinery. Another, Texlom, a former vertical mill possessing the 32 valuable Sulzer looms, has just been acquired by the Aga Khan Foundation (AKF) for conversion within the Sector, to Stage 3 Garment use. It will employ 2000 persons in its Phase 1. The last of the three, Texmanta, with the Somet looms, is in process of conversion to shrimp processing, the countries' largest export. From the sector point of view, it must be said that this represents a major loss, as the buildings and site are excellent and with a complement of say, 48 Somet looms, plus well engineered jacquard gantries, still holding jacquard machines, plus excellent Benninger warping machines, it represented, in the right hands, an ideal private start-up facility. It raises the question of how such conversion decisions are made; & which agency then assumes control?.

Thus, the focus is now on the remaining three, Texafrica, Texmoque and Riopele. Riopele appears to represent less of a problem than the other two. It was the last to cease commercial production, it has maintained its equipment in good working order through rotational operation and there are no complications of Bondage to the Banks. It is short of working capital and needs two more senior individuals for sourcing and marketing. Otherwise, it would run. An indication of optimism is provided by it's purchase of the four Sulzers from Texlom. Given requisite assistance it would presumably purchase the remaining 32 Sulzers. Without any Sulzer additions , it's production could be 6.0 million metres of fabric per annum, split between 3.5 of woven & 2.5 of knitted fabric.

Texafrica possesses the formidable Sulzer unit of 148 looms across 2.2, 2.8 and 3.3 metre widths, 50, 54 and 44 looms respectively. All its ancient shuttle looms should be scrapped. The potential production of that unit would still be over 12 million metres per annum. As virtually two thirds of these machines can produce double width or two narrow widths across the loom width, the production value of woven fabric could be in the Region of $20 million per annum, even with fairly basic constructions and before any product development to enhance value-added.

At Texmoque, the last of the six mills, following a recommended scrapping of 70 of the older machines, the weaving department would be out of balance with the remainder of the mill and hence it may be sensibly argued that it would give better value from both the mill and national points of view if the 32 Sulzers and/or 24 or 48 Somets could be transferred there. During Chinese participation at the Mill in the early 1990's., much new spinning and finishing investment occurred, with selective machine replacement. Most of that machinery has hardly been used. With more and better weaving, a viable integrated mill could probably be re-formed, with an fabric capacity in excess of 6 million metres per annum.

However, logically, from a production viewpoint, the 32 Sulzers could be added to those at Texafrica, where all the related wide width preparation, handling and other equipment would already be in place. Such thoughts are initial indications only. Apparent potential options and permutations should now be followed-up at a more detailed techno-economic level, simultaneously with settlement of status.

Only Government has the power to resolve the current legal and financial impasses at Texafrica and Texmoque. Why should it bother to do so, to spend time and money in resurrecting something when over $US 5 million social obligations remain on these company books?. Because it is important to realise that social policies with the best intentions were instrumental in paradoxically creating those conditions they were supposedly intended to avoid, viz., currently there is neither retrenchment pay or job. The 1991 labours law contributed appreciably to the strangling of the sector in the early 1990's., with sudden and heavy retrospective costs bearing down upon the companies, that themselves were trapped by the same law into single shift working only, thus affecting productivities and competitiveness. Such factors also led to the demise of the garment factories, with the then additional burden of second-hand clothing imports, now becoming less relevant as disposable income increases. Because the proof of value of such older mills is all around in the Sub-Saharan countries. There is obviously a strong lesson from the examples given.

If such dormant Mozambique capacities are not quickly restored, then it is likely that it will be too late for any such future assessments. Thoughts for re-vitalisation will merely illusory. Stage 1 will continue to export, when it would find domestic business more profitable; and assuming Belita can be re-assured over Beira port dredging problems, etc., and with the AKF investment proving to be successful, then there would be grounds for expectation of a build-up in Stage 3.

Thus Government can see what is at stake. It knows what has to be done, from the enabling environmental view point as partly evidenced in an excellent detailed Paper (cf. Ref. 3) commissioned by itself. Commitment will be really tested, during a visit by potential Asian investors in May. Thus all *distils to **will**, in declaring a Priority Sector, in negotiations and in formulation of re-structuring options. A re-integrated sector could employ over 600,000 person, thus feeding 15% of the population.*

Strong and very impressive local players are avidly interested in the re-development of the sector and might even invest. They would gladly assist in its restoration, initially, through say retention on Working, Consultative or Action Groups that would assist Government. A developing momentum could lead to the establishment of a multi-stakeholder Cotton Council, as has recently been enacted in Malawi.

Such a momentum could be within a wider Regional momentum that could soon lead to the establishment of a Regional Association and a small Secretariat. Size will matter in the new WTO global trading regime from 2005, where the major players, including China, India, Pakistan and Bangladesh, will be giants. Strength in say trade and financial negotiations with the international community would be accorded.

National Associations would be the conduit through which initiatives would pass to and from the Regional Association, whilst the Secretariat would service these and continuously up-date a Regional web-site containing country by country &/or process by process, details of all producers who wish to post their details, including their technologies, products, 'sales and wants', interest in JV's and other information. A site is actually under preparation by USAID's RATES, with some RAPID inputs.

From a country macro-economic viewpoint, it would not appear wise to forgo chances of employment and production of the magnitudes indicated. Over half the annual interest of $55 million still payable as a Heavily Indebted Poor Country (HIPC), following a 90% debt waiver, could probably equate with the values of import substitution and exports from a re-integrated Sector already potentially in its hands. From that basis and possible centripetal attraction of FDI, such figures could be dwarfed in the longer term. Countless global indicators exist. The value of garment exports to the US from the Dominican Republic alone exceeds $US 2 billion. From Bangladesh, over $US 5 billion. With the necessity for Regional yarn and fabric sourcing for AGOA qualification coming into effect from 2006, this could play *most advantageously into the hands of those Sub-Saharan African countries, such as Mozambique, that have potentially strong linkages in their national value chains.*

In this respect the situation is parallel to that existing in Egypt, where, with EU support, great efforts are now being made to re-establish an integrated sector through company re-structuring and redistribution of assets. A Paper released in February 2004 refers to it as being designated by Government as a Top Priority Sector, now employing 134,000 persons (in Stages 2 & 3 alone) and thus indirectly supporting 600,000. A Privatisation programme was thus adopted in December 2003, for which companies could be re-configured. The official Paper states 'such re-structuring would involve, among others, *early retirement, training and re-training, purchase of equipment and spare parts, improvement of marketing and management, <u>settlement of debt and new loans</u> (authors' italics and emphasis).*

This is therefore evidence that, following preliminary investigations such as those here sponsored by MIT and USAID in Mozambique, the donor community can become deeply involved in such situations. Government might therefore receive help with respect to attainment of clearly stated Sector objectives.

TEXTILE AND GARMENT SECTOR(S)

MOZAMBIQUE

Chapter 1: INTRODUCTION.

.1 Origin of Study

The key paragraph from the RAPID Managers' Report on his visit to Maputo over 22-24 October 2003, states: The Mission and the Government are (also) highly interested in promoting the textile and/or garment industry, particularly to enhance employment and develop a stronger workforce. However, *there is a need to assess the pros and cons of either promoting development of an integrated textile industry vs. a strategy to promote garment manufacturing.* The Mission requests the Hub to assist in analysing this issue. There is also possible interest in developing an investment strategy for promoting the rebuilding of the garment industry'(1).

In view of the historical importance of cotton lint production to the domestic spinning and weaving stages of the value-added chain in Mozambique and/or Region, followed by it's contemporary revival, currently for export markets, with approximately 10% of production being sold Regionally, mainly to the Republic of South Africa (RSA), it was considered appropriate to briefly encompass this first stage within the scope of consideration.

This facilitated considerations of possibilities for the formulation of a comprehensive 3-Stage but embryonic Strategy for a Sector that held potentials for re-integration, employment and so on. The Stages, in simplified form will henceforth be referred to as Stage 1: cotton growing and ginning; Stage 2: yarn and fabric production, including dyeing, printing and finishing; and Stage 3: Garment production. Historically Stages 1 and 2 were intensively linked, with 30,000 tons of lint being consumed annually by the largest Stage 2 company alone. More recently, Stages 2 and 3 held linkages but these have been lost, in the even more recent demise of both Stages, as will be subsequently discussed.

.2 Important Policy Questions to be Addressed

Superficially, given that demise, it would be relatively easy to conclude that Government, USAID or any other external agency should not place any undue effort or hopes behind any possible revival of the Sector. Small private entrepreneurs who did not need or want any 'interference' in operations would continue to exist, such as 'Tailoring' businesses, making-up imported fabric for the open and contract clothing markets and for household and possibly, industrial purposes.

Stage 1 would continue to recover, through increased sophistication of methods and higher crop yields and continuing its upward trend in Regional and extraordinarily diverse global export markets. Other, 'easier' Sectors would continue to emerge and attract foreign investment, such as construction and aluminium, contributing to circa. 5 - 7.5% increases per annum in Gross Domestic Product (GDP).

