Botswana Textile and Apparel Sub Sector Study

- Discussion Draft[1]

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Produced in conjunction with:

[1] This study was commissioned as a background study to the World Bank-BIDPA Botswana Export Diversification Study. The views expressed in this paper do not necessarily represent the views of either BIDPA or the World Bank Group.

Executive Summary

The textile and apparel industry in Botswana is an important contributor to economic activity in the country employing over 8,500 workers and generating export sales of over P300 million in 2003. Employment in this sector is likely to grow to over 10,000 workers within the next six months as current expansion plans and new investments come on stream. As employment in manufacturing activity is relatively low at around 24,000 workers the importance of this sector is readily apparent.

Employment in this sector has the potential to continue to grow steadily particularly if the Government of Botswana and its agencies work proactively to create an investment climate that continues to be attractive to potential investors both local and international.

Botswana's main manufacturing centres are located close to the commercial heartland of South Africa and this enormous market has been of particular importance to Batswana manufacturers. The fact that the Pula has recently been devalued against the South African Rand and the ever increasing costs of employment in South Africa, both in terms of high wages and compliance costs, has enhanced the regional competitiveness of Batswana manufacturers. The potential exists to exploit this competitive advantage. The classification of Botswana as a Least Developed Country in terms of the AGOA preferential trading agreement with the USA has opened a significant period of opportunity for apparel manufacturers which is apparent in the growing exports to this region. Further opportunities for expansion of exports to this market exist but there are a number risks and constraints that need to be addressed. Botswana manufactures have been reasonably successful in penetrating the EU market in certain categories of apparel with distinct possibilities for increasing these exports.

The primary threat to the industry is its lack of competitiveness in terms of factory efficiencies. While there are a number of training establishments in Botswana none of these supplies services that are specifically orientated towards industrial production. Training in specific skills such as industrial engineering, factory layout, work handling, quality management, operator training, supervisory training, motivational techniques, human resource management is not available locally. The service providers that can provide these skills are available regionally and they should be encouraged to partner with local service providers to develop the market for the provision of these services. It would be helpful if the GoB developed an incentive scheme to encourage manufactures to invest in upgrading the efficiency of their labour and the manufacturing processes.

Rules of origin play a crucial role in determining whether Botswana produced products gain preferential access to the major Northern hemisphere markets. The GoB should actively target investors that can provide the backward linkages in terms of fabric production which would guarantee preferential access of Botswana apparel products beyond the period of the AGOA LDC special preference. The country is well positioned to take advantage of the cotton and yarn producing countries to the North which could be effectively converted into fabric and apparel in Botswana.

It should also ensure that it plays an active and informed role in the negotiation of these rules of origin in the various trade negotiations currently underway such as the Economic Partnership Agreement with the EU and the Free Trade Agreement with the USA.

From consultations with textile and apparel industrialists it is apparent that most of them are not members of a representative association. There is no collective voice for the textile and apparel industry in a scenario where changes in the labour legislation is likely to increase the organisation of labour and when crucial trade negotiations impacting on access to important export markets is underway. Industrialists in this sector should be encouraged and assisted to form an industrial association to lobby and negotiate for their specific needs. In Lesotho the Lesotho Textile Exporters Association is instrumental in ensuring that the business environment, in terms of utility provision, incentives, taxation, customs services and other legislation, remains favourable to the competitiveness of its industry. The GoB should be in a position to actively engage with this important sector of its manufacturing portfolio but, to do this, it needs an organised partner.

There is an onerous burden of bureaucracy involved with establishing a business in Botswana particularly in relation to the granting of manufacturing licenses. In addition most companies prioritised problems with getting work permits for their expatriate staff when questioned about the environment for conducting business in Botswana. It appears that current thinking in Government is that Batswana can and should be trained to handle any job which industry has to offer and three years is sufficient time to achieve this. In certain technical and operational job categories three years would certainly not be sufficient time to acquire the necessary skills. There is no doubt that potential investors need to know that they will never be restricted or delayed in their ability to recruit the best person for senior positions. This is particularly important in the high tech textile production. Industrialists should be allocated the right to employ a number of expatriates in relation to a percentage of their local workforce.

The extremely high rates of HIV and AIDS infection in the country are likely to be strongly reflected in the labour force within this sub sector. The industry mainly employs women of a sexually active age some of whom migrate to the industrial areas to take on work. The consultants found very little in the way of education or mitigation training taking place in any of the factories visited despite the threat to the labour force. Apparel industries in particular provide an important point of leverage for education concerning HIV and AIDS and for condom distribution. It is strongly recommended that in-company interventions are developed as part of the national aids strategy.

The textile and apparel industry in Botswana is well established albeit it small in terms of the other countries in the region. It is strongly positioned to be sustainable and achieve further growth through the judicious interventions on the part of the Government and its parastatal bodies.

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List of Acronyms

Table 1: List of Acronyms

ACP	African, Caribbean and Pacific States
AGOA	African Growth and Opportunity Act
ART	Anti Retroviral Therapy
ATC	Agreement on Textiles and Clothing
BBOS	Botswana Bureau of Standards
BDC	Botswana Development Corporation
BECI	Botswana Export Credit Insurance
BEDIA	Botswana Export Development and Investment Authority
BIDPA	Botswana Institute for Development Policy Analysis
BIFM	Botswana Insurance Fund Management
BOCCIM	Botswana Confederation of Commerce, Industry and Manpower
CEDA	Citizens Entrepreneurial Development Agency
CSO	Central Statistics Office
EPA	Economic Partnership Agreement
EU	European Union
FAP	Financial Assistance Programme
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
GoB	Government of Botswana
IDM	Institute of Development Management
LDC	Least Developed Country
MFA	Multi Fibre Arrangement
MFN	Most Favoured Nation
NACA	National Aids Coordinating Agency
P	Pula
RSA	Republic of South Africa
SACU	South African Customs Union
SADC	Southern African Development Conference
TEU	Twenty Foot Container Equivalent Unit
TKC	Trans Kalahari Corridor
VCT	Voluntary Counselling and Testing
WBC	Walvis Bay Corridor
WBDC	Walvis Bay Development Corporation
WTO	World Trade Organisation.

Preface

This subsector study was conducted in collaboration with the Botswana Institute for Development Policy Analysis (BIDPA) and the World Bank with the objective of assisting the Botswana Government with its National Export Development Strategy. This study forms part of the investigation of six sub sectors and was commissioned by the ComMark Trust with funding received from the Department for International Development.

The survey team consisted of ComMark's regional textile and apparel sector specialist – Andy Salm, two independent garment sector specialists – Musa Rubin and John Haycock, a specialist in sector studies – Bill Grant with additional input from ComMark's staff.

A variety of methodologies were used in order to collect information and data for this study including the following:

- Internet research was conducted into the order procurement trail, competitor countries, global workers' employment conditions and wages in order to interpret Botswana's Garment subsector with a global perspective.

- Considerable desk research was conducted into the political, economic, regulatory, infrastructural, environmental and health aspects pertaining to the industry

- Interviews were conducted with a range of stakeholders including Government officials, factory owners and managers, utility and service providers, employee associations, trade union officials, NGO and donor officials and foreign diplomats.

- The two garment specialists visited as many factories as could be identified. All consultants conferred to ensure that questions were included to cover their special areas of expertise.

