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NEW OPPORTUNITY FOR TEXTILE & GARMENT INDUSTRY IN MOZAMBIQUE

Technical View of A Korean Expert

Technical Report

Prepared for
Asia-Africa Investment and Technology Promotion Center (AAITPC) project
of the United Nations Industrial Development Organization.

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Introduction

Mozambique is located in the southeastern part of Africa with long coastal line facing Indian Ocean in east, and with tropical climate in its northern part and semi-tropical one in the southern part. The country bordered with 6 countries including South Africa belongs to one of the poorest states in the continent with just U$200 of per capita income because of prolonged civil war and frequently visited flood.

However the country regained its political stability in 1990's and has been pushing ahead with economic rehabilitation policies such as privatization of national properties and inducement of foreign investment.
In spite of government efforts the speed of economic development of the country is not satisfactory since it has miserably been poor in capital, technology, and marketing ability. Among others, we know that textile industry is labor intensive and that it is able to create a large number of jobs. Nonetheless, the textile and garment industry of the country is suffering hard time to the degree to which even a handful of facilities in existence have been forced to shut down.

I conducted this Mozambique project not because I am experienced well in Africa but because I have been engaged in textile industry in Korea for more than 30 years.
The Mozambique project commissioned to me is part of AAITPC (Asia-Africa Investment and Technology Promotion Center) work plan under UNIDO (United Nations Industrial Development Organization) programs. The AAITPC Project started in 1999 as a UNIDO project with the trust fund of Japanese Government. The objective of the project is to promote investment and technology transfer flows from Asia to Africa on Asia-Africa Cooperation concept. I took a trip to the country and collected information and materials necessary for the project by means of visit to factories in question and governmental offices as well as interviews taken with staffs and workers at the places visited.

During my survey in Mozambique assisted by staffs of CPI (Center of Promotion of Investment), I was able to pay visit to not only offices such as Ministry of Industry and Trade, Mozambique Cotton Institute, Cotton Production Association, and Statistics National Institute but also factories like Texlom, Riopele, and Belita.
I would like to express my sincere thanks to those who helped me with good advice and collection of data including Mr. Mussa Usman at CPI. This report contains a lot of information quoted from other reports related to textile and garment industry of Mozambique. The major reports quoted here is as follows; Peter Coughlin report, CDE (Center for Development of Enterprise) report, CPI brochure etc., These reports are quite well done and provide many a valuable information useful for reference. I once again express my deep appreciation to those participated in the making of those reports.

As mentioned above my mission was to survey the present situation of textile and garment industry of Mozambique and then to explore new opportunities for those industries with a view to contributing to meet the needs of potential investors abroad as well as Mozambique government.
Consequently the survey was done with focus on the analysis of causes and effects of those industries' rise and fall in the Mozambique situation. Those industries emerged during the colonial era by foreign capital before the country was

transformed into a capitalist state. The present situation of those industries obviously indicates both market and policy failure that happened in the country.

The report consists of 9 chapters which may be grouped into five main pieces; (i) the present situation of the country economy and textile and garment industry of Mozambique; (ii) the governmental regulation and incentive system; (iii) analysis of supply and demand in domestic and overseas market individual industry; (iv) competitiveness analysis and conclusion of the industry in Mozambique; (v) Recommendations.

The part of the present situation covers market and policy experienced so far, the regulation and incentive part elaborates ongoing governmental regulation and incentive packages in detail, the supply and demand analysis part covers cotton, textile and garment industry respectively, and recommendation part is presented to the Mozambique government, existing companies in the nation, and prospective investors respectively.

I. Overview of Mozambique

It is essential to have right perspective on the geo-political situation of the country as a start-up of the paper. Therefore, the macro picture of the country is described here in detail.

1.1 General

Mozambique gained independence from Portugal in 1975 and implemented socialist policies. Civil War escalated in late 1980's, destroying much of the country's infrastructure. Constitutional changes in 1990 led to the signing of the 1992 Peace Accord and the First democratic election in 1994.

The country's president is elected by popular vote for five-year term. In December 1999, President Joaquim Alberto Chissano was re-elected as chief of state. The convincing victory of the Frelimo (Front for the Liberation of Mozambique) party in the December election is expected to guarantee continuity with the economic reforms and political stability that formed the strong performance of the Mozambican economy in recent years.

Located on the South Eastern coast of Africa, Mozambique covers an area of close on 800,000 km2. It borders on Tanzania to the North, Zambia, Malawi and Zimbabwe to the West and South Africa and Swaziland to the South. Its Indian Ocean coastline covers a distance of nearly 2 500 km. Terrain consists mostly of coastal lowlands, uplands in the center, and high plateaus in the North West and mountains in the West. The climate varies from sub-tropical in the South to tropical in the North. The temperature ranges from 18°C during the winter season (May to September) to 30°C during the wet summer season.

Mozambique consists of 10 provinces, with the capital, Maputo, located in the most Southern part of the country.

Mozambique's population currently stands at approximately 17 million people, of which 43% is younger than 15 years, 55% between the ages of 15 and 64 and 2% 65 years and older. The population growth rate for 2001 is estimated at 1.3%. Although Portuguese is the official language, English is widely spoken in the main cities. The literacy rate (defined as age 15 and over can read and write) is just over 42% of the total population. Apart from public schools, private and/or international schools in the main cities, Mozambique also has 12 Universities and other Institutions of higher education. (Source: CDE; Center for the Development of Enterprise /Interim report on Mozambique; p1)

Mozambique's central planning apparatus began to be dismantled in the late 1980's, but 1992 Peace settlement enabled the Government to move ahead with market based economic policies, including privatization, market determination of prices and the exchange rate, and rationalization of public expenditure and fiscal balance. Known as the Economic Rehabilitation Programme (PRE), these policies also aimed to reform the public sector and the civil service. Since 1992, the Government has earned a reputation for prudent macroeconomic management and commitment to alleviation of rural poverty. The Government has also been active in managing and ensuring consistency among donor supported development activities. In this regard the outlook of Mozambique in political and economic aspects looks bright.

1.2. Political Stability

The convincing victory of political party (Frelimo) in the December 1999, national elections is expected to guarantee continuity with the economic reforms and political stability and have underpinned the strong performance of the Mozambique economy in recent years. Mozambique has achieved a degree of political stability that was unthinkable in the early90's. While deep-rooted suspicions persist, it is now more than ever accepted by the principal parties that democracy in Mozambique has to be made to work, realizing that any Mozambique government would heavily depend on external financial assistance for the next decade. Nevertheless, it seems realistic to accept that it will take some time for the political environment in Mozambique to totally stabilize. Whatever, confronting between Frelimo and Renamo, the country is expected to remain politically stable. (source: CDE :Center for the Development of Enterprise, report ,p3).

1.3. Feature of Mozambique

Mozambique is a country on the move, constantly adjusting and streamlining bureaucratic procedures, and firmly committed to restructure its economy to meet the demands of the global economy, there is no doubt that enormous improvements have taken place and will continue. The following have emerged as some of the main factors which have appealed to investors;

- Known as the " gateway to southern Africa", with excellent access to the Southern African regional market, and the shortest road connection to Johannesburg.
- A Large and dedicated labor force available at highly competitive rates, and who are non-politicized and stable.
- Preferential access to AGOA, EU, SADC, Japan, China and other markets.
- The country is one of the lowest cost electrical energy producers in the world.
- Macro-Economic stability and a political environment conducive to investment.
- Massive rehabilitation program of port and other infra-structural facilities.
- No exchange controls on the repatriation of profits.
- Ability to hold foreign currency accounts.
- Established Export Processing Zones.
- Abundant and underutilized natural resource.

1.4. Investment Opportunity (Revitalization and new growth):

A vigorous privatization program, combined with strong foreign investment is having its impact on the manufacturing sector. Long neglected, there is a tremendous need for the upgrading of old plant, and investment in new sectors. The strong growth in the domestic economy, and not inconsiderable market of 18 million population is currently under-served, and consumer goods industries should blossom.