Yet, where potential comparative advantages could apparently exist; where Balance of Payments (BoP) net gains could be made; where productive assets continue to exist, although currently in moribund state; where an integrated Sector could add national or at least Regional value; where tens of thousands of direct jobs may be re-created, it would be remiss of policy makers and institutions, not to enquire further into potentials.

Amidst the recent demise, some extremely positive and significant signs have emerged. With respect to Stage 3, a large international company is still continuing to operate - although with difficulties that could be resolved given an appropriate national Sector focus- whilst engaging 500 persons. The market impetus derives in this case, from the American Growth and Opportunity Act (AGOA) and the Southern African Development Community (SADC), which explicitly demonstrates the high levels of production sophistication attainable in Mozambique. Further confirmation of the point is apparent through the imminent entry of the AKH, which intends to produce in the Maputo area.

Hence such considerations have led to a quest for further self-examination by Government. If countries such as Lesotho, Swaziland, Namibia, Malawi, Uganda and Kenya have been able to create in excess of 120,000 garment jobs between them, with much of the production being market-led by AGOA, *then why shouldn't Mozambique, with it's great textiles tradition, relatively low wages and a relatively large and adaptable labour force be able to join their ranks as major exporters?.*

Similarly, new investments in Stage 2 are beginning to appear in the Region, with respect to both new projects with the latest technology; and older, some even 'Colonial Era' companies that are selectively re-structuring and/or re-equipping. Some of the latter are selectively augmenting processes, such as adding state-of-the-art printing and garment manufacture to the older technological bases of spinning and weaving bought out of Privatisation programmes. Such developments can be vividly demonstrated for example, in Tanzania and in Uganda, where an original consensus held that 'nothing could be done' in the Sector, due to the importation of second-hand clothing, etc. *Thus again the question arises, why not also in Mozambique?.*

Thus, there appears to be a firm Regional rationale for Mozambique to urgently re-assess the Sector and it is hoped that this particular contribution will identify some potential re-structuring bases for a revival in Mozambique, whilst identifying some major constraints that have impinged against an earlier revival. A number of potentially helpful Papers concerning the Sector, have appeared under Government, Organisational and private auspices over the last few years, but yet in practice, apart from the encouraging signs noted above, the situation has progressively deteriorated.

Such Papers include, inter alia: Peter Coughlin's study in 2001 (2); 'Relevant Aspects for a Textile Project in Mozambique' supplied by Apolinario Panguene in 2003 (3); Technoserve's 'Mozlinks role in revitalising the Textiles and Garments industry in Mozambique', of June 2003 (4); Timothy Armstrong's 'Rebuilding the Garment Industry in Mozambique' of September 2003 (5); and Young-Ho Lee's New

Opportunity for Textile and Garment Industry in Mozambique (a Technical View of Korean Expert), of November 2003 (6). Good sections of other Papers have also been seen but unfortunately they are incomplete and un-attributable.

The garment company still producing is the only current survivor in full production, from a total of approximately 15 a few years ago. Similarly all the main spinning and weaving mills have now ceased production operations, except for one that is operating at minimal capacity, designed to facilitate the running of machines on an impressive rotation and preventive maintenance basis, rather than for production

A more comprehensive indication of the 'forces of convergence' that apparently should add to weight to the future considerations of the Sector in Mozambique, will now be given in Chapter 2. Those mentioned should be regarded as indicative/ suggestive and certainly not exhaustive. Such aspects will provide a backdrop against which the physical examination of productive assets was made, as described in Chapter 3. Indications of re-structuring potentials, with reference to similar elsewhere in the Region are then made in Chapter 4. The question of how to take advantage of perceived national interest and actual or potential national and Regional momentums to release the potentials of the assets, will be addressed in Chapter 5. A statement of Conclusions and Recommendations is then given in Chapter 6.

Chapter 2: CONVERGENCES

.1 Global and Regional

An indication of some of the convergent features currently impinging upon the Sector(s) in Mozambique and which suggest the need for investigation, is provided as follows:

Potentially great trading opportunities accorded by the United States' AGOA.'s I, II and III (African Growth and Opportunity Act)for apparel exports, have not been taken by Mozambique to anywhere even approaching the extent as has occurred elsewhere from Southern and Eastern African countries, for example, Lesotho, Swaziland, and Kenya. Mauritius and the Republic of South Africa have even had to utilise 65% - 75% of Regional (or US) fabric and thread to qualify under the preferences so accorded, as the do not qualify for derogation, viz., out-of-Region sourcing of yarn and fabric.

Changes in AGOA fabric and yarn sourcing rules will severely impact in the Region between 2006 and 2008, in that out-of-region imports of fabric and yarn by the Least Developed African countries (LDC's), defined as per capita income of < $1500 p.a.), will be phased out, *the original rationale for AGOA being to assist in the creation of sustainable national/regional industries, not merely, in the case of textiles, the garment sector alone.*

The Global MFA (Multi-Fibre Agreement) will cease as of the end of December 2004, to be replaced by new WTO (World Trade Organisation) rules from 1 January 2005 and which, unless specific country safeguards can be negotiated and invoked, in effect will represent global free-trade in textiles and garments (7)

The aforementioned AGOA and WTO developments combined will clearly severely impact upon the structure and locations of the global textile and garment sectors. Some professionals argue that China will supply over half the total global exports of garments and fabrics of over $400 billion per annum. Others, that Chinese exchange rates and labour costs will increase and the latter will tend to thwart continuation of bulk production, as indeed it already has, in the case of Mauritius; and that, for example, mainland African countries with low labour costs, textile craft and factory producing traditions and energetic enabling environments should be able to compete.

There are clear implications for the Southern and Eastern African regions, deriving from the above. *If national/regional garment exports are to be sustained at present levels and particularly if the ultimate AGOA 3.5% of all US garment imports is to be realised, substantial Regional investment in yarn and fabric plants will be required.*

If the latter does not occur, the great Regional garment factory initiatives inspired by AGOA, which supplement Regional opportunities accorded by the ACP/EU (Africa, Caribbean and Pacific/European Union) COTONOU Agreement and the SADC Trade Protocols, will suffer immense damage.

Such a reversal could bring with it severe political, social and economic consequences to the already deeply committed Stage 3 countries in the Region, whilst impacting negatively upon potential investor perceptions of the Region as a whole. Unless actions are taken now, before such damage is inflicted and before the investment opportunity window totally closes over the next two - four years, there will be no second chances.

In recognition of this emerging situation, large sophisticated investments in yarn and fabric production each in excess of $50 million are already taking place in the Region, as for example with an integrated denim plant in Lesotho, to supplement those already existing, notably in the Republic of South Africa and Mauritius. Mauritius itself is adjusting its Stage 2 v. Stage 3 balance, with investments in at least four spinning plants, of 5 – 15,000 tonnes per annum capacity, plus additional weaving, to meet both national and Regional demand.

Activities are currently being exercised by RAPID and also by USAID's Regional Agricultural Trade Expansion Support (RATES) Project, to develop Regional perspectives for sustainable national/regional supply chains. New Regional yarn and fabric production investments are being recorded; whilst currently existing but older spinning, weaving, knitting, dyeing, printing and finishing capacities that could conceivably be developed from at least a core of acceptable technology, are also being identified, some for potential Business Support purposes. Such could include plants which are already operating, as in for example Uganda, Zambia and Tanzania; and currently dormant or virtually dormant capacities, as is the case in Malawi and in Mozambique.

.2 Mozambique

Clearly, no country *has* to have a textile industry and each country is free to choose. Where sector choices are widely available as in more developed economies, the opportunity- cost of non-involvement may not be significant, or proffer a net advantage, in that scarce factors of production are utilised to maximum company/national advantage utilising highly developed infrastructures and largesse of available capital and diversified highly trained pool of human resources.

The question for Mozambique, as is also the case in several other African countries, is whether any potential comparative advantages that could be realised by development of a sector, could be such as to *best serve* the national purpose in the short, medium and even longer term?. Such questions are posed in the latest Development Plan for Mozambique, in which the *importance of establishment of further sustainable labour-intensive industries is stressed; and in which, as seen, the Textile and Garment sectors are included as priority areas for further investigation* (8).

In Mozambique, potentially strong comparative advantages already exist. The revitalisation of cotton lint production, from its nadir of approximately 3,000 tons per annum, through current levels of approximately 40,000 tons, towards historical peaks of 120,000 tons and even 150,000 tons, is currently underway. Potentially huge market opportunities for garments are offered by AGOA and other trading agreements, as recognised by the highly significant and notable attraction of AKF to take over the moribund site and buildings at Texlom, a former spinning and weaving mill. With this and the retention of Belita, a Division of the large Mauritian- owned Palmar Group, in Beira, recovery of a garment private sector could be catalysed.