- The garment sector specialists initially compiled a comprehensive list of all the garment manufacturers employing over 50 workers. This list included information supplied by the BEDIA and the Ministry of Trade and Industry. Some enterprises employing less that 50 workers were of particular interest in terms of their exporting performance and these were included in the interview sample.

- The consultants produced a number of stand-alone reports as ancillaries to this main report. As all the pertinent facts from these reports are incorporated into the main report and in the interests of economy these ancillary reports are not attached.

The consultants would like to thank all the people that participated in this survey for their open and friendly support and in particular would like to thank the Ministry of Trade and Industry, and in particular;

Mr. Gaylard Kombani – Deputy Principal Secretary
Ms. Banusi Jallow – Chief Technical Officer
Mr. John Smith, Deputy British High Commissioner, Botswana
Mr. Elwyn Grainger Jones, The World Bank
Prof. Pillai, Senior Economist, BIDPA
Ms. Sametsi Ditshupo, Investment Promotion Manager of BEDIA and two of her colleagues, Mr. David Leepile and Mr. Reginald Selelo.

Introduction

Botswana has, over the past 35 years, been among the best performing economies in Africa. From one of the world's poorest countries it has evolved into a middle income country. The discovery and prudent management of its vast diamond resources together with sound economic policies has elevated the country to the level where it is no longer considered poor. The heavy dependence of the economy on diamonds (83% of merchandise exports) leaves it vulnerable to trade shocks and this has prompted the government of Botswana to promote economic diversification. [2]

The population of Botswana is 1.68 million with a per capita income of US$3,000. Approximately 3.4% of Batswana in formal employment are employed in the diamond industry while unemployment remains high at 20% with 37% of the population living below the poverty datum line.

The apparel industry in particular is an ideal formal employment entry point for the poor. This industry can also absorb relatively large numbers of employees where they can make an economic contribution and earn a cash wage even if they are not particularly well educated or literate. Currently 24,000 workers are estimated to be employed in the manufacturing sector of the economy. Of these over 8,500 or 35.4% are currently employed in the textile and apparel sub sectors.

The textile and apparel sub sector in Botswana has had a chequered history. It has seen a number of periods of impressive growth followed by periods of decline. The cyclical nature of the industry's development can be directly linked to periodic changes in Botswana's competitiveness both regionally and globally.

One consistent in the equation has been the distinct advantage Botswana has of offering a liberal foreign currency trading regime with investors enjoying ready access to foreign

[2] IMF Staff Report for the 2003 Article IV Consultation.

exchange to purchase their raw materials, to trade their products and repatriate their profits and dividends.

The Botswana economy, the manufacturing sector and the textile and apparel sub sector have all been comprehensively researched in recent years. This study builds on this body of work in an attempt to provide a strategic plan which is immediately actionable by the Government in order to continue to attract FDI in this sub sector and to consolidate the investment that has already taken place.

Overview of the Subsector

The most significant period of growth and diversification of the industry in Botswana took place in the late 1970s and early 1980s. This was principally driven by Zimbabwean businessmen who relocated their businesses from Zimbabwe to the Francistown area.[3]

Botswana and Zimbabwe have a bilateral trade agreement dating back to 1956 which allows duty free trade of locally manufactured goods between the two states. With the restrictive foreign currency trading regime experienced in Zimbabwe[4] many Zimbabwean industrialists were experiencing difficulty in importing capital equipment and essential raw materials to service their domestic market. The fact that Zimbabwe had recently undergone a regime change and that worker's were beginning to strike for increased wages, better working conditions and an increased say in the management of the industry made some investors nervous and they decided to relocate to the relative stability of Botswana.

The Zimbabweans relocating to Francistown developed a robust, diverse and vertically integrated industry. By 1980 60% of foreign owned textile and apparel industries were in the hands of Zimbabweans and most of them were exporting the majority of their production into Zimbabwe. By the end of 1984 there were 30 new foreign owned firms operating in Botswana bringing the total to more than 50 and these employed in excess of 2,500[5] workers or 25% of the manufacturing workforce. These firms were spinning yarn, weaving, knitting and dyeing cloth and cutting and sewing this cloth into garments for export.

In 1982 the Botswana Government introduced the Financial Assistance Programme (FAP) a collection of financial and tax incentives for prospective investors or existing investors undergoing significant expansion programmes. This consolidated the growth in textiles and apparel but also attracted a number of unscrupulous "fly-by-night" investors who exploited the FAP, discredited the industry and embarrassed the state lending agencies. This will be discussed in more detail below.

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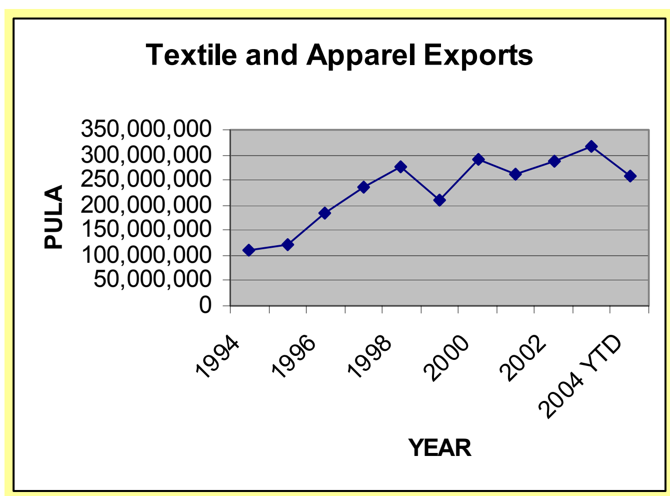
[3] The Political Economy of Botswana in SADC – 1995 by Balefie Tsie. Published by the Southern African Regional Institute for Policy Studies (SARIPS) Sapes Books, Harare.
[4] The term Zimbabwe is used both pre and post the change of name from Rhodesia to Zimbabwe.
[5] Ministry of Finance and Development Planning, National development Plan, 1985 – 1991.

Zimbabwe tolerated imports from Botswana through the bilateral trade agreement as long as they did not impact too seriously on the indigenous industry. The relocation of Zimbabwean entrepreneurs to Botswana, coupled with serious labelling fraud and transfer pricing, resulted in the flood of apparel and textiles that started to flow across the border. This began to damage the Zimbabwean industry, and a number of relief measures were sought and obtained. In short the Zimbabweans imposed a number of qualifying rules of origin on Botswana clothing and applied these in such a way that the door was effectively shut. Exports dropped from a peak of P27 million in 1982 to just P10 million by 1985. Forty percent of the workforce in the industry was retrenched in 1984.

During the late 1990s the textile and apparel sub sector in Botswana again began to grow significantly. The principal reason behind this growth was perceived competitiveness of the country brought about by the FAP. The main incentive behind this package was a wage subsidy that started at 80% of workers wages in the first year and declined over a period of five years. In addition there were capital purchase grants, tax holidays, a training co-financing scheme and the like. A number of unscrupulous foreign and local investors took advantage of this scheme and employment in the sub sector grew significantly only to collapse again as incentives dried up and the investors cut and ran.

The Government of Botswana decided to phase out the FAP and as the incentives have worked their way out of the system many companies closed or relocated. The biggest decline in manufacturing entities, employment and exports took place in 2000.