The low cost electricity, combined with highly competitive wage should act as a major catalyst for industrialization. To support this process, generous investment incentives exist and the government has introduced legislation allowing the establishment of free zones for exports oriented investments. Mozambique's preferential access to major markets in the US and EU should act as a powerful magnet for many labor- intensive industries. Manufacturing currently accounts for some 10% of the total, but with the Mozal Aluminum project, the contribution of the manufacturing sector will rise dramatically, and should lay the platform for a massive downstream industry completely altering the structure of the Mozambican economy.

II. Macroeconomic Environment

Textile industry, the target area of the paper is part of the macro-economy of the country. It is also said that micro economy is closely inter-related with macro one of a country. In this regard I believe that the macro economic picture of the country should be presented first before we move to the specific micro one, textile industry.

2.1. The Background of economy development

Before the Peace accord of October 1992, Mozambique's economy was devastated by a protracted civil war and socialist mismanagement. In 1994, it ranked as one of the poorest countries in the world. Since then, Mozambique has undertaken a series of economic reforms. Almost all aspects of the economy have been liberalized to some extent. More than 900 state enterprises have been privatized. A value-added tax, introduced in 1999, launched the government's comprehensive tax reform program. Pending is much needed commercial code reform and greater private sector involvement in the transportation, telecommunications, and energy sectors.

2.2 Review of fiscal year 2002

The growth rate of the economy in 2002 slowed slightly in comparison with the previous year. A reduction in the investment made in already noticeable, in particular when one analyses to indicators excluding the two major projection course (Mozal's 2nd phase and the Pande Gas Project).

-The GDP growth rate in 2002 is estimated to reach 10%, with the average annual inflation rate expected to be of 9.1% at the end of the year 2002. At around 200 US dollars, GDP per capita is not expected to have grown significantly compared with the previous year. The Break down of the GDP indicator from the point of view of production, when analyses without the effect of the major projects, show that the growth is not concentrated by sector, being that the tertiary sector continues the show greater strength, representing about 51% of the value contributed towards the gross total, against 20% of the primary sector and 29% of the secondary sector.

-In terms of monetary and foreign exchange policy, one should emphasize the small depreciation of the Metical against the U.S. dollar.

-Direct foreign investment in 2002 reached 380 million U.S. dollars, compared to 255 million U.S. dollars in 2001, and 139 million U.S. dollars in 2000. One should note that these amounts are essentially linked to a small number of projects being implemented, and as such they are subject to strong fluctuations.

-The country depends on foreign assistance to balance the budget and to pay for a trade imbalance in which imports greatly outnumber exports. The trade situation should improve in the medium term, however, as trade and transportation links to South Africa and the rest of the region have been improved and sizeable foreign investments are beginning to materialize.

-Among these investments and transportation services, Mozambique has received a formal cancellation of a large portion of its external debt through IMF initiative and is scheduled to receive additional relief.

Table 1: Main Macroeconomic Indicators for Mozambique

Source: BM (Bank of Mozambique) annual report

Description	Units	1999	2000	2001	2002
GDP growth rate, current prices	%	4.8	11.4	21.9	12.0
GDP growth rate, real	%	7.3	1.6	13.9	10.0
GDP per capita (MT: Medical)	1000MT	3083	3301	4185	4576
Inflation, end of period	%	6.2	11.4	21.9	9.1
Exchange rate, at end of year	MT/USD	13,300	17,130	23,320	23,854
Current trade balance, % of GDP	%	-16.9	-13.2	-9.9	-18.4
Budget balance, % of GDP	%	-0.7	-4.2	-5.4	-7.8
Foreign debt/ Export	%	212.0	193.9	196.2	178.1
Direct foreign investment	Mil USD	-	139	255	380

Table 2: Value added (% of GDP)

Source: Ministry of Planning & Finance

Sectors	1999	2000	2001
Agriculture, livestock, forestry	25.4	20.2	18.8
Fishing	2.5	2.0	1.9
Mining Industry	0.1	0.2	0.3
Manufacturing Industry	11.0	11.3	10.7
Electricity and Water	3.0	2.4	2.1
Construction	7.7	8.7	10.9
Trade	21.1	20.3	17.9
Transportation and Communication	10.2	12.6	16.0
Financial Services	2.1	4.0	4.3
Real Estate	2.2	1.9	1.6
Government Services	6.8	7.1	7.1
Other Services	4.3	5.4	4.5
Restaurant and Hotels	1.2	1.4	1.2
GDP	100	100	100

2.3 International Surrounding of Africa

2.3.1 AGOA : Africa Growth and Opportunity Act.

The benefits to qualifying African countries of exporting to the United States of America (USA) under the AGOA have been available since January 2001. In some cases African countries have actually increased their exports to the U.S.A. as a result of AGOA. It enabled sub-Saharan African countries to export garments duty free and quota free to that market upon approval of Visa system designed especially to prevent trans-shipments.

Exemption from "Yarn rules" which requires that all garments exported to the U.S. under AGOA must be made from fabric made in U.S. or in one or more AGOA eligible African countries yarn made in those countries (AGOA, Section 112). But this advantage is temporary because all quantitative trade restrictions will be abolished in 2005, leaving only tariff barriers. This agreement allows Mozambique to export to U.S.A., only manufactured in the country irrespective of the origin of the raw material.

2.3.2. EU Agreement:

Under this agreement, the signatory countries including Mozambique receive from European Union advantages of duty and Quota free for exportation of productions from their countries.

2.3.3. SADC: Southern Africa Development Community:

The Southern African Development Community (SADC) is now an economic grouping which brings together fourteen East, Central and Southern African countries of Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. These were the founding Members of SADC with the exception of the Democratic Republic of Congo and Seychelles.

There are several Protocols under SADC such as those on Agriculture, Fisheries, Trade and Telecommunications. The SADC Protocol on Trade, which envisages the creation of a Free Trade Area within eight years of its entry into force, was signed in Maseru, Lesotho on 24 August, 1996. (source: www.sadc.int/ protocol on trade)

Malawi, **M**ozambique, **T**anzania and **Z**ambia (MMTZ countries) were granted the one-stage tariff change for a period of five years subject to quotas for their exports into SACU (Southern African Customs Union). A Textile and Clothing subcommittee will be monitoring this agreement on textiles and clothing. Negotiations will continue on unresolved issues within the context of the Tariff Negotiating Forum (TNF).

Under this agreement, Mozambique benefits of exportation of 4,200,000 garments (HS 61,62) yearly to SACU (Southern African Customs Union) market as below table.

Table: 3. SACU quotas offer to MMTZ countries, 12 Feb 2001

Source: SADC, 2001.6)

	HS Chapter				
	52(Tones)	55(Tones)	60(Tones)	61&62(Units)	63(Tones)
Malawi	1110	43	200	8,565,000	565
Mozambique	3600	-	-	4,200,000	170
Tanzania	1200	-	-	500,000	300
Zambia	1700	390	60	500,000	300

III. General Review of Textile Industry

Now we arrived at the stage of entering a micro economy of the country, the textile industry. Reviewed here are general history of textile industry development of the country, development process by the factory, and development process of garment.

3.1. History of the textile industry development of the country

In Mozambique, the first textile industry (Textafrica) was established in the late of 1940's. The textile and clothing industries in that period were producing mainly cotton clothes. The government actively promoted industrialization during the first decade after independence in 1974. However, the country experienced a mass exodus of Portuguese settlers, who had virtually occupied all managerial and technical positions. This, coupled with the effect of socialization and the long lasting civil war, contributed to the demise of the industry. Many factories closed down or were reduced to running at very low utilization rates. Cotton lint production decreased from close on 50,000 tons in 1973, to less than 2000 tons in 1985. The Economic Rehabilitation Programme (PRE) in 1987 established the production and commercial changes and improved the economic situation of the country. The establishment of this program influenced mainly the yarn and cloth sectors. The early 1990's saw a change for the better and the industry experienced substantial growth in 1997 (textile by 64% and clothing by 243%) mainly due to the re-opening of some factories and some new entrants manufacturing for export purposes. Cotton production was also revitalized and strong growth has been recorded over the past 3 years. If cotton production proves to be sustainable, it will stimulate growth in the downstream textile pipeline for years come.

3.2. History of Textile industry

Actually the textile industry is formed by seven factories, namely; Textafrica (chimoio), Texmanta(Pemba), Fabrica de Cobertores R.K.(Matola), Texmoque(Nampula), Texlom(Matola), Riopele(Marracuene), Textile de Mocuba (which never started working).