The weak-link in the national value-added chain, is currently Stage 2, fabric and yarn production, dyeing, printing and finishing. Yet production resources do still exist in the country, following years of strife and complex changes of ownership. With some re-structuring on a national scale, with the *best resources concentrated initially, into two, or at most three plants, there could be a reasonable basis upon which to build a national, integrated, sector recovery.* The oldest equipment would be scrapped or sold, the newest and best would be put to use. The nature of a potential re-structuring of existing assets will be discussed in Chapters 3 and 4. Ideally, urgently improved investment attraction packages would also bring in Foreign Direct Investment (FDI).

But weak-links also apply to the wider infra-structure and investment climate, with respect for example, to general industrial performance (9); Corruption and Red Tape (10); and lack of available finance for export (11). Thus, all such factors have been subject to investigation by numerous Consultants but nevertheless still continue to exert an inertial drag upon development. Improvements are being gradually effected, as for a one-stop-shop for investors and the competitiveness of Mozambiques'honed investor attraction packages will be tested by potential Asian investors in May.

Further Regionalisation of the sector is likely to be enhanced by the possible establishment of multi-stakeholder national sector Associations, as is now taking place in Malawi, by the adoption of a Cotton Act by Parliament that will establish a comprehensive Cotton Council. Such Associations would provide conduits to and from a Regional Cotton Council and small servicing Secretariat, that could promote and protect Regional sector interests in the new global textile trading environment which will apply from 2005. The ground is ready for such a development in Mozambique, as will be further discussed below

In the revised global game, the competition will come from huge players, China, India, Pakistan and Bangladesh or from countries under geographic trading arrangements corresponding to AGOA, such as the Dominican Republic and Haiti within the Caribbean Basin Initiative (CBI). Each of the large players is now taking strong initiatives to improve it's global trading position. The Indian Government for example, is promoting the nation's top design talents and is developing a one-stop market for overseas *buyers*. China's cotton lint production and its yarn and fabric exports are effectively *subsidised*. Again, Mozambique's sector interests could be enhanced by joining any Regional Association, for strength in for example, trade negotiations and for the acquisition of capital (12).

Any African comparative advantages may be further enhanced by continued success in re-development of Stage 1 and possible success in Stage 2 of the potential national/regional supply chains. Already, to an extent, the effects of AGOA and COTONOU have impacted upstream within the Region, for example, Zambian cotton lint, into Zambian high quality yarn, into Mauritian high quality knitted sweaters for the US (etc..). This aspect could have far-reaching implications also for Mozambique, as a major regional cotton producer *and* a revived potential yarn and fabric supplier.

Finally, in this Chapter, it is important to be aware of indicate some perspectives of economic magnitudes that could be involved in Mozambique, in a revitalisation of an integrated sector. Already, in Stage 1 of the Sector chain, over 250,000 persons are currently involved. The National Cotton Association *wants* to re-gain a strong domestic market, to supplement it's current exports. Over 30,000 garment jobs have been created in each country, Lesotho, Swaziland and Kenya, over the last few years. Over 7,000 garment jobs have created in Namibia over the last two years. New yarn and fabric mill investments of over $25 million each, are already operational in the Region, in Mauritius an Lesotho, to name but two examples.

One fabric importer alone in Mozambique imports over 10 million linear metres of fabric for retail sale. The total capacities of re-structured mills in Mozambique could be approximately 20 million linear metres per annum,with a value of over $US30 million, replicating what has already occurred with notable success in for example, Uganda and Tanzania; and what is now likely to occur, from a new post-privatisation position in Malawi. Such rehabilitating actions are initially targeted at domestic and Regional markets, with sights firmly fixed upon wider exports as qualitative bases continue to be improved, through up-grades of linkages in the technological chain, with control systems to match.

Chapter 3: THE ENTERPRISES

A Memorandum prepared by MIT, Industria Textil e de Vestuario, with particular respect to the Enterprises' respective share-holding structures, financial situations and production capacities is included as **Annex 1.** Continuing reference can be usefully made to this, in further clarification etc., in relation to the discussion which follows.

.1 Textile Mills

It is not the intention here to dwell upon history or to repeat what has already been written in the aforementioned Papers. It is rather the intention to look behind the structural features as already documented in general terms, and discern from the specific physical features of companies, elements that might constitute possible bases for rehabilitation and revival.

The starting point for this diagnostic approach, is a 'List' of six mills that have constituted the source of concern over the last few years and which until only a few months or weeks ago would still have provided the area of focus here. Very recent developments have narrowed the focus to essentially three companies but as will be seen, some potentially valuable 'loose ends' relevant to all six, still exist and should be tidied up to enhance that remaining national potential core.

For convenience, those six companies will be referred to by their best-known brief names, with indications of their locations, which are of spatial importance. They are, in geographical sequence moving northwards from the Maputo area: **Texlom**, located at Matola, near Maputo; **Riopele**, at Marracuene, also near Maputo; **Texafrica**, at Chimoio, some 700 kms. North of Maputo and 180 kms. west of the port of Beira; **Mocuba,** a further 500 kms. north, north east of Beira; **Texmoque,** at Nampula, a further 400 kms. north, north, east of Macuba; and **Texmanta,** near Pemba, a further similar distance and direction from Nampula.

Distances given are approximate and obviously depend upon the mode of transportation. The locations are of great importance. It should be understood that Texafrica, Texmoque and Texmanta factories were positioned for ready access to Stage1cotton lint and to supply yarn and fabric to their large respective surrounding markets. Mocuba was also positioned in such a way but it was also intended to make a strong political statement. Such locations, with their effects upon costs of production, may be to net advantage or disadvantage dependant upon transportation access to primary markets. Presumably the original commercial logic gave a net gain for Texafrica, Texmanta and Texmoque, but such factors would sensibly have to be re-assessed in any revival situation.

The three companies that can now be excluded from considerations of revitalisation as yarn and fabric producers are ***Texlom***, where the Agreement with AKH is for utilisation of the site & buildings, initially for garment production only, but not including any of the installed textile production machinery; ***Texmanta,*** where conversion of the good buildings to utilisation for shrimp processing is already taking place; and ***Mocuba***, which comprises a huge complex of buildings conceived as becoming the largest producer of fabric on the African continent, with the possible exception of a mill in Ethiopia, but which was never completed sufficiently to engage in commercial production. An inventory of technologies now realisable at Texlom, is included as **Annex 2.**

At each of the above three sites there is nevertheless a residue of interesting technologies that will be subsequently discussed. Hence, the focus of current considerations now narrows to **Riopele, Texafrica** and **Texmoque**, leading to *the question of whether there is a possibility that these companies could have a viable future, given a conducive trading environment, resolution of ownership questions, clearance of baggage of indebtedness, technical and financial assistance where appropriate and some re-structuring.*

Riopele is different under many criteria to the remaining two companies, Texafrica and Texmoque. It has a markedly different share-holding structure and it is possible that Government will not have to be involved in any re-structuring considerations. Ownership is 29% Mozambique Government, 35% Portugese, 26% Private Mozambiquan, and10% small lots. At least 61% is therefore in private hands. It is not known whether Banks hold some or all of the 10%. The companies' general physical condition, if not its level of best technology, surpasses either of the other two companies. It has a production base that can clearly, from a technological perspective, be immediately brought into full production. It already has clear plans about how it could develop in the future.

Realisation of such plans would not be possible, by it's own appraisal, unless it could, first, increase it's working capital, progressively exhausted through it's fight for survival amidst the whole mantra of adverse conditions that have applied to the sector; and second, strengthen it's senior management with only two professionals, to specifically cover the functions of raw material procurement and marketing.

A source of grievance in its current condition, is the lack of available capital through the normal banking system. It was claimed that with sufficient working capital, the company could once again be producing towards its previous maximum production levels of 3.5 million plus 2.5 million metres per annum respectively of woven and knitted fabric. At those levels, as relatively recently as two/three years ago, the company employed nearly 1000 persons full-time, with a four-shift system operating on a six day working week.

It's technology covers a wide range. Briefly it includes 4 Trutzshler bale-breaking machines, 16 Reiter carding machines;15 sides x 458 spindles of Reiter spinning machines; 2 Benninger section warping machines; 120 Saurer Diedrichs 1.85 cm. looms, each equipped with 4-colour weft boxing and 20 shaft Staubli dobbies; and 18 Textima circular knitting machines. Most of this technology, although of late-70's and early-80's vintage has been remarkably well maintained. For example, close inspection inside the dobby control box reveals thorough greasing for all shafts.

It's main areas of production are Kapulana fabric, trouser fabric, uniform fabric, and woven checks, stripes and plains and it could readily produce pyjama, shirting and blouse fabric of potential value for garments under AGOA, COTONOU or SADC. It's principal yarns are 75% / 25% and 50% / 50% polyester/viscose. 100% cotton yarns were also utilised in significant quantities when Texmoque was in operation. Such yarns, but of lower quality, were also potentially available from Textafrica

Interestingly, particularly having regard to the shortage of funds, the company has just procured 4 x 3.3 metre Sulzer looms from Texloms. At Texlom, under a roof collapse and debris, following the Great Flood in 2000, those looms had continued to look like candidates for scrap. At Riopele they have been mechanically checked, cleaned and burnished. They now look ‘as new’.