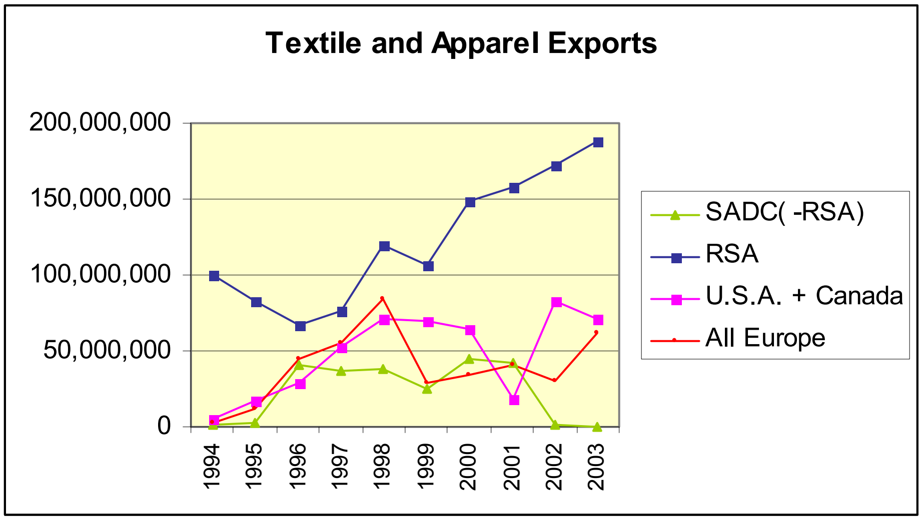
Table 2: Total Textile and Apparel Exports



Source: Central Statistics Office

Since then the industry has been recovering. The granting of the LDC preference to Botswana in 2002, under AGOA has led to a dramatic increase in exports to the USA. There appears to be a steady stream of investment in the sub sector which, as it is not FAP led, is likely to be far more sustainable. At the time of this survey there were in excess of 8,500 workers employed in the sub sector.

Table 3: Textile and Apparel Exports by Country



Source: Central Statistics Office

The Markets

Botswana is fortunate that it has preferential access to several important markets for garment and textile products. As an ACP country it has duty and quota-free access for textiles and garments to the EU. As a member of SACU all products can be sent to the largest regional market, South Africa, without duty or restriction. As a SADC country, its products are given preferential duty treatment when exported to SADC countries outside SACU. Zimbabwe and Botswana have a free trade agreement that dates back to 1956. Finally, under AGOA, Botswana qualifies as an LDC, or least developed country. This means that until September 2007, it can produce apparel from fabric purchased anywhere in the world and ship it to the United States duty-free (Table 4).

Table 4: Principal Trade Agreements Affecting Garments and Textiles

Trade Agreement	Duties	Rules of Origin	Time Limit	Comments
EU-ACP (Cotonou)	Apparel- 0% Textiles- 0%	Double Transformation Change of HS heading	2008	Currently being renogotiated
SACU	Apparel and textiles- 0%	None- SACU duty paid on imported inputs	None	
Zim-Bots	Apparel and Textiles- 0%	Apparel- 20% local value added	None	
SADC	Garments-40%	Double Transformation	Duties will be gradually reduced to zero by 2008	
AGOA	Garments –0% Textiles-Various	-None[6] -Yarn Forward Various-see note 2	-Sept 2007 -Oct 2007 to Sept 2015 None	See note 1. See note 2.

Notes:

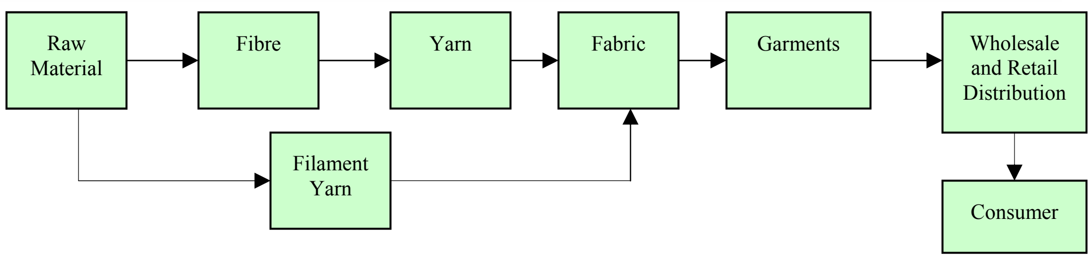
[6] For a more complete description of the AGOA rules of origin see **Annex 1**, page 64.

1. After 2007, unless the LDC waiver is extended, Botswana garments will have to meet the AGOA rule of origin, which is yarn-forward, to qualify for duty-free status.
2. AGOA makes no provision for duty-free imports of textiles, except for handmade and folkloric items. Manufacturers in other African countries, however, can use Botswana textiles to produce garments that qualify for the yarn-forward rule of origin.

The trade preferences are valuable to Botswana manufacturers in two ways. First, it means products can be exported to some very important global markets, at a price advantage over other producers. Second, Botswana manufacturers can work in conjunction with other manufacturers and merchants to create competitive supply chains. To understand how Botswana manufacturers can take advantage of the latter, we must first discuss how competition works in apparel supply chains. After that, we will discuss the competitive advantages Botswana offers, and how these can be used to create competitive supply chains.

Although international garment buyers usually purchase garments from the garment manufacturer or a buying agent, in fact it is a long supply chain that actually delivers the garments to the buyer. The competitiveness of the entire supply chain, not just the garment manufacturer, affects the buyers' sourcing decision.

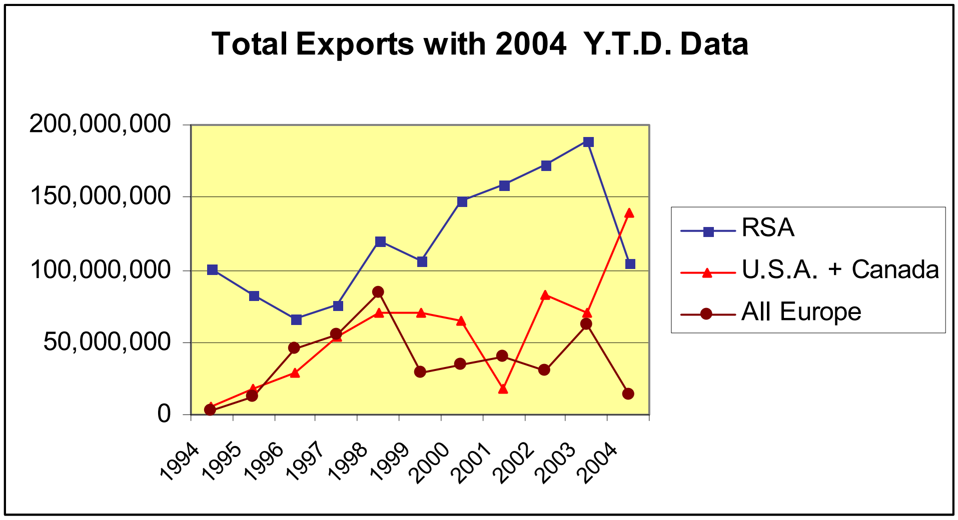
Table 5: The apparel delivery supply chain



The USA and AGOA

Since Botswana was granted LDC status and the special trade preference that this implies under AGOA there has been a steady increase in exports to the USA. This is particularly marked in the 2004 where year to date export figures from the Central Statistics Office show USA exports exceeding RSA exports for the first time. The CSO qualifies these figures as they are not finalised and fully checked at the time of this report but if they are accurate they demonstrate a particularly interesting trend.