-Texmoque is closed since 1993, and Texmanta is closed since 1996. Texmanta, when operating, used 15% of cotton and 85% of acryl, and the other mills are designed to produce cotton-based fabrics.

-Texlom is closed since 1999, but is planning to rehabilitating its building and machinery and looking for a new investor. Texlom exported cloth representing 40% of its output till early 1999. (See Annex 7)

-Textfrica has shut its production line entirely in 2002 and is looking for a buyer for itself and its interest in Texmanta, Texmoque. Textafrica exported 80% of output to Europe in the form of cloth.

- Riopele and Cobertores R.K. are still working producing only fabrics and blankets at below 10% of their capacities due to the market situation and financial problems. These problems associated with the lack of raw materials made the textile factories to reduce their capacity to the lowest levels of use. (See Annex 6)

3.3. Garment industry by the factory

There are two sectors within Mozambique apparel manufacturing, the formal and informal (tailoring) sectors.

Tailoring appears to be flourishing activity, especially in the informal sector. Various estimates put the number people involved at between 20,000 and 30,000.

The Garment industry is more developed than textile industry and is formed by 7 factories located in the south and center of the country namely; Belita was set up in 1998 owned by Palmer group in Mauritius, expanded in 2001, exports only. Soberana is owned with Portuguese group, Pfaff, which also owns Riopele textile mill. It does not export, selling uniforms to the Ministry of Interior, which buys about 80% of its output. Ninita and Umar Textile are active in producing their product for export. Their main products are Overalls, shirts, pants, and scarves. (source: Peter Coughlin,SADC study p2,May 2001)

IV. Cotton industry

From the chapter above we came to obtain the general picture of textile industry of the country. This chapter elaborates the beginning part of the textile industry, raw material production and subsequently shows demand for and supply of the raw material, their interaction in the domestic and overseas market, and variation in price and export.

The only fiber producing in this country is cotton but its total amount of production is relatively small in terms of supply of global market. Nonetheless it serves lion' s share of export of the nationThe suitable area of cotton production in the country is northeastern part of the country suitable for cotton production, as it requires 180 days of cultivation period.

The amount of cotton production; Before independence of the country in 1975, the production level of cotton was usually at the level of 120,000 ton annually and then it began to decline drastically to the level of 30,000 to 70,000 ton per year due to pull-out of the Portuguese since 1976. The level went down further and in 1986 it eventually hit the bottom at the level of 5,000 ton per year and then began to rise to reach 120,000 ton per year in 1999. However, it dropped again to the level of 40,000 ton per year due to great flood in 2000 and has gradually been on the trend of regaining. The production level in 2003 is forecast to reach 56,700 ton per year.

For reference the country that produces cotton largest in the world is China and it occupies 22.8% (the year 2000/2001) of global production followed by USA with 19.3%, by India with 12.3%, and by Pakistan with 9.3%. Thus, these four countries occupy 63.7% of the world production and other countries in Asia and Africa take the rest of it. The amount of cotton production of China is approximately 4.5million ton that is mostly exported to countries such as Korea etc., and partly provided to domestic textile industry to produce yarn and weaving. (Data source; Textile handbook published by Japanese Synthetic Fiber Association, 2000)

In case of Mozambique annual amount of cotton production is about 30,000 ton occupying merely 0.15% of world production, 17 million ton. The total amount of cotton produced here has been exported to Europe and Asia as well as Portugal but there is a need to switch from raw material export to value added product export such as yarn or fabric in order to foster the industry of the country. The present situation is such that the cotton cultivated has been mostly exported in cotton fiber whereas there has been none exported in yarn or fabrics because of low working operation of textile industry. In light of added value the export should be made in yarn or textiles.

The cotton quality produced here is at the level of Gossypium Linsatum grade (American Upland) with fiber length 1 and 1/32 or 1 and 5/32 inch.

For the higher productivity of cotton farmers should be provided with incentives to motivate them such as minimum price, which affects their desire for farming and eventually determines the amount of cotton production of the country.
A research of renovation is needed for the improvement of seed cottons' quality grade and productivity of the cotton. There is a need to develop a cotton ginnery machine.

Table 4: Production Trend between Company and farmers of Cotton Seed (Units: Tones)

Sectors	Company	Farmer	Total
1991/1992	19,481	15,154	34,635
1992/1993	22,879	24,127	47,006
1993/1994	17,080	29,244	46,324
1994/1995	17,249	35,757	53,006
1995/1996	17,837	32,670	50,507
1996/1997	15,635	58,365	74,000
1997/1998	11,600	79,488	91,088
1998/1999	14,139	102,577	116,716
1999/2000	2,719	32,646	35,365
2000/2001	6,677	64,371	71,048
2001/2002	8,788	75,896	84,684
*2002/2003	550	56,166	56,716

*2002/2003: estimated Source: Institute of cotton industry

The cotton production by enterprises has been on the decline since 1991 to result in merely 550 ton per year in 2002,which is short of even 10 % of the total (see table 4). The large companies have abandoned production of cotton on their plantations, instead preferred to organize small out growers by supplying them with pesticides and subtracting the resulting debts from the farmers' proceeds from the harvest. (Source: Peter Coughlin, SADC report /p21)

Productivity comparison of seed cotton: Nampula and Delgado provinces produces much more than others and on an average the productivity of the country was 375kg/ha in 2001/2002, 302kg/ha in 2000/2001, 335kg/ha in 1999/2000, 579 kg/ha in 1998/1999, and 460kg/ha in 1997/1998. The total average productivity of the country during this period is 410 kg/ha, which is better than India with 298kg/ha but worse than Egypt with 816 kg/ha (Data Source: U.S. International Trade Commission, Industry Trade summary (cotton), Jan.2001). By region the northern part of the country produces almost 90% of the total production and middle part takes up the remaining 10%.

Export of cotton fiber by world region: As for cotton fiber, the country has been exporting its total amount of production i.e., was produced 27,696 ton/year in 2001/2002, out of which 38% has been exported to Portugal, 36% to Asia, and 8.5% to Africa such as South Africa.

Export price of the cotton fiber: The average export price of cotton fiber has declined from US$1,018.73/ ton in 1997/1998 to US$ 849.56/ton in 2001/2002. Therefore, the cotton production is dwindling as farmers are losing their interest as a result of price fall

Table 5: Export Price with destination of cotton fiber

	2000/2001			2001/2002		
	Quantity (Ton)	Value (U$x1000)	U$/Ton	Quantity (Ton)	Value (U$)	U$/TON
Portugal	10,624	6,980	656	10,629	9,004	847
Thailand	1,099	826	751	1,961	1,443	735
India	5,894	4,199	712	3,488	2,867	822
Taiwan	1,498	891	595	199	172	862
Indonesia	493	312	633	1,775	1,525	859
Vietnam	-	-	-	480	412	859
Philippine	-	-	-	324	300	923
Malaysia	-	-	-	1,698	1,509	888
R.S.A.	1,047	631	602	1,635	1,299	794
Brazil	-	-	-	4,162	3,873	930
Others	3,177	1,910	-	1,345	1125	-
Total	23,832	15,747	660	27,696	23,529	849

Source: Institute of cotton industry

V. Textile Industry (spinning, weaving, knitting and finishing)

Spinning, weaving, knitting, and finishing are manufacturing part that is main stream and driving forces of the industry. This chapter doesn' t show just manufacturing part of the textile industry but also demand for and supply ofhe products manufactured at the domestic and overseas market.

5.1. Synthetic fiber

Synthetic fiber has not been produced yet in Mozambique, which is contrasted to the situation in the newly rising developing countries like China, Indonesia, where it occupies more than 30% of the total amount of national production of fiber and its speed of growth is getting faster.

In order to be equipped with spinning facilities that produce synthetic fiber (in the form of yarn), it is essential for competitiveness to have economy of scale in investment for stable supply of electricity, water, and air conditioner etc. Even taking into account its poor economy situation, this country needs to induce even one polyester manufacturing factory, which would promote development of down stream of textile industry like weaving, knitting, dyeing and processing, thus contribute to national economy and create new jobs

Expansion of weaving facilities is needed for production of polyester filament and for this purpose it is suggested that engineers and technicians should be invited and second hand extra facilities are introduced as soon as possible from Korea and etc.