- The point is of some significance and potential sector re-structuring value, as ***32 other such Sulzer looms remain at Texlom*** and are frequently regarded, along with Dorniers, as being the Peers amongst all looms.

This company would be potentially a prime candidate for any Business Support measures, particularly financial and possibly Sourcing and Marketing Technical Assistance (TA), that the international community could develop, on a wider scale for similarly well-poised companies across the Region. It possesses assets that the nation and Region can ill-afford to lose.

Texafrica was the largest functioning mill in Mozambique. It is a vertically integrated cotton fabric producing company, said to have had a capacity well in excess of 12 million linear metres per annum, possibly up to circa. 24 million metres if wide loom width production is assumed to be split and if all its three main groups of looms were simultaneously in action, as would certainly have been the case. It spun yarn only from Mozambique cotton, most of this deriving from the surrounding cotton growing belt, in which it held in its own right a large Concession. The mill was stated to have been consuming 30,000 tons of lint annually from its linkage with Stage 1. At full capacity the mills itself employed *3,000* persons and was thereby the gravitational centre of employment in the Chimoio and wider district. Tens of thousands of small farmers were thus engaged in Stage 1 specifically for the mill.

Ownership was predominantly by a Portugese company but with a Mozambique Government holding of approximately 20%. It is held that a representative of the Portugese company negotiated a large loan from Banco International de Mozambique (BIM) in the mid-1990’s, that the debt was not honoured and that this subsequently led to a ‘freezing out’ of the credit market in Mozambique and a Bond to BIM, over all plant and machinery. Attempts will have to be made to clarify the actual legal, financial and share-holding positions before any serious revitalisation steps can begin. In the meantime the mill will continue to lie idle.

Briefly, the technology comprises 28,000 spindles supplied in the early-1970’s by Platt of the UK; combing machines; good Schlaforst autoconers; a total of five Benninger and Schlaforst warping machines; sizing capacity; mercerising, bleaching, yarn dyeing, piece dyeing, raising and 6-colour printing machines, all of which it is stated could operate, although below their previous capacities. Some selective repairs will have to be undertaken across the latter ‘wet-processes’, with respect to boiler pressures, valves, guages and possibly with respect to pipes and water supply. But such considerations are marginal when measured against overall plant potentials.

- The weaving section includes three principal sections of looms: 200 now antiquated shuttle looms (two with jacquards); a ‘middle section’ also of approximately 70 1950’s/60’s vintage automatic 4-box looms all equipped with Staubli dobbies; and the ‘newest’ section comprising ***148 Sulzer looms.*** The latter are of early 1973 vintage, comprising 50 x 2.2 metre looms, 54 x 2.8 metres and 44 x 3.30 metres. Most of the latter looms are equipped with dobbies and 78 possess 4-colour weft patterning capability, with 12 of these included in each of the 3.3 m. and 2.8 m width looms. Average loom revolutions per minute (RPM) was stated to be 220. A complete Inventory of technology at Texafrica is included as **Annex 3.**

Products included a wide range of yarn counts, suitable for conversion into bed-sheets, table cloths, curtains, towelling, ducks, twills and drills as suitable for cotton trousers and uniforms. A small making-up facility also existed for some making-up, particularly for the household textile products..

In any future re-structuring it is obvious that the 148 Sulzers alone could provide an ideal and aggressive core for production; the oldest section of looms would obviously be scrapped; whilst the fate of the ‘middle section’ could be held in abeyance until their value could be assessed in the light of new arrangements. In any case, it is considered that such a large complement of Sulzers running on three, or even two shifts, would still present an unquestionably viable situation, subject to the remainder of the mill being able to provide yarn and process the fabric. Techno-economic studies, assuming different production permutations, should be conducted. There are interesting technological similarities with other old mills in the Region now under-going re-habilitation.

Texmoque, also a vertical mill, would likewise appear to possess scope for techno-economic investigation, on the assuption of different technology and production profiles. It’s share-holding was also predominantly Portugese, with over 53% held by the predominant holders in Texafrica, namely, Multiplier. Chinese involvement throughout the early-1990’s. brought selective re-equipping in the spinning section and also in the ‘wet processing’ section of mercerising, dyeing, bleaching, etc. An Inventory of all remaining technologies in that section, whether original or later Chinese, is included at **Annex 4.**

Much of latter technology is of 1991/4 vintage and has hardly been used, as the factory ceased operations in 1994. Then, the predominant shareholder took re-possession proceedings, most probably within the context of the severe financial problems then emerging at Texafrica. Because of the nature, age and condition of it’s looms in juxtaposition with the re-equipping in the spinning and finishing sections, the weakest link in any future operations would be the weaving section.

The 1991 spinning equipment includes 4 draw-frames; 8160 spindles from 20 sides each of 408; 10 carding machines; plus winding and sewing thread manufacturing machines. Older spinning equipment includes 10080 spindles from Saco-Lowell in 1974. In the weaving section there are approximately 150 looms over two sections. The weaker of the sections has a complement of 78 x 1.3 metre looms which should be scrapped; whilst the newer section has 70 x 2.2 metre Saurer 4-colour dobby looms from 1974 that may still be of value subject to thorough technical inspection, intensive cleaning and trials.

Products included sewing thread, of value to an integrated Sector and yarn suitable for its main products, drills, Kapulana and checks and stripes for a variety of apparel and household uses. Although a selective down-sizing could be sufficient to run a smaller scale vertical business, additional looms should ideally be acquired to widen the product base and to restore overall plant potentials.

- It was most probably the cumulative impact of the labour law of 1991,under it's different provisions and over a period of time, that more than any other single factor, led to the decline of the mills .The timing of the problems, beginning in the early-1990's, appears to be more than a coincidence. With it's undoubtedly honourable social objectives, residual company obligations that were retrospective for the eleven years prior to its Enactment in 1991, subsequently brought with it an avalanche of obligations to companies. Cash-flow was seriously affected, production had to be correspondingly and progressively decreased, margins were eliminated and borrowing costs thus became increasingly and prohibitively high. Companies were trapped in a straight-jacket. They could not 'produce' their way out with extra shifts which would normally have reduced product unit costs and increased their competitiveness, as shift-working had become anti-social and illegal!.

.2 Garment Factories

Emma, a knitting and garment factory was also visited. It is 87%-owned by Government and located adjacent to Texafrica, from which it was hived-off. In a relatively small way it could be said to encapsulate the lost opportunities in Mozambique for the resumption of domestic production. At one time it had 600 employees on its books, out of which 200 were retired but who had presumably not yet received retirement pay, due under the labour law of 1991.

It is equipped with four Karl Mayer (a very good make) flat-bed knitting machines, 10 circular knitting machines dating from the late-70's / early '80's, two much later and sophisticated circular machines and small garment production lines. The buildings are in acceptable condition and apart from a need to clean the working areas and machines and service the latter, the unit appears as a potential opportunity for a private SME start-up.

- The question is, why could such garment plants, whether in the public or private sector, in their turn, following the demise of the mills, no longer continue to produce?. Was it a question of lingering labour dues, whether back-pay, retrenchment pay or pension entitlements?. Or a question of yarn supplies for the knitters, now that Texafrica and Texmoque were forced out of the potential supply chain?. Or were alternative yarn and woven fabric supplies, from say RSA, relatively high in price?. Or an inability for local private entrepreneurs to raise capital in Mozambique?. Or the second-hand clothing and illegal clothing imports in the domestic market?. All of these factors, starting particularly with the 1991 Labour Law, inflicted damage on Stage 3, increasingly during the 1990's, until their virtual demise over 2000-3.

The answer might include any permutation of these possible explanations, plus others that could doubtless be added. It should remembered that only a few years ago, some fifteen garment companies, with sizes of 100 - 600 existed across Mozambique, in the public and private sector. Virtually all the latter had Mozambique owners. Currently, only one of these is now in production, allegedly at 50% capacity. Only one other, foreign-owned garment factory is currently operating in the country. The messy and cumulative impacting of such reasons indicated, for this tragic state of affairs, will have to be urgently disentangled if such domestic producers are to be revived.

Belita is that foreign-owned company, one of the thirteen subsidiaries of the large Palmar Group, based in Mauritius. The commercial logic for the establishment of a subsidiary in Mozambique and in Beira was impeccable. Labour costs in the remarkably successful garment industry in Mauritius were climbing towards $ US 500/ month; Mauritian out-of-Region yarn and fabric sourcing was not permitted in relation to export under AGOA; the production of relatively standard T-shirts and sweatshirts, as compared with the products for highly sophisticated niche markets, could be sustained only by locating in an accessible, low labour cost country. Hence Beira emerged as a potentially obvious first choice.