Table 6 : Exports including 2004 Year to Date Data



Source: Central Statistics Office

Exports to the USA grew steadily through the late 1990s as the Governments Financial Assistance Programme attracted investment in the industry. Much of this new investment targeted the USA market for its product. Once the FAP was withdrawn, companies began to relocate or close down as their incentives expired leading to a marked decline in USA export activity. By 2001 exports to the USA dropped to their lowest level in six years.

In 2002 exports to the USA increased dramatically following the AGOA II legislation which gave Botswana LDC status and the ability to source third country fabric for its apparel exports. Currently 13 of the 21 companies interviewed are exporting some or all of their produce to the USA. This covers the full range of Botswana textile and apparel produce. There is strong potential for Botswana to increase sustainable exports to the USA market particularly if it attracts investment that manufactures knitted fabric for cutting and assembly into T-shirts, polo shirts, sweat shirts, track suits and the like. There is a residue of trained operators in the country from previous cycles of investment and industries could potentially use Zambian yarn which qualifies for export preferences under AGOA and is currently in plentiful supply.

Knit to shape garments will have the most difficulty in the USA market after the LDC status expires in 2007. The yarns used in this industry are generally blended synthetic yarns which are not produced in any great variety in the sub Saharan region. There is a limited variety available from South Africa but most yarn is imported from China and Taiwan. The scale of the industry makes it unlikely that a dedicated yarn spinning mill could be set up to create the variety of yarns necessary to create the range of product required. If there is no relaxation of the USA rules of origin and the LDC preference is not extended again, this section of the industry will have to totally divert to the European and regional markets.

The Republic of South Africa

South Africa has traditionally been the strongest market for Botswana textiles and apparel. The market has grown consistently over the years from P100 million in 1994 to P180 million in 2003. Indicative year to date figures for 2004 show a marked decrease in exports to the RSA. This is a worrying trend and is probably due to the difficulties experienced in the RSA by its own manufacturing facilities. The strong Rand and the lowering of tariffs has led to a flood of cheap clothing into this market and this, coupled with apparel smuggling and dumping has seriously affected the ability of South African firms to compete and has probably affected Botswana's penetration of this market.

One of the new start-ups in Botswana is specifically targeting the RSA market and this should see a reversal of this negative trend. Eleven factories out of 21 currently export to South Africa exporting across all categories including towels, ladies lingerie, protective wear, jeans, woven trousers and T-shirts. The majority of sales into the RSA are made to chain stores and are made through sales agents or dedicated sales offices in the RSA.

With the relative regional competitiveness of wages in Botswana there should be strong opportunities to continue to service this important market.

The European Union

The EU's rules of origin require a two step conversion process to achieve duty free access. Although less onerous than the AGOA three step rule, Botswana's classification as an LDC makes penetration of the USA easier than the EU. Despite this Botswana has made significant inroads into this important market and this is mostly achieved through the export of knit to shape sweaters. Because the fabric is knitted on site it fulfils the rules of origin requirements for duty free entry to the EU.

Exports of textiles and apparel peaked at P88 million in 1998 before falling back sharply to P30 million the following year. Since then exports have risen steadily to reach P62 million in 2003. Of the three factories producing sweaters, all export to the EU. One of the factories that manufactures T-shirts from fabric produced in-house also exports to the EU. Two other factories report exports to this market which they would have to supply on a duty paid basis.

Exporters of knit to shape sweaters indicate high interest from Europe for their products and this market should continue to grow steadily.

Dimensions of Competition

Apparel supply chains do not compete simply on price. Buyers will evaluate a supply offer on five dimensions:

- Price
- Quality

- Response
- Product
- Ethics

Price is the cost to the buyer to have the goods delivered to its door or distribution center. It includes the price the apparel manufacturer charges, as well as shipping and clearing charges, customs duties, insurance, financing costs, and the cost to finance stock in transit.

Quality does not mean compliance with standards, which is assumed. It is rather a difficult to characterize perception that one product is more desirable than another. The important points about quality are that the buyer will not pay for better quality than they want, and the supplier should produce a slightly higher quality than the buyer is used to receive at the same cost.

Response refers to the total delay between placing an order and receiving goods. The concept is somewhat fuzzy in apparel supply chains, since buyers often place block or seasonal orders before they give confirmed assorted orders for shipment. Most apparel buyers measure response time from the moment a completely detailed order is given to a supplier to the moment the goods are received at the designated destination.

Two aspects of response are important. The first is the delay length. The second is the delay length's reliability. In many cases, delivery reliability is more important than delay length. This reliability is expressed as meeting a promised delivery date.

Product competition concerns the type, and range of products the supply chain delivers. The decisions about product competition are among the most important supply chain members make. These decisions will, in large part, determine which specific supply chains a manufacturer can service. Complicating the decision process is the fact that many manufacturers will pursue more than one product strategy at a time.

In addition to selecting specific product types from the limitless variety of apparel products, supply chains, and their members will also choose among these four distinct ways of servicing customers:

- specialize in a narrow range of products or provide a wide and more flexible manufacturing capability;
- make products to the customers' designs or provide products of his own design;
- produce many small orders of unique products or a few large orders of the same or similar products; and
- produce simple or complicated products.

Each of these is a continuum. A manufacturer can specialize in a very narrow product range, such as men's bikini briefs, a wider range such as men's underwear, an even wider range such as underwear, or even a very broad range such as any knit cotton garment. The more definite the manufacturer can say where it will work on each of these continua, the easier it will be for it to join and help maintain competitive and profitable supply chains.

Most international retailers and brands insist that their vendors maintain high standards of ethical compliance. They have developed Codes of Conduct that prescribe the minimum levels of working conditions, compliance with local labour laws, environmental standard and the like. (See International Consumer Standards on page 26) Retailer and brands will source their products from vendors and regions where they are confident they will not be exposed to corporate reputational risk.

Manufactures in Botswana, to be successful, will need to join competitive supply chains to which they can contribute. For existing manufacturers, this will usually mean a careful evaluation of their own abilities as well as those of the upstream and downstream markets available. For investors seeking to create new manufacturing capacity, this will mean first evaluating the markets for apparel products, and what is required to compete in one or more markets, and then how to fit into a potentially competitive supply chain.

The apparel market, particularly in the developed world, is vast and complicated. No single competitive strategy will meet all customers' needs. Botswana cannot hope to be a source for all possible customers, nor need it do so to be successful. What is important, however, is to identify the types of markets Botswana manufacturers, the supply chains of which they are members and can position themselves to be competitive in.

For this purpose we will divide the markets into three hierarchical groups. The first is the *informal* and *formal* markets. The second is the *traditional* and *modern* and the third is the *mass* and *niche* markets (Coughlin, Rubin, Darga, 2001:91).

Informal	Formal
Most business transactions not recorded. Business conducted among individuals or sole proprietorships, often micro-enterprises. Low emphasis on ethical compliance.	All transactions recorded. Business conducted among formally organised, usually limited liability companies. Companies may be part of larger groups. Ethical compliance important.

Traditional	Modern
Business conducted among entities on a buy-sell basis. Manufacturers produce and ship to individual orders. Buyers shop from season-to-season for different suppliers. Ethical compliance rarely important.	Manufacturers, merchandisers and retailers form strategic alliances. Manufacturers produce and ship according to agreed schedules, often using replenishment shipments based on actual downstream consumption. Buyers and suppliers form long-term relations. Ethical compliance critical.