In light of climate of this country, factories need to be built for domestic production of weaved fabric by use of high twisted polyester yarn that could be in turn supplied to garment makers such as women dress and blouse. To do so a technical review is needed for introduction of yarn-twister, warping machine, and water jet looms. There is no dyeing and processing facilities equipped for polyester fabrics at all in this country.

Textile production competitiveness of Korea has been sagging against late developing countries such as China and Indonesia due to rise in labor cost, thus its export has declined since 1996. For examples the amount of export in 2002 decreased by 16.5% against the year 2000. Recently operation rate of factories in the region of Taegu, Kyungbuk of Korea that is famous for export of synthetic fiber products has gone down below 60% of their capacity and as a result of this, many enterprises have been noticed to close down their factories and this trend seems to continue. It could be mutually beneficial to both countries of Korea and Mozambique if Korean technical competency, experienced engineers, and high speed weaving machine is transferred to Mozambique and then, combined with cheap labor of Mozambique.

5.2. Cotton Spinning & weaving

In spite of its cottonseed production, Mozambique has not produced cotton spun yarn yet. The reason is such that the country has been equipped with some facilities for spinning (Texlom, Riopele and etc.), nonetheless they have been left unused because of lack of technology for operation and marketing ability. Exceptionally, spinning facilities for Riopele is partly in operation to produce staple fiber but its operation rate is sadly low.

As for Texlom the company maintained 400 units of European weaving machine such as Picanol and Sulzer to produce basic fabric known as popline, sheeting, capulana and etc., but their production has been stopped since 1999 due to big flood that put those machines under water.

As for Riopele, the country also maintains 120 units of cotton spinning machine and is well equipped with facilities to cover from spinning to dyeing processing but operation rate for those machine and facilities remains just 5 to 10 %.

My suggestion for operation of textile those factories: The factory should be separated and operated into small unit work places each other, spinning, weaving, and dyeing part. They should be operated independently under the afford-said principle with sense of responsibility and mind of cost and benefit. A spinning part is free from scale of unit but weaving should be better to be limited to less than 100 machines and production items also to be limited to less than 10. Dyeing and printing are high energy consuming and pollution inducing industries and therefore it is suggested that operation of a dyeing and finishing factory should be based on three shifts (all around clock operation) and thus, time and energy loss due to the restarting its operation be prevented. It is also suggested that attentions should be made for training of skilled workers and competent factory process managers be sent to the countries where textile industry is quite advanced, and have them to learn quality control techniques.

Trading trend of textile product in Mozambique: It is difficult to predict the trading trend of textile in the domestic market because of huge yearly variation. Export (external market) has grown from about U$30 million in the year 1998 to U$ 54 million in the year 2000 and thus, its growth rate shows an average 26.6 % per year.

Table 6: Trading trend of textile product in Mozambique

Units: 1000 U$

Description		1998	1999	2000
Textile Products	Internal Market	16,733	25,040	14,561
	External Market	30,508	42,093	53,916
Garments	Internal Market	2,260	3,746	4,776
	External Market	11,421	11,230	12,730

Table 7: Textile production Values in Mozambique

Company	Values of Production (Mil Metical)		Evaluation (%)	Portion (%)		Employee (Person)
	2002	2003	2003/2002	2002	2003	2003
Cicomo	9,315	12,111	+30.0	50.6	71.1	178
Riopele Textile	4,567	2,974	-34.9	24.8	17.5	137
Baptisa Salomation	977	1,442	+47.7	5.3	8.5	43
Fab Cobertores	333	500	+50	1.8	2.9	31
Textile of Pungue	3,203	0	-100	17.4	0	95
Others	20	0	-100	0.1	0	0
Total	18,415 (U$:783,000)	17,027 (U$:724,000)	-7.5	100	100	484

Source: Ministry of Industry and Trade

VI. Garment Industry

Garment industry is sewing one which uses the product manufactured shown in the previous chapter. This chapter shows demand for and supply of the garment of the country, their interaction in the market and the garment business conditions in the country.

6.1. General

The garment industry is the only one that is active in production and marketing in Mozambique. As such the industry is based in the region near Maputo and structured by small size of enterprises with 200 to 500 employees.

These enterprises were mainly established by foreign capital. Thus, the way of production is a simple contract processing in which raw materials necessary for the production such as fabrics and accessories are brought into the country from foreign purchasers in Europe etc., and they are processed here by means of cheap labor. Basic items like T-shirts, sweater, blouse, uniform, skirts and gowns are noticed to be produced thanks to cheap labor cost and to be exported to foreign countries such as USA and South Africa. However, clothes in fashion has not been produced yet because there is completely no demand for them in the nation except for small scale of tailored garments in fashion targeted to a small number of customers. The demand for clothes in domestic market of the country is limited to only uniforms.

In the early 1990's, production of this sector decline because of feeble domestic purchasing power and the consumption of imported goods, many of which were smuggled into the country. (Source: IPEX)

Despite recent improvements, the apparel sector faces considerable challenges because of a cumbersome regulatory framework, a difficult transport situation, large quantity of locally available second hand clothing, and the slowness by the government to revitalize the textile industry. (Source: MIGA, May 2003 p3)

It is time to encourage the garment industry by national needs, which is labor intensive, conducive to job creation with small capital, and fast in return of capital. Especially now is urgent time for the government to root out smuggling and to build national industry.

The country secured as much quota in export as 4.2 million pieces of garments to South Africa. Hence, it should develop a policy of exhausting the full quota by means of rational and fair quota management. For example, it could be suggested that quota should be allocated with its 50% based on performance of last year and the rest of it on the amount of letter of credit received this year, which will be helpful in preventing quota from failing to ship out by the end of the year.

BELUZONE- IFZs which is created as a pioneering base for export this year is regarded to be the best place for garment factories to move in and to start their businesses.

Countries that have taken advantage of the provisions of the African Growth and Opportunity Act (AGOA), notably Lesotho and Swaziland, have enjoyed an enormous increase in formal employment. The benefits to qualifying African countries of exporting to the United States of America (USA) under the AGOA have been available since January 2001. In some cases African countries have actually increased their exports to the USA as a result of AGOA. Some qualifying countries have also experienced strong growth in foreign direct investment aimed at taking advantage of AGOA with positive spin-offs for increased employment and general economic activity. While linkage with other economic sectors is not yet fully exploited of developed, AGOA has in general made a positive contribution to African economies.

However, not all qualifying African countries have fully embraced the opportunity offered by AGOA or they have been slow in mobilizing themselves. With time running out and the September 2008 expiry date approaching no time should be wasted.

It is estimated AGOA raised African exports to the US by 1,000% in the first two years, created 60,000 jobs and brought another U$1 billion worth of new investment. According to the US commerce department, AGOA imports to the US last year totaled U$9 billion, or half of total imports. Three-quarters of imports were petroleum products, and with these excluded, AGOA imports were $2.2billion, of which textile and apparel imports were $803million and transportation equipment (cars) $545m.

The number of textile factories in Swaziland has grown from three to 29 in three years, providing 23,000 jobs. There are also three factories in Botswana and two in Namibia. In Lesotho, the fivefold increase in exports in four years, now totaling more than $400million, translates into more than 3.5million garments a month, 99% of which are destined for the US market.

6.2. Demand and supply of garment industry

6.2.1. Demand

a.a.a. Local Consumption: U$4.8 million of garments was purchased locally in 2002. Domestic consumption of garments has increased slightly in the last five years.

b.b.b. Overseas Consumption: U$12.7 million of garments were exported to South Africa and US in 2000. In addition to being a member of SADC, Mozambique has been allowed to sell commercial products quota free and duty free to USA and EU under AGOA. There are no restrictions on exporting to Canada and Japan. (Source: MIGA /Mozambique Apparel Industry, May 2003 p6)

6.2.3. Supply

Apparel manufacturers (Belita, Sabrina, Umar Textile and Ninita) are running actively in Maputo, and Beira. About 1,400 employees are working in those factories. The average size is less than 500 people.