The plant is very well managed, has impressive production lines and organisation and now employs about 500 persons. Successes are exports under AGOA to the US; and to South Africa under SADC rules. Limitations are given as the deterioration of port access that increasingly results in incurring critically high air-freight costs, to both maintain material supplies and to ensure that made-up products reach the customer on time.

Slow customs clearance was previously a complaint but this has apparently improved recently with particular respect to the most senior officials. However, in any such persons' absence the system can readily revert to its cumbersome and lengthy bureaucratic ways, with a similar end-result of lost production time and increased transportation costs.

Labour law was cited as a restriction, in that say double-day shift working is not permitted. One or two hours extra a day, following an eight-hour shift is permissible but little more. The significance of this in terms of global and regional competitiveness is incalculable. Laws related to pregnancy and sick-leave just compound the problem.

Under such circumstances, it is a great testimony to the calibre of management that the company can continue to compete in Regional and global markets. With other burdens contributing to un-competitiveness, it is quite extraordinary that the company is able to compete at all in Regional and global markets. Differences in standard production costs between Mozambique and Mauritius, the basis of the original Palmar rationale for its investment, are quickly dissipated with relatively lower productivity, shorter production hours, production planning dislocation and higher freight costs,

The danger is, that however impressive, hard-working and committed Belita management may be, there is usually minimal tolerance in large Groups for financially under-performing subsidiaries. The Group accountants ultimately hold sway. Here, in Mozambique, a classic opportunity of great potential for further sector integration, or for further expansion of purely garment production apparently still exists. Government should immediately recognise this position and do all in its power to encourage and assist Belita through continuous formal contact. The alternative may be a totally no-win situation, with unwanted and unnecessary adverse consequences for other investor perceptions.

Management is fully aware of the potentials accorded by SADC, under which 3.5 million garments per annum are allocated to Mozambique, or equivalent fabric, or made-up household textiles such as bed-sheets and curtains. Perhaps such provisions, along with likely imminent withdrawal of the AGOA Sub-Saharan LDC sourcing derogation, also made a Palmar interest in Texafrica quite logical.

Even more so now, because Government has recently taken steps to exempt locally made fabrics or garments from a tax of approximately 15%. This is an extremely enlightened concession to the sector and it could assist, with other alleviation measures, in precipitating renewed interest in investment in the older plants. It would thereby also assist in reviving former trading synergies between the national Stages 1, 2 and 3 and in the re-establishing of an integrated sector.

It was claimed that in a previous period of potential Palmar interest in Texafrica, a visit of a number of senior Palmar employees took place, including an senior employee who had previously held a management position at that company. As a consequence of this preliminary visit, Palmar arranged to send in a team of 9 persons, to undertake a detailed technical analysis over several days. The company was understandably perplexed when further access to the company was allegedly denied.

In a scenario in which Palmar had taken Texafrica, it is likely that the company would have been revived to take for example, advantage of SADC opportunities in household textiles, through utilisation of it's wide- width loom capacity; and also AGOA opportunities for twill and derivative denim (currently sourced in Mauritius) based apparel, that would be perfect production materials for those wide looms woven split, two, or even three in a width, or in single width on the 2.2 metre width machines. It would also have commissioned a second garment factory in relation to such fabric producing potentials.

Such opportunities still remain domestically, but whether they will be availed by Palmar or others, remains to be seen. The point is, that clear national opportunities for commercial linkages exist, with respect to both domestic and export markets. The question is *merely* how to liberate this idle capacity?!.

Several photographs were taken during The Enterprise visits and a selection is included as **Annex 5.** Collectively, they are able to convey better than words, the physical situation described in this Chapter. Whether they reflect anger of still unpaid employees; or of legislation shooting itself in the foot; or of loss of good buildings to the sector; or of wanton neglect of valuable machinery; or a waste of valuable assets through inactivity; or discerning enterprise and care; or potentials for the future; or possibilities for sector re-structuring or for Training, they at least provide a snapshot for posterity, of one Stage 3 and all Stage 2 Enterprises, as they existed in late-January 2004. But, is there still a way out?.

Chapter 4: RE-STRUCTURING POSSIBILITIES?

.1 In the Region

It is of potential relevance to briefly indicate *a few highly significant successes* in current Regional re-structuring activities:

- In Uganda, a large 'Colonial' vertical mill bought out privatisation is running over 100 early-1980 vintage Sulzer looms round the clock, seven days a week. The resultant cash-flow generation is now being utilised to modernise the companies' spinning section.
- In Tanzania, a rather old vertical mill bought out of privatisation is now providing the huge fabric inputs to two state-of -the-art Austrian Laxmi wide width printing machines, representing a total investment of over $US 5 million. These have been placed in a new custom-made building, supplemented by making up facilities that are already used for household textiles for the Canadian market and that will eventually be utilised also for apparel for the US under AGOA
- In Malawi, another large, vertical 'Colonial' mill comprising a re-structured core of over 100 Sulzer looms will soon be in operation, following protracted privatisation attempts and subsequent disputes over a winning bid. The potentials of the unit have evidently been recognised by bidders. Reciprocally, Government drastically modified its original package, that included prohibitive accumulated debt and social-payment obligations and naturally had no takers.

.2 Mozambique

It is understandably more often than not, held that such old facilities are of no value. The above exceptions contradict this view.

- In Mozambique it appears that **Riopele** could once again operate to full capacity of 3.5 million metres of woven and 2.5 million metres of knitted fabric, if working capital and managerial strengthening could take place, even initially if necessary, through donor funded TA in Sourcing and Marketing.. A total of 1000 sustainable jobs would be created. **Texafrica** has a strong Sulzer base that could produce about 12 million linear metres per annum of woven fabric. Previously, as noted, it employed 3000 persons but management considers that with re-structuring , rationalisation and work-study, 1000 sustainable jobs would be re-created. It's staggering overload of employees, deriving principally from labour law obligations, substantially contributed low productivities and reversal. A down-sized **Texmoque,** working only its best machinery, could possibly still constitute a small vertical unit producing 2.5/3 million metres per annum of woven fabric. However, ideally and probably of economic necessity, its weaving should be strengthened to a capacity of around 5 million metres, to bring all production phases into closer balance.

Whilst considering components for any wider sector and company re-structuring it is of some importance, or interest, to record the following 'loose ends' observed during the visits and to make suggestions as to how these might still be incorporated into a remaining sector core of two or three mills, preferably three.

It has been noted that 4 Sulzers have been acquired by Riopele from Texlom and that these machines are now in excellent condition. There are supposedly 32 further similar looms remaining at Texlom. It is pertinent to ask, *what is to become of them*?. Could negotiations proceed for their re-siting, with relevant wide-width handling equipment, to fill the gap at Texmoque?. Or, could they be transplanted to Texafrica, which is an obvious choice in view of it's current Sulzer complement?. Or, could Riopele be interested in adding them to the four already taken, to effect a more comprehensive Sulzer installation?.

It has also been noted that over 20 Somet Master wide-width looms, with 4-colour weft and Staubli 20 shaft dobby specification, have literally been exorcised from the buildings at Texmanta during the current refurbishment for shrimp processing. They are outside, exposed to the elements will soon be covered in rust. One machine remains in the building, in fine condition as though emphasising the loss. The weaving room had power points that suggested a complement of approximately 48 looms, which would have been a good unit.

Some of these stood below really well engineered jacquard gantries, on which still stand three covered jacquard machines. It was not possible to ascertain their make and pitch but at a guess they could be 1320's.Vincenzie fine pitch. There is also an excellent Benninger warping machine remaining in the building, accumulating dirt and debris. As at Texlom, it is pertinent to ask, *what is to become of those looms, the warping machine and the jacquards*?. Additionally, to ask how many Somets were there at Texmanta and *if there were more than the 24 seen, what has become of them?.* It *might* not be too late, if they are immediately rescued from the elements, to restore however many there are, to production capability through their transfer to Texmoque, Texafrica or even Riopele.

Such Somets and Sulzers cost approximately $US 100,000 each when new and even to-day should hold a second-hand value of around $US 20,000 each. Benningers have a similar current value. They should urgently be put to good-use. Two further interesting observations derived from the site visits:

- Amidst the hectares of otherwise empty buildings at Mocuba, there is a gem of a Training School. The building has been kept dry and it contains a comprehensive inventory of technology covering all spinning and weaving processes. The technology is in excellent condition and should be transferred to say Texafrica, or a stand-alone facility in, possibly, Maputo, to form the basis of a National Textile Training School. Wherever it is eventually located, it could form the basis for a 'Centre of Excellence', probably augmented by Stage 3 Training technology, plus even Stage 1 Ginning if deemed appropriate. As a sector-comprehensive facility it could potentially evolve into a Regional Centre of Excellence.