Mass	Niche
At least 25% of the products are basics varying little from season to season.	Not more than 25% of the products are basics.
Frequent in-season replenishment shipments	Replenishment shipments are the exception rather than the rule.

It would be impossible to say exactly what competitive requirements each market combination will require. In fact, each individual customer will have it own specific requirements. On the other hand, discussing the **likely** competitive requirements will help us decide where the best bets are for Botswana manufacturers and potential investors (Table 7.).

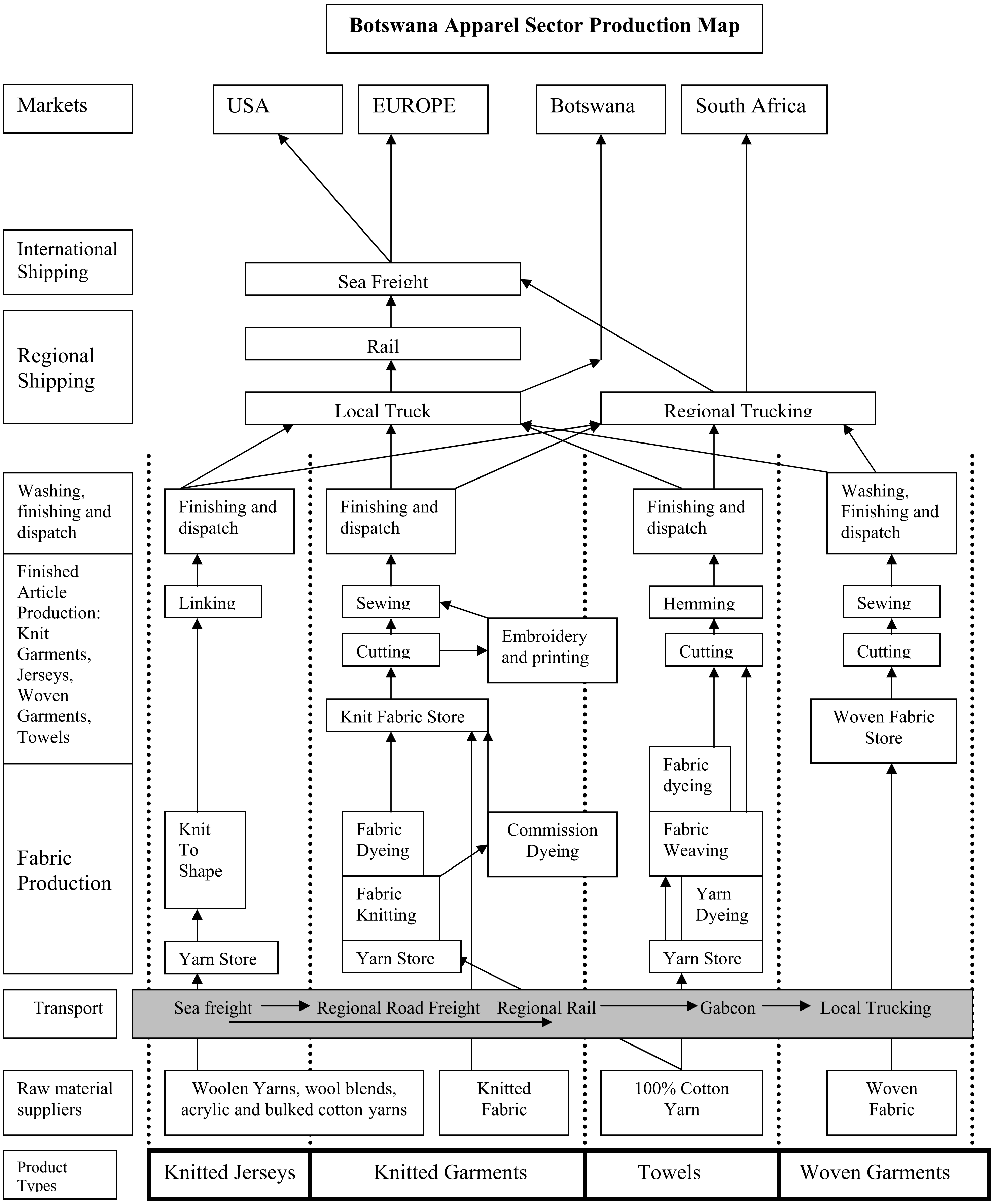
Table 7: Market Segments-Likely competitive requirements

Market Segment	Potential Strategies
Informal	▪ Low price ▪ Slow response ▪ Low quality ▪ Range from generic to specific products ▪ Small production runs
Formal Traditional Niche	▪ Higher price ▪ Slow to medium response ▪ High quality ▪ Very product specific ▪ Small production runs
Formal Traditional Mass	▪ Low price ▪ Medium to rapid response ▪ Medium quality ▪ Generic to moderately product specific ▪ Medium to large production runs
Formal Modern Niche	▪ High price ▪ Rapid response ▪ High quality ▪ Very product specific ▪ Small to medium production runs
Formal Modern Mass	▪ Low price ▪ Very rapid response ▪ Medium quality ▪ Generic to moderately specific products ▪ Large production runs

Source: Coughlin, Rubin, Darga, 2001:Table 30

Informal markets are limited to local and regional markets. All the other market segments are found locally, regionally, and nationally.

In the following sections we will evaluate the existing apparel and textile industry in Botswana, and the Botswana business environment. From this evaluation we will present an analysis of the key opportunities, the constraints that inhibit exploiting those opportunities, and suggest ways to overcome these constraints. We will also look at the rest of the Southern African region and analyse the potential for Botswana manufacturers to form competitive regional supply chains. Using these analyses, we will suggest in which markets supply chains that include Botswana manufacturers are most likely to be successful competitors.


Botswana Apparel Sector Production Map
Markets
USA
EUROPE
Botswana
South Africa
International Shipping
Sea Freight
Regional Shipping
Rail
Local Truck
Regional Trucking
Washing, finishing and dispatch
Finishing and dispatch
Finishing and dispatch
Finishing and dispatch
Washing, Finishing and dispatch
Finished Article Production: Knit Garments, Jerseys, Woven Garments, Towels
Linking
Sewing
Embroidery and printing
Hemming
Sewing
Cutting
Cutting
Cutting
Knit Fabric Store
Woven Fabric Store
Fabric dyeing
Fabric Production
Knit To Shape
Fabric Dyeing
Commission Dyeing
Fabric Weaving
Fabric Knitting
Yarn Dyeing
Yarn Store
Yarn Store
Yarn Store
Transport
Sea freight
Regional Road Freight
Regional Rail
Gabcon
Local Trucking
Raw material suppliers
Woolen Yarns, wool blends, acrylic and bulked cotton yarns
Knitted Fabric
100% Cotton Yarn
Woven Fabric
Product Types
Knitted Jerseys
Knitted Garments
Towels
Woven Garments

The Structure of the Industry

The consultants received lists of companies from BEDIA and the Department of Industry. From these lists the consultants drew up a register of the 21 largest active companies which form the backbone of the textile and apparel sub sector in Botswana. For the most part companies with less than 50 employees were not visited.

It is acknowledged that there are numerous small enterprises that service the domestic market with items such as bespoke tailoring, school uniforms and the like. While forming an important part of the domestic informal economy, these did not fall into the scope of this study.