In 2000 years, approximately 30 million garments were produced. Main products are T-shirts, sweater, blouse, uniforms, gown, overall suits, shorts, skirts, pants, bikinis, dresses and jackets. Most garments are exported to South Africa with the remainder designated for local consumption.

Table 8: Production of garments in Mozambique

Source: Ministry of Industry and Trade

Company	Values of Production (Mil Metical)		Evaluation (%)	Portion (%)		Employee (Person)
	2002	2003*	2003/2002	2002	2003	2003
Belita	6,672	10,232	+53.3	27.7	22.4	351
Umar Textile	7,045	6,018	-14.6	29.3	13.2	217
Sabrina	1,914	3,942	+105.9	8.0	8.6	329
Ninita	1,837	21,774	+1085	7.6	47.6	282
Soberana	1,494	0	-100	6.2	0	0
Investro	1,530	0	-100	6.4	0	0
Others	3,560	3,780		14.8	8.2	221
Total	24,052	45,746	+90.2	100	100	1400

	(U$: 1Mil)	(U$: 1.95Mil)				

*: estimated

6.3. The garment business conditions in Mozambique

6.3.1. Fabric Sourcing:

Of the approximate 11 million m2 of fabrics used, the majority is imported with the key sources from East Asia. Although one textile company (Textafrica) supplied the local market up to April 2000 with cotton fabrics and thereafter up to May 2002 with dyed/printed ex-imported fabrics, the only remaining local supplier, Riopele supplies synthetic fiber fabrics (polyester and Viscose) for the uniform/school wear markets.

Due to the late arrival of fabric and accessories mainly by delay in customs and infrequency of incoming shipping vessels, average day to clear imports is 11 days.

6.3.2. Labor cost and managing:

Mozambican wages are about a third of those in South Africa and Mauritius and less than half those in Zimbabwe

-Minimum wages; In 15th of April 2003, the government established minimum wage is 982,717 Mt (about 42U$/month) for industry, commerce and the service sector and 700,386 Mt/month for agriculture.

-Comparison of Minimum Wages/Month: Ghana (U$ 24), Tanzania (U$ 44), Mozambique (U$ 42), Senegal (U$ 68). (Data Source: MIGA/MSP Comparative Cost Matrix, May 2003).

-Employers must pay a social security tax assessed at 7% of the employee's wages. Of this, 3% is deductible from the employees' wages while the remaining 4% are a cost to the employer.

-Working Hours: 8hrs/day, 48hrs/week

-Over time: Work performed over and above the normal daily working hours is considered to be overtime. Employees shall not perform more than two hours of overtime per day, up to a maximum of one hundred hours per year, except in the circumstances when there are material reasons.

-Although no laws prohibit piecework payment, there is no record of companies being successful at paying their workers in this manner.

- Some garment factories have difficulties in managing employees because of difficulty of firing workers, absent employees that are almost 10% due to illness and household works.

-In some factories, managers need to speak Portuguese or South African dialects in Maputo or Sofala (middle part of province) in order to communicate with workers and junior levels of civil servants.

6.3.3. Supply of labor force

Mozambique offers a large, easily trainable, productive and inexpensive workforce. There is limited supply of technicians and trained labor but plenty of English-speaking labor because of repatriates who had fled to Zimbabwe, Malawi, or South Africa during Mozambique's civil war.

6.3.4. Roads condition:

Mozambique's roads are in poor condition and the electricity and water supply is not consistent. The government is currently pursuing the Roads and Coastal Shipping (ROCS III) program. This program includes a national roads program where objections are to improve land transportation by emergency re-opening of some key roads, major rehabilitation and periodic maintenance.

6.3.5. Water port condition:

Currently the route followed by the shipping lines leaves from the ports of Beira or Maputo and stops in the South Africa. The main ports where it usually stops are Durban, Cape Town and Port Elizabeth before it reaches the US. The goods usually stay in these ports for about a week to 10 days, and then take an additionally one to two days before they reach Maputo Port. Because of this stop, there is a median journey time of 40 days to the US.

6.3.6. Usage and Tenure of Land

Land cannot be bought or sold in Mozambique. The land is propriety of State. The State can grantee the usage and tenure by concession basis for economic on 50 years, renewable only once. The annual value owed to the government for the use of land varies according to the adjustment of the annual fee, related to the location, size and finality of the land. Foreign investors can qualify for Industrial Free Zones (IFZ) if their enterprises create jobs for Mozambican nationals and equivalent to 85% of production is exported. Firms with IFZ status receive the tax and customs benefits. (see: Annex 4)

6.3.7. Energy and freight cost

Mozambique has abundant hydraulic power plant facilities and thus, been exporting quite a lot of electricity generated to neighboring countries including South Africa but unit price of electricity for industrial use is not so cheap. According to the data collected here its unit price is 5 cent per KWH that is compared with 5.1 cent of Zimbabwe, 4.8 cent of Mauritius, 3.6 cent of Namibia, 3.2 cent of South Africa, and 2.7 cent of Zambia. In this context, price of electricity for industrial use of the country should be lowered accordingly.

Petroleum product totally relies on the import of its products by import and distributors (around 10 companies such as CALTEX,BP,MOBIL etc.,). The gasoline price of the country is about 53 cent per liter and the diesel oil price around 42 cent per liter, which is similar to competing countries in the neighborhood (see table9)

Table 9: Manufacturing cost (Electricity, Land cost, freight)

Unit: U$ Source: MIGA, May 2003

Cost	Ghana	Mozambique	Senegal	Tanzania

Land cost/acre	30,000	N.A	N.A	Negotiable
Electricity cost/KWH	0.12	0.05	0.05	0.08
Ocean freight cost:				
(US East/20ft container)	2,900*	3,700**	2,340	1,700
(Europe/20ft container)	1,640*	1,500**	2,640	980
(HongKong/20ft container)	3,000	2,000	3,000	2,000
Air fright cost:				
(New York/kg)	2.5	1.4**	2.32	3.0***
Gasoline cost/liter	0.51	0.53	0.47	0.68

N.A: Non- Available

* Lower rates as much as 50% to the U.S./Europe can be negotiated.

** There are no direct sailings to the US. Shipments have to go through the port of Durban and then on to the US. Rates may be reduced for shipments involving more than 5 containers. There is no direct flight to New York.

*** Rate is negotiable and can be reduced depending on the frequency and tonnage involved.

VII. Conclusion

We have reviewed so far the present situation of the cotton, textile, and garment industry of Mozambique. I believe it is a short cut to raise the infrastructure industry of the country that export should be made in the form of yarn or fabric, which can bring in added value. In order to do so good quality of cotton produced in the middle and northern part of the country should be transformed into yarn or fabric by means of spinning and weaving process available. The country is at the stage of early industrialization and thus, infrastructure for industrialization has not been built enough yet. Nonetheless the country may be classified into one, which has huge potential for rapid development as long as government drive for fostering the industry of the country and for mobilizing initial capital is pushed ahead in the back up of abundant, underground electricity and labor resources.

It seems to be possible to combine cheap labor forces of the country with the capital and technology of those countries that are great textile power in Asia. Moreover, the country has geographical advantage with a great market for its textile and garment in the neighboring country, South Africa.

One can possibly expect stable operation of the factory if he applies for the entry of the Industrial Free Zone, "Beluzone" and puts up a garment factory with many taxes exemption benefits provided. Of course, there will be some difficulties encountered; a) domestic market is still weak because of lack of demand in the light of income level of the country; b) quality of labor is low in spite of its cheap supply. These shortcomings will be lessened through persistent education and mutual communication, and compensation system by performance.

Below items are my conclusions made or issues raised through my survey and data collected on the spot, which are in turn classified into two aspects, positive and negative. One may say that there are more negatives than positives as compared against each other. However, I believe that issues at the moment will be resolved quite early as high potential enterprises emerge in the near future.

7.1. Present problems of textile and clothing industry

Although many advantages for these sectors, there are still many other factors which should be advanced or developed for their activities such is:

(1) Low utilization of the installed capacity. Most of the equipment are old and have not enough maintenance..

(2) Lack of technicians and specialized workers. Obtaining work permits for expatriate workers is difficult, that becomes management instability reason.

(3) Labor law allows for limited overtime of only 100-hours/ year, that is no sense for reality.