The buildings at Texmanta are of good appearance, standing in an excellent site. They were built by East Germans and the person in charge of the conversion of use expressed amazement at their overall quality. The point of mentioning this, is that in national strategic planning, has a potential Stage 2 'crown jewel' been needlessly thrown away? With good buildings, jacquard capacity, Benninger warping and good, wide Somet looms, the unit could have represented an excellent SME investment start-up opportunity. Prior to the visit, the impression was obtained in Maputo, of all the Northern mills being in a state of total decay and beyond redemption.

As an integral part of calculations relating to possible re-locations of those looms, it is appropriate to give some indications of national/company fabric production potentials. These can be seen or deduced from the following general and over-simplified calculation:

- Average Sulzer loom speeds were given as 220 r.p.m. by Texafrica. This was then reduced, to err conservatively, to 200 r.p.m. Thus, the production/loom/shift is 200x60x8 hours = 96,000 picks but at say 75% efficiency this reduces to 72,000 picks/shift. Assuming fabrics have 36 picks/inch, then 72,000 divided by 36, gives 2000 inches/loom/shift, or say 50 metres/loom/shift. Assuming 148 Sulzers, then that particular complement would deliver 148x50 = 7400 metres/shift. Assuming 300 working days/year, then that equates with 2.2 million metres/shift/annum, and if the 98 wider width Sulzers are assumed to be weaving split, then, then that would add 4900 metres/shift/annum, giving a total of 12,300 metres/loom/shift, equating to 3.69 m. metres/shift/annum, or 7.3 million metres/on 2 shifts/annum, or 11.07 million metres/annum on 3 shifts, or even more with a 7-day-week .

Of course these basic figures are only an indication and production values for the 32 looms could be taken in proportion to the 148. Others can feed in their particular makes of looms such as Saurer, loom speeds, the number of fabric widths actually woven across a loom (although in cost terms the wider-width equivalent would be lower), picks per inch, efficiencies and other factors, according to their particular situations and purposes.

Due consideration was given to the value, at this point in a Sector Assessment, of projecting likely product costs. But it is considered, in the absence of firmer parameters, that such could be misleading. This should done within the context of detailed techno-economic studies. What *is* known, as repeatedly mentioned, is that the Uganda mill, with approximately only 66% of the Sulzer capacity of Texafrica, is able to sell 'through the roof'. It is also known, first-hand, that the similarly equipped mill in Malawi, from a price point of view, was able to compete in the RSA market on standard drill and duck fabrics. Specifications were given to that mill to quote against these fabrics, without any prior indications of price. It's prices were competitive. Similarly, consideration was given to conducting a textile import-export analysis of Mozambique, but it is considered that this could be done by MIT, for whatever particular purpose. Again, this might be most usefully done when any re-structuring parameters have been determined.

Chapter 5: INDICATIONS OF MOMENTUM?.

.1 Mozambique

Despite the latter observations concerning Texmanta, it is apparent that Government itself is now according serious consideration to the potentials of the sector. Following years of strife and political change, several factors are now converging that are leading Government to re-assess potentials of the sector in Mozambique and thereby, possible intra-Stage linkages.

The apparent success of *negotiations with AKF could be highly significant in terms of application of effort and possible catalysis not only for garment production but also across the Sector*. Such highest global standard investments tend to exert a gravitational pull in terms of countries and then districts within them, as demonstrated in Lesotho, Kenya and Swaziland, following in the wake of initial major investments. Similar is likely to occur in Namibia, following the recent opening of a Malaysian-owned garment factory that will soon employ 7000 persons. Moreover, a multiplier effect is already occurring in several such countries, with the investments in new mills with respect to the vital Stage 2 in Regional production of yarn and fabric.

The multiplier reaches out, to the establishment of several SME's in connection with out-sourcing of for example, box, paper and label making; light engineering for machine repairs, transport, canteen supplies, the building of accommodation of varied nature for employees; and even language and technical training. Dhaka, Bangladesh, now has literally hundreds of independent professional fabric and garment design studios. SME developments create dynamics of their own, in the creation of further opportunities and business clusters whilst ever-widening the 'Entrepreneurial Class' and increasing employment generally. All such considerations should be taken into account in policy discussions concerning potential core sectors.

Similarly, the value of the Mauritian-owned Palmar Group investment to the nation and the Beira region should not be underestimated. Nor should the 500 or so jobs be taken for granted. The economic decline in Zimbabwe has clearly exerted a knock-on effect upon the port of Beira, in terms of numbers of ships and, it is claimed, the dredging and conditions at the port. Long delays are being experienced, leading to frantic and costly air-freighting arrangements to meet seasonal delivery deadlines inevitably set by the large US customers. Some interest in Stage 2 Texafrica was expressed by Palmar and a Group synergy with Stage 3 Belita, could make commercial sense, assuming the enabling environment to be conducive. If Palmar took control of Texafrica, it is possible that denim fabric production would commence and a further garment unit be opened for the manufacture of jeans and fabrics of similar construction.

One particular South African retailer in Mozambique now has over 20 shops in the country. 40 more would be taken quickly if rents were not so high in comparison with others in the Region. Moreover, as Mozambique has proved, with the first 20 shops, to be the most active 'interesting' country in the Region outside South Africa itself, there could be positive interest in initially manufacturing relatively standard garments in the country, from physical facilities already existing, as for example at Government-owned EMMA at Chimoio, adjacent to Texafrica. Thus an operational Taxafrica could theoretically at least, contribute directly to Stage 3.

Moreover, assuming any such investment at EMMA, or more reasonably for this purpose in Beira, a Regional distribution centre could also be effected to handle goods from a local production facility and elsewhere, to say Zambia, Zimbabwe, Malawi and other land-locked countries. Hence, Beira's status as a port could be enhanced by this and by other investments that could thereby find the Beira area increasingly attractive.

Similarly, Mozambique's largest fabric importer, now importing over 10 million metres per year, would find portions of it's operations more convenient and controllable if there was a fabric source alternatives in the country. Interest in any such source is extremely strong in principle and the heart is definitely in the country, even to the extent that marginal cost disadvantages could be more than offset by convenience and local control. Further evidence of interest in a local source is provided by a group of northern entrepreneurs that has expressed some interest at Texmoque. In this case, historical local business links of Stage 2 mills with the local markets would be revived.

Such interest is not confined to specific business situations. The most articulate importer above, would be keen to see a revived textile sector in Mozambique and would be willing to participate in whatever sector consultative or representative arrangements that might be devised with Government with the aim of galvanising a rapid re- development of an integrated sector. Shops in Maputo are now literally teeming with persons able to afford imported ready-made clothing, as from the RSA-based Group, or from imported fabric that is then made-up according to choice.

Similar interest was expressed, again with great articulation, by the Chairman of both his own long-established Company and the National Cotton Growers Association, in any measures that could potentially bring Stage 1 into any consultative or representative arrangements. Again, there is a desire for a general revival of the national sector. A strong domestic market as in the past, would be a good complement to the existing export markets and could actually be more profitable due essentially to a significant reduction in transport costs in a highly competitive and heavily subsidised, global market.

Interest in Mozambique in the possible revival of the sector is not confined just to Government and some of the major sector players. The Mozambique office of the United Nations Industrial Development Organisation (UNIDO) as recently as November 2003, published the Study (Restricted) referred to above, that was prepared, appropriately enough, for it's Asia-Africa Investment and Technology Promotion Centre (AAITPC). The theme of the study is Opportunity for Investment in Garments and/or Textiles in Mozambique, from the Asian perspective.

A further timely convergence in relation to the latter, is that The Mozambique Centro de Promocao de Investments (CPI) is anticipating a large Asian potential textile and/or garment investor delegation to arrive in the country in May or June 2004.The

Director-Adjunto is extremely aware of the potential importance of this imminent visit, to the nation and the sector. The Centre already has Investment attraction and promotion material (13) but will be quickly approving, with Government, a much needed one-stop scheme for investors, in time for that visit. CPI is much interested in any possibilities for development of the sector, having naturally been involved in both the Belita and AKF negotiations.

Just how UNIDO itself could or would be able to engage in any recovery programme is too early to say, but potentially through it's own experience and experts in productivity, technology and so on, there would appear to be a large range of knowledge and expertise that could be applicable to the Mozambique situation. It is already quite involved in endeavouring to integrate national supply chains and in up-grading the sector in Africa, more particularly in West and Central Africa. It's local office would also apparently welcome any opportunity to be involved in any consultative processes that might be promulgated.

A similar reaction was found at the Projecto para o Desenvolvimento Empresarial (PODE), where a very analytical discussion was held with the Head of the Firm Competitiveness Office It was held that the principal need is to acquire a 'Promoter', or Prime Mover, for the sector for Stage 2 companies. Such could add impetus to the processes of acquisition of capital, expertise and technology, to liberate the currently dormant factors, buildings, equipment and labour.