The consultants conducted in-depth interviews in the 21 companies and established that they employ a total of 8596 workers. Three of these have indicated plans to increase employment by a total of 1125 within the next six months. Employment in the formal subsector is therefore approaching 10,000 workers which constitutes a significant proportion of the workforce engaged in the manufacturing sector of the economy (40%).

Currently 261 expatriates are employed in management, supervisory and administrative positions. The expatriates are mainly from South East Asia, RSA and Zimbabwe. They represent 3% of the total employed in the industries.

It is interesting that Botswana's apparel industry is relatively diverse. Compared to countries like Swaziland and Lesotho, it demonstrates a range of product that belies its size. Besides the towels produced under the textile sub sector, the apparel sector produces woven garments and denim jeans, knitted commodity type garments such as T-shirts, fully fashioned sweaters, protective garments such as overalls, haute-couture, and ladies underwear including brassieres. This range provides compelling evidence to BEDIA that it can target a wide variety of manufactures as potential investors.

At present there are no companies spinning yarn in Botswana. (See the Employment by Production Activity graph on page 25.

One company is weaving towelling fabric and sources the yarn from Zimbabwe, Zambia and RSA. The towels are marketed in RSA, Zimbabwe and Mauritius.

Two companies import yarn from Zimbabwe, India and RSA and manufacture circular knitted fabric used in the manufacture of T-Shirts and golf shirts. Although they have excess knitting capacity they do not supply any other company in Botswana. The production of these companies is sold in Botswana, RSA and the EU. (Note: If these companies use Zambian yarn their production would be eligible to AGOA preferences after the expiry of the LDC preference.)

Five companies are producing trousers, shorts and chino garments from woven fabric imported from Taiwan, RSA, Zimbabwe and China for customers in RSA, USA and Botswana.

Knitted fabrics imported from Taiwan, RSA and Zimbabwe are used by six companies to produce T-shirts and Golf shirts for markets in USA, EU, RSA and Botswana.

Three companies import textured yarn from China, Hong Kong, Taiwan and RSA to knit fully fashioned sweaters for customers in USA, EU and RSA.

One company designs and produces ladies high fashion for the USA market. This company has penetrated a highly specialised niche haute-couture market in the USA. The design skills within the company are also used to service the high end wedding and fashion gown market in Botswana.

One company specialises in women's underwear, a highly specialised niche market, and sells its production to top end stores in Botswana and South Africa.

There is a Gabarone based company that specialises in protective clothing and uniforms. This company supplies most of the protective clothing to the Government and to the mining operations in Botswana.

Two companies have dyeing facilities and one of these dyes the cloth manufactured by the other circular knit fabric producer on a commission basis.

All other raw materials including threads, labels and packaging materials are sourced from outside Botswana.

The main markets for the garments are the USA, RSA, EU, Botswana and SADC. The majority of the companies are selling into a number of these countries but there are two supplying exclusively to RSA and a further three who export solely to the USA.

The companies that supply into the regional markets including Botswana claim the import of cheap garments from China is a major problem. This is a trend that has been developing throughout the SACU region.

Seven of the companies involved in this sector have sales offices in South East Asia, ten have offices in Botswana, three have offices in RSA and one company's sales office is in Mauritius.

Currently the oldest established company has been operating for over 20 years and a further four each have been in production for over ten years. Six companies have been operating for more than five years and a further ten companies have set up in the last five years.

The Production Process

The equipment and manufacturing process for garments made from knitted or woven fabrics is basically the same with the exception of the production of denim jeans that requires heavier duty machines.

Six of the companies are vertically integrated producing their own fabric for the manufacture of their garments. One company produces woven fabric for towels, two companies produce circular knitted fabric which they manufacture into garments and three companies produce knit to shape panels which are assembled into jerseys.

While the circular knitting companies have additional capacity available they do not supply fabrics to other companies in Botswana.

The two companies with fabric dyeing capabilities have invested in waste water pre-treatment facilities that prepares the waste water before discharge into the municipal sewers. A further 2 companies perform washing operations on their finished garments but these are softening washes and do not produce noxious waste water.

The remaining companies receive their raw materials from outside Botswana and convert them into garments for dispatch to their customers. Twelve companies indicated that they receive their raw materials from China and Taiwan. For the most part raw materials are brought into Botswana by rail and finished goods are dispatched by road freight. Most imports and exports are handled through Durban.

Six companies are able to offer screen-printing to their customers and five companies have embroidery machinery. There is some sub contracting of embroidery between companies in Botswana.

Subsector Dynamics

As we discussed earlier there have been a number of cycles of growth and contraction in the textile and garment industry in Botswana. Of significance is that fact that the country had significant capacity to produce fabric in the early 1980's and this capacity has now been largely lost. This is unfortunate at a time when rules of origin require multiple processing for apparel to enter the USA or the EU on a duty and quota free basis.

The South African market has consistently been the largest market for Botswana's exports in this sub sector in the last 20 years. For the first time it appears as though exports to the USA will exceed those to the RSA in 2004. The probable reasons for this will be discussed under the chapter *Driving Forces* below.

The SADC market excluding South Africa has played a significant role in the importation of Botswana's textiles and apparel throughout the 1990's but this market has now faded into complete insignificance.

The European market has been growing for Botswana exporters since 1994. It peaked at P83 million in 1998, declined sharply and has started to grow steadily once again. The 2004 year to date figures indicate a significant drop in exports to this region but this may be due to the fact that the majority of exports to this region are knit to shape jerseys which are subject to seasonal demand and their export would mostly be reflected in the second half of the year.

The Apparel Sector Production Map on page 17 indicates the four main Botswana's four main textile and apparel products. Of these knitted jerseys (known as *knit to shape*) are performing strongly in all markets and production is expanding. Export of this product tends to swing between the RSA and Northern Hemisphere markets on a seasonal basis with manufacturers reporting strong demand from all markets. The main penetration of the European market is due to the export of this product.

The export of garments made from knitted fabric is growing considerably into the USA. It is ironic that the two factories producing their own knitted fabric regard their main markets as the RSA and are not exporting out of the region in significant quantities. Exporters to the USA in this category are using fabric imported principally from China. While there is some on going growth and investment in this category it must be seen to be at risk if no effort is made to create the backward linkage into locally sourced fabric. The expiry of the LDC preference under AGOA in 2007 will dramatically curtail these operations. The consultants were worried by the assertion from manufacturers that they felt sure that the LDC status would again be extended as the consultants believe that this is unlikely to be the case.

In the category of woven garments there is some new investment with a major South African producer about to commence production to service the regional market. Those producers servicing the local market (uniforms, protective clothing and women's underwear) are working in entrenched niche markets and appear to be reasonably solid. Part of this category is exporting to the USA under AGOA and, as with the producers of knitted garments, face considerable risk if they do not organise the sourcing of qualifying fabric. One of the success stories in this category is a small haute couture manufacturer that producers high end, exclusive fashion garments for the USA market.