(4) There is no institutions that give technical training appropriate for textile and clothing manufacture.

(5) Lack of quality Control system. (Statistical quality control techniques or ISO certificate system)

(6) Delays of Customs Clearance of raw materials.

(7) Lack of clothes consuming capability for most of the population.

(8) Disloyal competitiveness with second-hand products of textiles and garments imported without paying tariffs.

(9) Little international marketing experience especially with EU and USA, and highly dependent on exclusive export contractor.

(10)

7.2. Encouraging Aspects

(1) Pursuit of political stability by government

(2) Trend to show that economic ground is gradually gaining momentum through modernization of the country (privatization of enterprises, reform of tax system, change of macro economy in the direction of improvement)

(3) Advancement of infrastructure building such as road, port and etc.,

(4) Up-beat trend of economy as results of success of huge Mozal project and success in development of natural gas.

(5) Establishment of Industrial Free Zones to increase the industry participation on collecting of foreign investors by creating new plants only for exportation.

(6) Introduction of fiscal incentives in new or paralyzed enterprises reducing the industrial contribution and complementary fees during a period of maximum ten years. (see: Annex 3)

(7) Absence of any fee for import of raw materials used for manufacturing products only for exportation

(8) Take advantage of the opportunities given by AGOA agreement to re-establishment of textile and garment industries.

(9) Development potential of cotton spinning industry by use of domestic good quality cotton.

(10) Seasonal change can bring about fashion boom as the climate of the country is mixed between semi-tropical and tropical one.

(11) Sustaining economic development and national income growth induces individual consumption, which will in turn fuel sense of fashion and subsequently pre-herald boom of apparel industry.

(12) With a large consumption market, South Africa nearby the country enjoys geographical advantages to foster a subcontract processing based garment industry by use of abundant labor forces. Especially access to neighboring countries is easy through transportation by road and railway.

(13) Wage level is very competitive compared with near African countries and Asian countries. Armed with its

cheaper labor forces than any other region in Africa, the country has better conditions for garment industry.

(14) When developing countries stay at their early stage of development, major fields of job creation to absorb unemployed labor forces with small investment are known to be shoes and textile industry. In view of the industrial structure of the country its textile industry is just emerging and thus, the industry is conditioned enough to develop into national main stream industry only if combined with modest capital and technology in addition to cheap labor already mentioned. In particular women' s sense of fashion is heightened in proportion of income level. In this view the era for garment industry in the country will approach pretty soon.

VIII. Recommendation

Recommendation is three-fold pending the type of people to whom it is made; namely the government of Mozambique, the existing companies in the country, and future potential investors

8.1. To the Government of Mozambique

8.1.1. Textile and garment industry is the one that is labor intensive and conducive to laying foundation for national industry. Therefore the government of Mozambique should put out measures for fostering its textile industry with strong will. Those measures have to entail follow-up measures to be arranged by expert committees and relevant agencies under the government.

8.1.2. It is recommended that the government should root out the present smuggling practices in the country of the similar cheap products (including second hand clothing) from Asia (in particular China and India). The smuggling practices have seriously adverse impacts on the national industry at early stage of industrialization and thus it should be eradicated at all cost. Watch dog institutes to keep an eye on smuggling should be installed particularly in the area of national frontier and port at the national level.

8.1.3. Universities are encouraged to set up textile engineering department and it is recommended to put up educational institutes to foster textile experts under the government of Mozambique.

8.1.4. The government should improve services to foreign investors registering newly at the CPI in such a way to provide one-stop-shop service and thus, should let them to finish all procedures for investment at the latest within one month and keep them informed of interim results of their investment application. On the one hand all expenses incurring at the time of registration and permission application should be made public crystal-clear. On the other hand, all procedures should be finished at CPI without delivery to civil servants.

8.1.5. Unreasonable items in the labor law have to be revised to suit reality. For instance the item to limit workers' over-time (within 2 hours per day, within 100 hours per year) should be revised.

8.1.6. Spiritual education for customhouse officials should be implemented continuously so as to make no delay of custom clearance procedures that happens due to their negligence of duty.

8.1.7. In order to advance into EU market ISO-9000 certification is needed. Thus, the government has to introduce a certification system of product quality for advancement of EU market.

8.1.8. National measures should be established to suspend export of domestic cottonseed and to resume the export after upgrade of its quality from cotton fiber to yarn or fabric. For example various tax deduction benefits might be considered for spinning enterprises that are using domestic cottonseed as raw material.

8.1.9. In consideration of the fact that there is no synthetic fiber manufacturing factories in the country, it is recommended that the government should induce enterprises to build both a polyester filament and a polyester staple fiber factory to vitalize down-stream industry (weaving, processing etc.,). Those enterprises responding to the appeal of the government should review the idea that they build those factories jointly with their counterparts in advanced countries of Asia in the field of textile since it is noticed that neighboring countries of Mozambique don' t have any of such factories except one in South Africa whose scale is small.

8.1.10. It is also recommended that a national policy should be mapped out to induce strongly foreign investment by offering other extra special incentives to foreign investors who contribute to the big creation of employment.

8.1.11. Dispatch of Mozambique workers (industrial trainees) to enterprises in Korea is recommended noting that there are a large number of foreign laborers (mainly from Indonesia, China, Nepal, Pakistan, and Bangladesh) working in Korea who meet the shortage of Korean workers.

8.1.12. It is recommended that Mozambique government should consider extending the period of stay for expatriate personnel from 1 year allowed at present to 2 -3 years.

8.1.13. It is recommended that electricity cost rate should be distinguished between industrial and general use and then low tariffs of charge should be applied to the industrial use.

8.1.14. It is recommended that in quota allocation, Mozambique government refrain from the present practice of "first come- first serve", instead should take into account the export performance of last year; subsequently 50% of quota should be allocated based on export performance of previous year whereas the other remaining 50 % based on L/C received this year

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8.2. To the Existing Companies

8.2.1. It is recommended that on the one hand presently closed factories should find new investors as soon as possible for re-opening them, on the other hand they have been closed pretty long and thus, a lot of machines are noticed rusty, hence those machines should be well taken care of overhaul and oiling so as to take all of them back on track.

8.2.2. It is recommended that an established factory should be divided into sectors and operated sector by sector i.e., spinning, weaving, dyeing/finishing sector so that each sector be held responsible for its success or failure in business and performance.

8.2.3. It is recommended that core staffs in business and technical post should be dispatched to textile advanced countries in Asia (Korea, Japan, Taiwan) to learn marketing management, development of technology, quality control techniques.

8.3. To the New Potential Investors

8.3.1. Mozambique stands at early stage of its industrialization hence, poor infrastructure is noticed in road, port, and electricity etc., but it is politically stable and its will for economic development is quite firm. From a foreign investor' s point of view, I believe that now is good opportunity for investment. Foreign investors are recommended to pay attention to particularly, the textile and shoes industry of this country where cheap and abundant labor forces is available. Textile industry in Korea, Japan, and Taiwan has been on the downhill. Hence, now is high time to transfer idle textile technology and facilities of those countries to Mozambique.

8.3.2. Cotton spinning industry in this country is the one that the government should foster with priority it deserves attention of Korean cotton spinning enterprises. Korean enterprises need to build good connection with their counter parts in this country by importing cotton, as Mozambique is a supply state of raw material, cottonseed. The cotton spinning facilities of Korea has around 1.8 million spindles. Some of them could be transferred to this country and it will generate good partnership with companies of this country who provide raw materials. It is recommended that staffs of Korea Spinning Institute visit some spinning factories that are not operational at the moment and come up with ideas to reactivate them.

8.3.3. It is recommended that Korean enterprises establish factories to produce Oxford fabrics used for making bags and shoes with approximately 60 units of weaving machine.

8.3.4. It is recommended that in a situation where Korean synthetic fiber market has already been in a glut and so, operation of existing facilities tends to slow down. A study group led by the Korean Chemical Fiber Association should be dispatched to Mozambique with regard to relocating one of Korean enterprises that have already lost competitiveness in the market or dishonored.