PODE's particular aim is the development of expertise and hence grants could be available for up to US$ 100,000 per company for training, whilst one third of a Promoter's Feasibility Study could be met by PODE itself, a third from the Promoter and the remaining third from one of PODE's quad-partite funders', viz., NORAD, UK's Department for International Development (DFID), European Union (EU) or World Bank (WB), most probably from the latter's International Finance Corporation (IFC). In view of it's direct interface with such donors and their joint deliberations in the Project Steering Committee (PSC) with reference to any such applications, it is not totally inconceivable that donors could pick-up on reasonable sector needs, not just in Mozambique but in the Region generally.

.2 In the Region

When exercising any moves towards a revitalisation of the sector, even towards a re-integrated national sector, Mozambique would be part of a wider impetus of sector recovery over much of the African Continent. Egypt has currently an extremely large Sector Modernisation Programme in which over 30 Stage 2 companies (some of them include Stage 3) are being analysed with respect to assessment of potentials (if any) and modes of revival into a free market. The EU is sponsoring this project, held to be one of it's largest ever in the consumer goods industrial sector. The Project Management Unit (PMU) relates to Government with respect to both Industry and Trade Divisions. The project followed a large USAID Agricultural Reform Project that not only engaged in Stage 1 activities but also Stage 2 and also a related bi-lateral Italian Government project. It is known that a company identification during the former work very quickly led to the purchase of one of the companies by Italian interests and that it soon produced yarns for Marks & Spencer products.

The EU is also actively promoting Stage 2 and 3 developments across several North African and Eastern Mediterranean countries including for example Morocco, Tunisia, Jordan through another separate Project. Here, analyses are being actively supported at specific company level., with provision of appropriate expatriate TA. Furthermore, 'Centres of Excellence' have been established at national level for the creation of a cadres of highly trained national expertise. Appropriate training technologies are installed in the Centres and instruction is of a high standard. USAID has also supported sector/company investigations in Ethiopia and so on.

A US focus has now shifted to Western, Central and Southern/Eastern Africa, where Global Competitiveness Hubs have been established, to identify constraints to the development of Regional trade and to endeavour to promote not only Regional Trade but also exports, particularly under AGOA. Specifically- AGOA offices and personnel now exist across the Region. Embassy staff will now normally include an AGOA expert who will liase with a national counterpart, i.e. in Uganda, the President's Special Advisor on AGOA, a full-time Post. Such offices answer questions from would-be investors, from existing producers and so on, concerning any changes in rules, documentation procedures and product eligibility, such as the 'grey areas' in Category Group 9 that relates to ethnic and craft household textiles. This Category could be of potential value to Mozambique.

USAID's RATES, based in Nairobi, is endeavouring to promote a Regional approach to development of trade in three commodities, including cotton. This includes development of a web-site giving details of all significant textile players across the Southern and Eastern African countries. Details of companies will be posted in the appropriate national files, giving some product information, product 'sales and wants', expressions of interest in joint-ventures and principal processing facilities, e.g. type/width of loom, knitting and printing machines and similarly with respect to garments. USAID's RAPID, based in Gaboronne, is collaborating in this.

Between those two projects, attempts are also being made to support a concept of a Regional Textile Association, to create Regional power in global trade issues and to bring greater networking than has hitherto been the case. A Regional Conference may soon be held, where the concept will be discussed. If agreed, this could lead by common consent, to the establishment of a small Regional Secretariat, to service initiatives, maintain the data-base in the future and to distribute new and relevant information.

It is anticipated in several countries, including, Uganda, Zambia, Kenya, Mauritius, RSA, and Malawi, that the need for enhanced Regional co-operation is pressing strongly, with the imminent transformation of the Global market from 2005 and the likely total phase-out of LDC derogation. Multi-stakeholder National Textile Associations would be the national conduits through which Regional initiatives would pass and vice-versa.

Three of the latter countries already have adequately representative Associations. Where they do not currently exist, it is likely that they will be formed. Malawi, after forming a multi-stakeholder Action Group, in which the Ministries of Agriculture, Industry, Trade, leading producers etc. were all represented, with an ongoing 13 members plus ad hoc members for specialist topics, i.e. transport and customs, is already set to present a Cotton Act to Parliament, that if passed, would establish a similarly representative permanent Cotton Council.

Several of the countries in the Region have similar, old production capacities at Stages 1 and 2. Stage 3 has been given a strong boost by AGOA and the Regionally understood need is to ensure revitalisation of the first two Stages. This applies less to Stage 1, where cotton production and ginning has recently tended to increasingly receive the attentions of global players such as the US Donovan and large Southern African players such as Clark Cotton and Great Lakes.

Thus, the primary focus, it is generally agreed, should be on Stage 2. Totally new investment, plant and machinery has come to the Region, as previously mentioned for this Stage. Rehabilitation of older plants, similar to those in Mozambique, is also occuring. The question for Mozambique now, is whether it can make itself sufficiently attractive for investment, whether from it’s own nationals, the Region, or elsewhere?.

Chapter 6: CONCLUSIONS AND RECOMMENDATIONS

.1 This study is not perceived to be a final step in investigations in the sector, but as potentially contributing to development of a momentum for a revival of the sector. It is quite plausible that on the basis of earlier hear-say, findings in Chapter 3 would have been totally negative and thus the Conclusions drawn would obviously have been totally different. A policy for Stage 2 would then have had to devote itself totally to attraction of totally new FDI, whilst continuing with efforts as already being adopted, to attraction of investments under Stage 3.

.2 Government is to be highly commended for a successful completion of negotiations with the AKF. A ***Restricted*** video of the intended facility is now held at USAID. Govt. has had to dig deep, to grant a Concessionary arrangement with respect to the buildings at Texlom and to settle some lingering legalities. The development illustrates the growing appreciation by Government of the potentials accorded by the sector, and the lengths to which it can now go to attract investment, in this case to Stage 3, but now hopefully on the evidence provided by this Study, also to Stage 2.

.3 It is considered prudent that Government requested such a study, before further conversions of use took place, as at Texmanta. Now, presumably, it will be able to proceed with more confidence and speed, aware that apparently workable and useful assets still remain in Stages 2 and 3, in determination of just how these can be rapidly brought into action. It should thus be able to exercise more aggression in positive actions, in endeavouring to attract either local or foreign investors into the existing domestic facilities, or entirely new enterprises.

.4 Preferably at this point, particularly because of the urgency for action, Government should immediately engage with Banks and shareholders, to endeavour to free-up Texafrica and if possible Texmoque, with the aim of re-commencement of operations preferably under Mozambique entrepreneurs, or if that should fail, with foreign parties, 'as seen'. An interested 'Promoter', with a 51% or more share-holding from Mozambique, might qualify for two-thirds of the cost of a feasibilty study, through PODE, as described in the preceding Chapter.

.5 Alternatively but more protracted and assuming the financial and legal issues could be settled and effectively release plants for sale, fully detailed economic-technical analyses of the plants could be conducted, to include various re-structuring permutations. Such could be commissioned urgently, possibly with a view to creating options for disposal of plants as a whole or through 're-packaging' as parts of plants, viz., some 'lots' would be offered as scrap or otherwise, with any more obvious cores for future operations being offered as principal lots.

.6 It is recognised that resolution of financial and legal aspects will be difficult. The process might be relatively less complicated with respect to Texafrica than to Texmoque, as at first sight, it would involve principally a direct negotiation between Government and BIM, as the buildings and equipment are currently in Bond to the latter. There would appear to be some potential for leverage, as without those assets there does not seem to be any remaining value to major Portugese shareholder, Multiplier. At the time of defaulting on the large loan arranged between a representative of Multiplier and BIM, the former was holding a 60% stake and the Government 40%.

.7 Some reference was made to the possible existence of a law in Mozambique that gives the State a right to assume possession of shares and consequently assets, in the event that these have been dormant for some length of time. It could be useful to have legal confirmation or Opinion on this particular point. If affirmative, this could be of value in clearing the path for Texmoque, which otherwise could be more difficult in view of the more complex and inter-connected share-holdings, again including Multiplier and also a Bond held in this case by Bank Austral.

.8 An opinion was proffered, with respect to both Texafrica and Texmoque, that the Banks would like to see the companies once again in operation and that progress could be made towards re-commencement of production under whatever ownership, if Government could at least underwrite loans by issue of a guarantee. A view was also expressed that it may be possible to make some payment to totally remove the external interests from the equation. If this is the principal need to 'release' the plant(s) - Multiplier, through Texafrica, held at least a 51% stake in Texmoque - then serious consideration should be given to early commencement of negotiations.

.9 It could be important for Government to ensure that all the relatively good technology in the country, that could no longer be part of the operations at Texmanta and Texlom, is carefully stored, maintained and even restored to full working order as has occurred with the four Sulzer looms purchased by Riopele. In particular, such steps should be taken with respect to the remaining 32 Sulzers at Texlom; the Benninger warper and its creels at Texmanta; the jacquard machines at Texmanta; and the 24 wide Somet Master looms also at Texmanta. The question of how many such looms were installed at Texmanta should be verified and any differences between the observed 24 and a greater number should be accounted for. The future of all of these machines should be on hold until the result of negotiations concerning Texafrica and Texmoque is clear. They might even become part of negotiations.