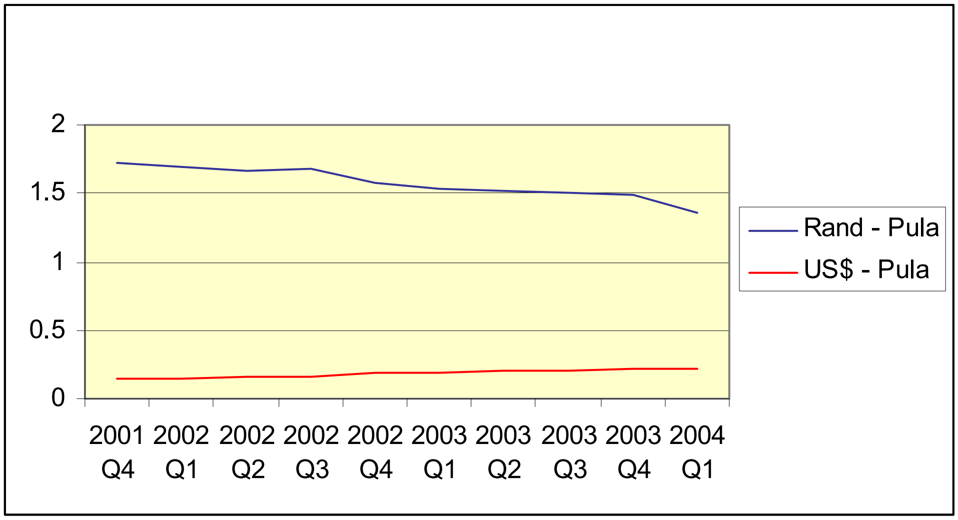
The manufacture of towels for the regional market has seen the closure of one manufacturing facility recently. The remaining producer exports in the main to South Africa.

Driving Forces

Pula/US$/Rand Exchange Rate

Botswana is the only country in SACU that is not pegged to the Rand. Over the past two years the currency has declined from just over R1.72 to the Pula to current rate of R1.34. This constitutes a decline of 22%. Having established that more than 50% of Botswana's exports in this sub sector are sold into South Africa we can assume that Botswana's manufactured products are becoming relatively more competitive in this market.

Table 8: Pula/$/Rand Exchange Rate



Source BIDPA Briefing – 1st Quarter 2004

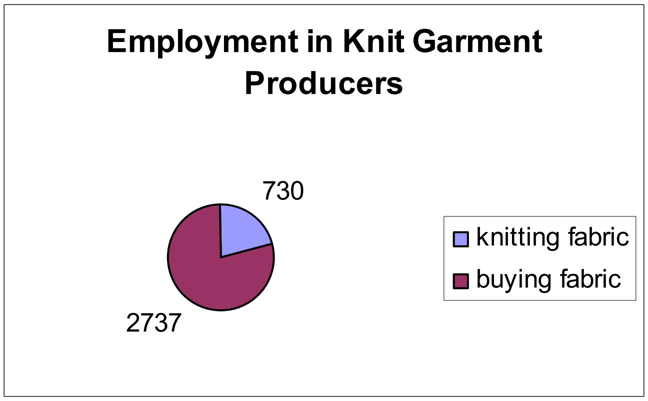
Like the other economies in the South African Customs Union, Botswana has felt the pressure on its exports due to the weakness of the dollar. This is being felt particularly seriously in those industries that export in dollar related products such as clothing. While the Pula has been rising steadily against the dollar, this rise has not been as dramatic as that of the Rand. (The 22% decline against the Rand has left Botswana exporters to the USA less exposed than their SACU counterparts.)

AGOA and LDC Status

AGOA has been the dominant driving force behind the growth of the apparel subsector in a number of Sub Saharan countries such as Lesotho and Swaziland and to a more limited extent, Botswana. The LDC status conferred on Botswana has enabled it to receive special advantage under AGOA in that it does not need to apply the principle of cumulation to its USA garment exports. Manufacturers are able to source highly competitive Asian manufactured cloth as their raw material input. Investors taking advantage of this status are one of the main driving forces of the current growth in employment in this subsector.

Currently this special LDC advantage will expire midway through 2007 and it is unlikely to be extended. When the LDC advantage expires, the apparel industry will have to either source fabric within Botswana, from another qualifying sub-Saharan state or from the USA itself. This will result in the loss of much of Botswana's competitive advantage.

Table 9: Employment in Knit Garment Producers

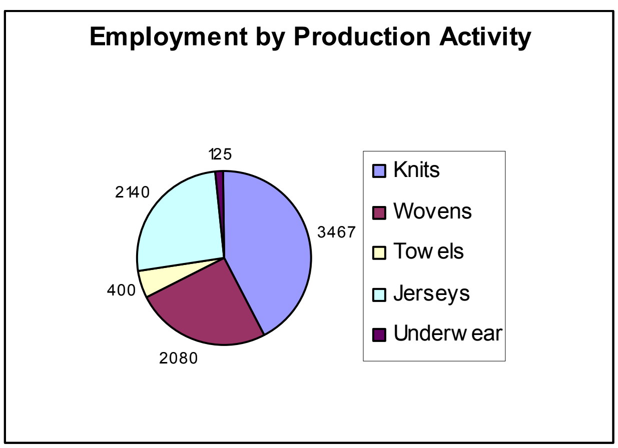


Source: Factories survey – ComMark Trust

Looking at that segment of the industry that produces garments from knitted fabric (other than sweaters) we can see that 730 workers are working in factories that are producing their own fabric and would therefore be eligible for preferential access into the USA market beyond the expiry of the LDC special preference on the condition they were using qualifying yarn (i.e. Zambian as opposed to Zimbabwian).

Botswana already has a core of circular knitting production and fabric dyeing. It needs to build on these resources and encourage other factories to set up production of knitting facilities to consolidate the growth in this segment of the apparel subsector.

Table 10:Employment by Production Activity



Source: Factories survey – ComMark Trust

In the woven apparel segment of the sub sector all factories exporting under AGOA are importing their raw materials from East Asia. This represents factories employing 25% of the workforce. The survival of these factories is at risk if they cannot source sub Saharan qualifying fabric before the end of the LDC preferential status in 2007. The alternatives are to switch to the regional market or operate at levels of efficiency sufficient to be competitive even if their products attract GSP duties when entering the USA.

One of the largest segments of the industry is involved in “knit to shape” operations producing knitted sweaters, jerseys pullovers, cardigans etc. Raw material for this operation, which is spun (woollen type) thread, is sourced internationally with most being sourced in China. Some thread is sourced from South Africa. This industry, employing just over 2,000 workers, will not be eligible for duty and quota free access under AGOA after the termination of the LDC preferences. Unlike the woven apparel industry, knit to shape garments made in Botswana are eligible for duty free access into the European Union because they fulfil the Rules of Origin requirements of conversion from thread to garment i.e. the fabric and the garments are made in a qualifying state.

International Consumer Standards

Efforts by concerned consumers and international labour organisations have focused attention on the working and environmental conditions under which products are manufactured. This attention and the possibility of negative publicity have forced all the international brands to adopt Codes of Conduct to which factories must comply while producing their products.

These Codes of Conduct are driving the transformation of the garment sector globally and are effecting working conditions in Botswana. All factories producing for export to the USA have to comply with minimum standards and they are inspected regularly to ensure their compliance. Codes of Conduct will ensure that the Botswana apparel sector keeps pace with changes in industrial relations policies and will also ensure environmental best practice is adhered to in this sector.

The End of the Financial Assistance Programme

The Botswana Government introduced the Financial Assistance Programme (FAP) in the 1990’s and this resulted in investors from South Africa and Asia establishing plants in Botswana. These industries mainly serviced the RSA, US and European markets. The FAP offered attractive incentives subsiding wages, fixed asset investment, and training costs for the initial 5-year period of operations. Access to factory space was also available. [7]

Since the late 1990’s many companies closed their operations when the initial 5-year period of assistance under FAP expired. Other took advantage of the FAP incentives and did not even commence operations. It would appear that a number of the investors came to Botswana solely to avail of the generous subsidies available. The FAP programme of assistance for new FDI was discontinued in 2001. A few factories still benefit from the FAP and they have indicated that they are unsure if they will continue operations once their incentives expire.