Annexes

Annex1: Investment procedure of new company

1.1. CPI

The Investment Promotion Center (CPI), with offices in Maputo, Beira, and Nampala, strives to encourage local and foreign investors to rehabilitate, expand or initiate activities in Mozambique. It avails information about possible projects and joint-venture partners, informs investors of the long series of steps and documents necessary to start a new company, promotes linkages between large and small enterprises, evaluates project proposals, advises the provincial governor or the Ministry of Planning and Finances whether to authorize or not the project, and communicates the decision to the investor. CPI operates as “one-stop-shop” and provides the following services and assistance;

-Promotion, reception, review and registration of investment project proposals;

-Facilitation of the concession to investors of fiscal and customs incentives;

-Identification of potential partners for joint ventures;

-Identification and divulgation of investment opportunities;

-Institutional assistance to investors in the implementation of investment projects.

* Contact of CPI: www.mozbusiness.gov.mz

1.2. Investment Procedure:

(1) Apply for authorization to carry out the investment from CPI (Investment Promotion Center)

(2) Apply for certification from the commercial Registry that confirms that the name of the company is not already in use.

(3) Realize share capital by depositing the minimum share capital with a commercial bank and where appropriate, producing proof of incorporation of assets in kind into the company’s capital

(4) Notarize the documents of formation of the company

(5) Publish the company’s statutes in the Boletim da Repulica (The official gazette of Mozambique)

(6) Register the company in the Commercial registry

(7) Register the company in the local Tax office in the district in which the company’s registered office is situated or it carries out its main activities

(8) Apply for two licenses from the Ministry of Trade & Industry.

Annex 2: Taxation system

Source: Investment Promotion Center (CPI)

2.1. Corporate Income Tax

Corporate tax is levied on profits realized during a calendar year from any permanent or non-permanent commercial or industrial activity carried out within Mozambique. The current corporate tax rates are as follows:

10% for agriculture

32% for all other activities

-Depreciation is treated as an allowable expense for tax purposes. Allowable depreciation rates vary between 2% and 33%. Losses realized in a particular year may be carried forward for three years.

2.2.Earned Income Tax

This tax applies to income earned in the exercise of any professional activity in Mozambique. Taxable income includes all remuneration received by a taxpayer in cash or in kind whether denominated as a wage, salary, honorarium, fee, gratuity, commission, subsidy, or any other form.

-The current rates, based on monthly earnings are as follows:

Income (MT*)	Rates (%)	Rebate (MT*)	*exchange rate: 23,500 MT/USD
Up to 600,000	exempt	-	
600,000-2,400,000	10	60,000	
2,400,000-9,600,000	15	180,000	
Over 9,600,000	20	660,000	

-Income from retainers, management fees, freelance and consulting work, as well as other non-wage income is subject to a flat withholding tax rate of 15%.

2.3.Supplementary Tax

Supplementary tax only applies as surtax in the case of a sole proprietor in respect of income derived from individual economic activities and rental income.

Income (MT):	Rates (%)
Up to 10,000,000	8
10,000,001-40,000,000	15
40,000.001-80,000,000	27
Over 80,000,000	40

2.4.Value Added Tax

The applicable VAT rate is 17% and is levied on transactions involving the following: importation of goods, non-gratuitous transfer of goods and provision of services.

2.5.Import Duties

Import duties are assessed on CIF value of most imports at varying rates between 2.5% and 25%. The rates vary according to the following classification of goods:

PRODUCT	CLASS	RATE (%)

Basic goods	E	Exempt
Raw materials	M	2.5
Fuel	N	5.0
Equipment	K	5.0
Intermediate materials	I	7.5
Consumer goods	C	25.0

2.6. Social Security:

Employers must pay a social security tax assessed at 7% of the employee's wages. Of this, 3% is deductible from the employee's wages while the remaining 4% is a cost to the employer.

2.7. Investment Tax Credit

In the case of a corporate investor, an investment tax credit equal to a percentage of the total investment realized, deductible against the Corporate Income Tax (IRPC) payable, for the period of five (5) tax years, up to the total amount of the tax assessment.

In the case of an individual investor, for the period of five (5) tax years, an investment tax credit (CFI) equal to a percentage of the total investment realized, deductible against the Personal Income Tax (IRPS) payable in respect of investment activity in the Second Category of IRPS.

The investment tax credit is 5% for investment projects realized in Maputo, Nampula and Manica Provinces.

The investment tax credit is 10% for investment projects realized in Gaza, Sofala, Tete and Zambezia Provinces.

Annex3. Fiscal Benefits on Investments

The minimum amounts for investment are fixed at US$ 50,000 for foreign investment and US$ 5,000 for national investment.

3.1. Exemptions;

-Import duties on equipment in class K of the Customs tariff, when these are to be used in new enterprise;

-Taxes on own capital or loans and their respective interest, except for gains arising from the application of capital.

3.2. Reductions (for new enterprises or those at a standstill);

-50% of the rate of the Industrial Contribution, during the period of investment recovery, which must not exceed 10 tax years counting from the start of operation.

-80% when implemented in Niassa, Cabo Delgado and Tete provinces, and additional 50% in the six following years;

-65% when the enterprises are implemented outside the provincial capitals;

-40% after the normal period of tax benefits has expired, when the investment is made in Sofala, Manica, Zambezia and Nampula provinces, but outside provincial capitals;

-25% for a period of three years after the normal period of tax benefits as expired, in the remaining provinces outside the capitals.

-50% of the rate of Complementary Tax during the period of investment recovery, which should not exceed 10 tax years, counting from the start of operation.

-Other deductions from taxable income are where the investment is in the rehabilitation and investment considered public useful and acquisition of works of art or cultural objects and actions to develop national culture.

-Investments in productive and public useful infrastructure that exceed 500 Mil. US$ may further benefit from special incentives.

3.3. Deductible Expenditure

During the first 5 years from the date of commencement of activity, the following additional taxable income deductions are permitted:

-Expenditure in specialized equipment, which is considered to be advance technology, shall be deductible from taxable income in an amount equal to a maximum of 15% of taxable income.

-Expenditure for professional training of Mozambican workers shall, up to a maximum amount of 5% of taxable income, be deductible from taxable income.

-Expenditure in professional training in the use of advanced technology training shall, up to a maximum amount of 10% of taxable income, be deductible from taxable income.

3.4. Capital allowance

During a period of ten years counting from the date of commencement of operations, the following expenditure may be treated as deductible expenditure for the purpose of calculation of Corporate Income Tax (IRPC):

-In the case of undertakings carried out in the City of Maputo, 120% of the value of expenditure in the construction and rehabilitation of roads, railways, airports, postal services, telecommunications, water supply, electric energy, schools, hospitals and other works that are considered to be of public utility.

-In the case of undertakings carried out in the rest of the country, 150% of the value of this type of expenditure.

3.5. Accelerated Depreciation

Investment in new and rehabilitated building and plant construction including industrial and agro industrial machinery and equipment is eligible for accelerated depreciation at twice the normal rate (standard rate of depreciation for building is 2-4%).

Annex 4: Special Fiscal Benefits

In addition to the generally applicable fiscal benefits, qualifying projects also benefit from the following additional incentives:

4.1. Rapid development Zones

Exemption from import duties on goods in Customs tariff classes K and I during the project's first 3 years;

-Exemption from real property transfer tax (SISA) on the transfer of State infrastructure to third parties for purposes of the project development and a 50% rate reduction for other transfers.

-Investment Tax Credit equal to 20% of the total investment with right to carry forward for 5 years.

-Investment undertakings in agriculture, carried out pursuant to the Investment Law and Regulations, shall, until the year 2012, benefit from and eighty (80%) reduction in the tax rate applicable to profits from agricultural ventures.

4.2. Industrial Free zones (IFZs)

The Industrial Free Zone Regime applies to the two component parts of an Industrial Free Zone, namely,

Industrial Free Zone Developer and Industrial Free Zone Enterprise.

-Requirements: There are two essential characteristics or requirements for Industrial Free Zone status:

job creation for Mozambican nationals, and export at least 85% of annual production.

- Once initially qualified for IFZ status, the IFZ operating certificate is issued after construction and establishment of the customs control and security procedures and installations.

-IFZ Tax Regime: Industrial Free Zone Developers and Enterprises enjoy a 60% reduction in the applicable rate of income tax for a period of ten years and are exempt from Real Property Transfer Tax (SISA).