.10 Similarly, with respect to several other issues, Government is quite aware of the detailed steps it should be making in improvement of the enabling environment. It is already, for example, working feverishly with CPI in the finalisation of the one-stop-shop facilities for potential investors, whether for Stage 2 or 3. Urgency is being driven by the impending visit Asian businessmen referred to above. The *principal point is will and conviction* by Government, towards the creation of attractive conditions for investors.

.11 It is not only a question of development of a one-stop-shop, but taking similar measures to ensure that expatriate visas can be obtained and renewed with a minimum of bureaucratic delays; and for example, that areas declared as Export Processing Zones (EPZ's) have the requisite electricity and water. In several other countries competing in the investment attraction exercise, industrial units of varying size are already built and ready for occupation, with on-site stand-by generators, customs clearance officers and other relevant facilities. Even in Haiti, competing with AGOA countries for a share of the US market through a similar US trade Agreement, the

CBI, such facilities are highly developed and are now of interest to the erstwhile very successful producers in the Dominican Republic.

.12 Investors are immediately deterred when they hear of EPZ factory rentals of $US 7 – 8 per square metre. In Swaziland they may be less than $1.00. Similarly they may be deterred by the prohibitive and out-dated labour laws that can create difficulties for multi-shift working; and which make retrenchment difficult. In a recent WB Report, Mozambique was listed 122nd. out of 130 countries in attractiveness of labour law provisions, so apparently there is still much to do in the details in such respects.

.13 And there are inadequate export and tax incentives, whilst housing rentals and living costs are exceptionally high for the region. Some Regional countries such as Botswana, offer in effect large training subsidies, companies receiving a large portion of trainees' salaries over a reasonable period. If investment is really required and required quickly, ameliorative attention will have to be paid to these points, as part of any investment 'packages' offered. In physical, geographic and labour quality terms, Mozambique looks very attractive but such perceptions will be to no avail unless such points are addressed with commercial realism, adequate offsetting inducements and in a totally competitive spirit.

.14 It appears that Government now wishes to act, but can it act sufficiently quickly and boldly to make up for time lost as compared to other countries in the Region and indeed to its' would-be global competitors?. Having been off the pace for so long in the global market, unusually strong packages will have to be devised if success is to follow. They will undoubtedly have to correspond to the degree of effort and concessions built-in to the Agreement with AKF.

.15 As noted in the previous Chapter, Government will find strong support from the private sector and some institutions, if it helps to promote the concept of both a strategy for the sector. Similarly with respect to the creation of, say a consultative working group representative of major sector players, that could lead to the creation of a national sector Association. This could then constitute a mechanism through which it's voice could be heard in a possible Regional Association. In the meantime, an increase in Regional sector contacts could usefully begin, possibly at the mooted Regional Conference, whenever that occurs.

.16 Sceptics might well argue that it is premature to be thinking and acting along such Regional lines but most countries involved in any of the Stages of the cotton chain will be in attendance at any such Meeting. The reasons are, amongst others, an increasing awareness of the need to create more specific trading synergies in the Region; a recognition that common problems and factors exist across the Region; that future inter-dependency is likely to increase rather than diminish; that in global terms the Region will be competing with large producing nations such as China, India , Pakistan and trading arrangements that involve large groups of countries, such as the North Atlantic Free Trade Area (NAFTA), the CBI and so on; and hence that negotiating with respect to Trade issues could be enhanced. Mozambique should part of this Regional building process and actions should be taken to ensure that it is.

.17 The Regional impetus for textiles and garments is itself a part of wider thrusts, for example the recent creation of the Southern African Customs Union (SACU) and the

Regional Spatial Development Initiative Support Programme (SDI but not Strategic Defence Initiative!), an initiative of the South African Department of Trade and Industry, the theme of which is Creating New Wealth in Southern Africa (14)

.18 There is a further common issue across the Region, the virtual impossibility of obtaining localised finance at competitive rates, whether for working capital or technology, for totally new investment. Totally new FDI is coming to the Region, i.e. from the US, but those instances of successful *revivals* across the Region, have derived almost entirely from wealthy Asian companies and individuals, or from Mauritius and RSA. Government might thus take some initiatives at national or Regional level, with the donor community. Can Governments guarantee the Banks?; or can the donor community guarantee the Governments for such specific purposes, as sustaining over 600,000 jobs in a specified national sector?. Donors should surely recognise the socio-economic potentials, that Government could clearly demonstrate to them.

.19 What is also needed is access to finance by local entrepreneurs, for all Stages 1, 2 and 3 in the relatively LDC's in the Region. Some bilateral agencies might be approached. For example, Mozambique companies or investors might enquire about the Dutch Government's Programme for Co-operation (PSOM),under which Euros 800,000 could be available for co-operating with a Dutch company, assuming that all relevant criteria are met, thus creating JV situations and potentially beneficial ties with an EU country (15).

.20 The Egypt/EU example referred to in the Executive Summary, might be gainfully followed up with donors, say, the USAID or the EU, as the latter programme is stated to include, inter alia, purchase of spare parts and equipment, clearing-off debts and of new loans, TA, Training, etc.

.21 A further step that could be taken in attempts to up-grade the sector in Mozambique is to seriously evaluate the possibility of re-locating the impressive Training School to Maputo or say Texafrica, to form the basis of it's own 'Centre of Excellence', on the model for example, of it's competitors in Northern Africa. Without such national facilities it would become impossible that any recovery would be sustainable. Garment manufacturing technologies could be added to the range of equipment deriving from Mocuba. Donors could be approached concerning grants towards the costs of any such re-location, possibly as part of a wider sector programme. Several donors are particularly interested in Training promotion and enhancement.

.22 The question of the condition of ports should also be addressed. Clearly, companies such as the Palmar Group which has already invested in the sector in Mozambique, should be accorded every consideration that would pre-empt any possibility that they might re-locate. The concern over lack of dredging in Beira could be very real, as the results are increased costs in air-freight and virtual elimination of net profit. For as long as the presence continues, with greater incentives for investment broadly as discussed, there is a greater possibility that it could expand, with a second unit, or even that it might indicate further interest in Texafrica. Government should ensure that appropriate actions are immediately taken to support investors with such problems, particularly in the middle and North of the country where employment generation is critical.

.23 *If* Government could resolve some of the remaining major constraints and issues discussed, including greater flexibility in the labour laws, it is very plausible that local, Regional or other foreign investment will be attracted to Mozambique. In so doing, an integrated national cotton sector would be re-established but at a far higher level of sophistication than previously existed.

.24 The scope and what is potentially within the grasp of Mozambique in economic and social terms, should not be under-estimated. As seen, an estimated 250,000 persons are directly engaged in Stage 1 in the provision of 40,000 tons of lint. 30,000 persons engaged in Stage 2 would not be an unreasonable expectation on the basis of what has already been achieved in very much smaller countries in Sub-Saharan Africa and what is now beginning to occur in the country, with Belita and the AKF investment, soon providing between them 2,500 jobs; whilst 3000 jobs could derive from Stage 2, on the basis of say 1000 persons at each location, Texafrica, Texmoque and Ramiltola, assuming successful resolution of the outstanding financial and legal issues. *This must be a top priority.*

.25 Looking into the future, it is apparently quite conceivable that lint production could continue to develop towards historical peak levels of 120,000 tons, last reached as recently as1999 and in which case over 600,000 persons would be so engaged; that 30,000 persons could be engaged in Stage 3; and that a centripetal attraction of new investments in Stage 2 for yarn and knitted and woven fabric production, could bring the total persons so engaged directly in that Stage, to around 10,000, particularly having regard to the imminent ending of Regional yarn and fabric derogation for AGOA and the obvious need to bring Regional Stage 2 production into balance with Stage 3. Hence it appears quite feasible that over 640,000 persons could be directly engaged in an integrated sector.

.26 Government should recognise that the demise of both the domestic mills and garment factories was largely the result of the way in which social factors were imposed upon them. Hence, the removal of historical indebtedness so induced, could be justifiable and necessary to the revitalisation of existing Enterprises.

.27 If new resultant servicing- SME's are added in and when one job is generally understood to feed four persons, *over 2.5 million persons could be fed*, in the main population areas in the South, middle and North of the country. A real and massive Development Opportunity, with far-reaching socio-economic implications in addressing the fundamental issues of Poverty, Hunger, Health, Gender, Education, Wealth Creation and Human Advancement!.

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2. Technology at Texlom. Now for disposal, includes:
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   2.2 Weaving
   2.3 Finishing

3. Technology at Texafrica, Spinning, Weaving and Finishing
4. Technology at Texmoque, only Finishing obtained but this includes both the original and the Chinese investments in the early 1990's.
5. The Enterprises: Photographs.