-Customs: Industrial Free Zone Developers are enjoying an exemption from customs duties. VAT and Specific Consumption Tax (including when payable on internal acquisitions) on the importation of construction materials, machinery, equipment, accessories, accompanying spare parts and other goods destined for the establishment and operation of the Industrial Free Zone. Industrial Free Zone Enterprises enjoy an exemption from customs duties. VAT and Specific Consumption Tax (including when payable on internal acquisitions) on the importation of goods and merchandise destined for the implementation of projects and the exercise of IFZ authorized activities under the terms of the IFZ regulations.

4.3. BELUZONE

BELUZONE is the realization of a plan set in motion three years ago when the Mozambican government joined forces with an Australian facilities management company, Chiefton, to develop an industrial park in the Beluluane area. A master plan to develop the region to accommodate industrial growth and to encourage international investment was the blueprint for Chiefton and the Mozambican government agency CPI (Investment Promotion Center) to commence planning in 1998. Beluluance is 16 km from Maputo city, close to the Maputo harbor and a recently completed highway leading to South Africa. Prior to the CPI-Chiefton planning stage an international consortium of investors, led by Billiton U.K. had looked at the incentives for doing business in Mozambique and as a result in the latter part of the year 2000 a world class Aluminum smelter, MOZAL, came on line, producing ingots from alumina shipped from Western

Australia. The smelter, occupying an area of 140 hectares, sits in the middle of the BELUZONE Industrial Park. This magnificent, world- class smelter was completed before time and under budget. The final cost was US$ 1.2 billion.

BELUZONE surrounds the smelter over an area of 660 hectares and is now available for industrial usage, including 80% of the land designated as a Free Trade Zone. CPI and Chiefton, as founding shareholders, have formed a Mozambican company to develop and manage BELUZONE. The company is Park Industrial de Beluluane – Zona Franca S.A.R.L. It is expected that release of land during 2003 will see a wide variety of industry and commerce setting up in the BELUZONE including; Companies servicing MOZAL/ Downstream aluminum manufacturing/ Heavy manufacturing plants (e.g. automotive, engineering)/ Light manufacturing/production (e.g. garments)/ Services industries/ Value adding industries/ Manufacturing primarily for export/ Training providers: BELUZONE technical school/ Industrial linkages companies/ Professional services (e.g. health, legal, insurance, accounting).

Acquisition and Maintenance Price: BELUZONE first phase development price structure for "Land use and development rights of developed land":

Annex 5 : "BELUZONE" visiting report

-Location; located about 16 km away from Maputo (taking approximately 20 minutes by highway bound for S.A.)

-Area; the total amount of land created in its first phase is 24ha with its allotment such that 8ha, equivalent to 12blocks, is for normal industry and 16ha, equivalent to 39blocks, is for industrial free zone. For allotment one block breaks down into small lots as such 0.5 to 1.3 ha that can be sold to purchasers. The land allotted so far is along the big road as in its first portion of the development series and thus, the development will continue to reach 660ha in total of which 80% is for free zone and 20% for non-free zone.

-CPI and Chiefton under control of the Park Industrial of BELUZONE S.A.R.L jointly established the developed land. By the year 2008 when this area is completely developed, the nation will see the greatest free zone of the country

-Electricity; Electric voltage entering the developed area is 11,000 volt but it will be down to 380 volt/50cycle for the operation of a factory.

-Power station: 200 KVA

- Acquisition price: I.F.Z. U$ 7.50/m2 / U$ 0.30/m2 (monthly)
  Non I.F.Z U$ 6.50/m2/ U$0.25/m2(monthly)

-Usage Period: 50 years of lease in the first contract and one more lease of 50 years

-Supply of water: supplied by 500mm diameter pipeline (PIB-ZF). There is need for setting up water tanks of investors themselves.

-Septic system: sewerage facilities will be available from the year 2004.

-Electricity is managed by EDM, Correspondence is managed by TEM.

Annex 6 : "Riopele" Visiting report (2003/oct, 16)

-Location; Marracuene (30Km from Maputo's south)

-Factory site; Land: 47 ha

Building; 36,000m2

-Established; 1974

-Employee; Presently 130 persons but formerly over 1000 persons employed.

-Raw material; polyester fiber, Viscose fiber imported from South Africa

-Products; polyester (70%) + viscose (30%) mixed yarn. Fabrics: stripe Gingham

-Production capacity; 3,600,000m2/ year

-Efficiency of facility; about 5%, a small parts of machinery were running during only 1 shift time07:00- 13:00; 6 hrs)

-Main reason of Low efficiency: Lack of Raw material because of financing problem.

-Marketing; internal market only

-Capital owner; Pfaff (Portuguese group which is owning of Soberana)

-Electricity; comparatively good without power cut-offs

-Water; use of underground water

-Labor cost; U$35 - 45/person

-Existing machinery; opener (Rieter-Deutch), Carding (Rieter), Doubling sliver (Rieter), Roving, Spinning, Twisting, Winding (Schlafhorst), Warping (Benninger-Swiss), Weaving (Saurer), Circular knitting (Morat-Deutch). Fiber&Yarn Dyeing (Kranz-Deutch), Dryer, Jet dyeing (Hisaka-Japan), Beam dyeing, Winch, Printing (Famatex), Tenter, Calendar etc.

Annex 7: "Texlom" Visiting Report (2003/oct, 14)

-Location; located in Matola west of Maputo (Tel; 01-72-3115)

-Scale of the factory; It is an integrated cotton spinning factory with 250,000 m2 of ground which contains a building for administrative work, a building for dinning, a building in which facilities for spinning, weaving, printing are arranged for continuous operation.

-History; the factory was established in early 1973 by Portuguese capital, FONCOR, then submerged by flood in 1999, and subsequently closed.

-Present situation: The head of the factory is engaged in the maintenance and guard of the factory with about 40 employees. The factory has been put for sale and thus, visited by some buyers from China, Indonesia, and United Kingdom.

-Factory facilities; complete with Opener / Card/ Drawing/ Roving/ Spinning/ Winding/ Warp sizing/ Weaving/ Singeing & bleaching / Screen-printing / Inspection.

*Spinning; 18,720 spindle (Schlafholst)

*Weaving: approximately 400 units of weaver (Sulzer, Picanol)

*Printing; 2 Line

*Steam boiler; 3 sets

-Production items; yarn: 100% cotton carded (50's, 40's, 17's etc)

cloth: Poplin 0,95m/ 1.4m, Sheeting 1.6m, Capulana 1.15m, Drill 1.0m, Grey poplinett 0.70m

-Employees; 1200 when operated well.

Annex 8 : "Belita" visiting report (2003/OCT 17)

Meeting with Mr. Nogueia(Country Manager/Director)

-Location: Beira city (Sofala) Tel :03-32-4128

- Producing product: Training wear (Brand: Fubu/LEE international)

-Capital owner: Member of the Palmer group of companies

-Raw material; Knitted fabric made in Mauritius. All material for the garment is delivered from Mauritius.

- Capacity of Production : Polu : 650pcs /Line x 5 Line = 3,250pcs / day
T-shirts: 800pcs/Lline x 4 Line = 3,200pcs / day

- Brand royalty : 2.5% of sales volume

- Operation work time : 07:00 ~ 15:00 (8hrs): Mon-Fri / 07:00 ~ 11:00 (4hrs): Saturday /Printing part is 2 shifted.

- Employee: 390 persons. Most of employees are male since women are fully devoted to domestic work.

- Training of the employee; 2 Line (about 34 persons) is for the training of workers. Takes about 4-6 months for skilled worker.

- Tax & Customs; Duty free because of I.F.Z.

- Issue on commutation; A bicycle is provided on credit for the employees by the company and the credit is gradually cleared by deduction from his salary later.

-The issue of dust in the work place; Employees are advised to wear their masks but not fulfilled well.

-Absence from work place; Around 30 employees are absent (about 10%) each day.

-Quality control; Quality control statistics technique and Q.C. circle system have not been in operation, yet relying on only inspection by outlook. (ISO Certificate is not introduced).

-Causes of defect; (1) poor original fabric quality is most frequently found (2) second is problem of man power; detected by supervisors in charge of line. (3) machine factor; change to needle in harmony with special fabrics(Lycra).

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