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[7] Report for Botswana Development Investment Authority (BEDIA) on the *Viability and Competitiveness of the Garment and Textile Sectors in Botswana.* July 2003. Submitted by International Development Ireland.

The FAP attracted a significant number of investors to Botswana and its phasing out has caused a large number to discontinue operations or relocate out of Botswana. There is an overhanging perspective that fly-by-night investors, both local and foreign, used the FAP unscrupulously and this reflects negatively on the textile and apparel industries particularly when new investors attempt to raise capital from funding institutions and commercial banks.

Increasing Competition in the Regional Markets

Traditionally Botswana's largest market has been South Africa where the apparel industry in particular has been going through particularly difficult times owing to the lowering of tariff barriers, staggering increases in the imports of very competitive apparel from China, smuggling and dumping.

South Africa has shed 30,000 jobs in the textile and apparel sector in the last 12 months and this is indicative of how the industry is adjusting to increased global competition. There is no doubt that Botswana companies exporting into this market will have to remain extremely competitive if they wish to avoid losing market share to cheap Chinese imports.

South East Asian Investors

Investors in the textile and apparel industry from South East Asia are driving much of the growth in Sub Saharan Africa. In 2001 in Lesotho South East Asian investors owned 85% of the apparel factories employing 97% of the workforce.[8]

A significant Botswana success story in this industry is the result of a partnership between a Matswana and a Taiwanese investor. They have developed a company that is growing, making significant penetration of a wide range of markets, and is proving to be a powerful combination with the Matswana bringing local knowledge and influence to the partnership while the Taiwanese can supply the international trading connections including access to the markets and raw material sourcing.

Investment Opportunity Window

Those companies using third country fabrics that are not AGOA eligible have just over two years in which to switch their source of supply to AGOA eligible countries, start manufacturing their raw materials themselves, or lose the competitive advantage of exporting under AGOA.

BEDIA and the BDC should start to encourage these firms in particular to develop the backward linkages such as circular knitting and dyeing facilities.

[8] Lesotho Garment Industry Subsector Study for the Government of Lesotho - 2001 - *Salm et al.*

AGOA continues to drive growth in this subsector in Sub Saharan Africa. Botswana is currently experiencing significant growth in exports to the USA. The demonstrable success of Botswana companies should serve as a positive example for investors who are investigating the region.

Key Points of Leverage

The points of leverage are those points where, working with a few individuals or organisations, it is possible to reach a much larger audience of participants within the industry. In this survey the consultants identified two distinct audiences that need to be addressed. Firstly there are the garment sector industrialist and secondly the workers. The points of leverage are nodes where the participants gather or associate.

Botswana Confederation of Commerce, Industry and Manpower - BOCCIM

The Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) is an organization that represents a diverse range of industrial and commercial activity but has only two members from the apparel and textile industry. The industrialists in this sub sector have not formed their own association and therefore do not have a collective voice in their dealings with government.

As this sub sector grows it will need to develop its own association which may be affiliated to BOCCIM. The industrialists will need to develop industry specific negotiating positions with regard to wage agreements, trade agreements, tax, customs and investment concessions.

Botswana Export Development and Investment Authority - BEDIA

BEDIA is the principal investment promotion organisation within Botswana with a emphasis on export orientated industries. It works closely with those clients that it has attracted and facilitates their activities particularly in relation to dealing with Government and parastatal departments. It will also assist in the research and development of new markets. See BEDIA in Institutional Environment on page 29.

The Unions

While trade unions are tolerated in Botswana certain provisions of the labour legislation have made it very difficult for labour to organize itself effectively. In particular there has been a provision which excluded trade union members from being full time members of their own committees. One had to be in full time employ to be a member of a labour movement and this meant that most labour organization had to take place after normal working hours. This law was altered in April 2004. One can therefore expect far more labour organization to develop in the future. This is probably one of the reasons why there have been very few legal strikes in Botswana. Almost all strikes have been wild cat strikes. This is due to the inability of union organizers to engage adequately with the workforce.

The principal union organizing in the sub sector is the Botswana Manufacturing Workers Union. This union, along with 25 others, is affiliated to the Botswana Federation of Trade Unions. The president of the Federation admits that the unions' penetration into the textile and apparel sub sector is low but should grow under the new legislation.[9]

Throughout the consultations with Government officials, union officials and investors, there seemed little indication that industrial relations were a problem in Botswana. In general it was agreed that the mediation, conciliation and arbitration mechanisms were slow which tends to work against the basic rights of the workforce. The Department of Labour and Social Welfare is developing strategy to speed up these processes.

Institutional Framework

The Department of Industrial Affairs

This is the department within the ministry of Trade and Industry charged with facilitating industrial development. Like BEDIA and the BDC it works to diversify the economy through accelerated growth in manufacturing and trade and the stimulation of export activities.[10]

This department is responsible for issuing manufacturing licenses and maintains databases of industrial activity.

Botswana Export Development and Investment Authority - BEDIA

Established in 1997 to promote FDI into the country, Bedia concentrates its efforts on attracting export orientated investments. In addition to its offices in Gabarone it maintains offices in Johannesburg and London

Like the BDC (see below) Bedia constructs factory shells on spec or to investors requirements. There are, in the main, located in the industrial areas around Gabarone, Francistown and Selibe Phikwe.

One of Bedia's primary roles is to facilitate new investors into the country. There is an impressive one-stop-shop within the BEDIA building but this is underutilized as there is no point in keeping representatives from the various government and utility companies in situ unless there are potential and actual investors present. None-the-less individual investors are guided through the various legal requirements and departments with dedicated assistance from BEDIA staff.

[9] Mr. Ronald Baipidi, President, Botswana Federation of Trade Unions.
[10] Botswana Review – 23rd Edition – Published by B&T Directories.

Bedia, through its Export Development Division, actively promotes Botswana manufactured produce through promotional missions and participating in international trade exhibitions.

Botswana Development Corporation - BDC

The BDC is Botswana's main agency for financing commercial and industrial development. It is a wholly owned by the Government and falls under the control of the Ministry of Finance and Development Planning although the control of the Corporation is vested in a Board of Directors.

The BDC seeks to provide financial assistance to investors with commercially viable projects particularly where these projects generate significant sustainable employment for Batswana. It also encourages and supports the participation of citizens in business ventures.

Like BEDIA, the BDC has a portfolio of industrial premises which it rents to investors at very favourable rates. For examples larger premises in Selibe Phikwe can be had for P4,00 per square metre with smaller units costing P6,00.

The BDC was the main operator of the FAP scheme and was left exposed by the actions of unscrupulous investors who took advantage of the scheme and misappropriated funds and occasionally abandoned their businesses and fled across the border leaving the BDC with unlet factory shells and abandoned textile and apparel machinery. Most of the factory shells in BDC's portfolio are currently let but there is considerable space that can be adapted to the requirements of new investors at short notice. In particular there is a 40,000 square metre building in Selibe Phikwe that could be divided into smaller but sizeable units at short notice.

There is a decided hang over from the experience of dealing with fly-by-night investors in the textile and apparel subsector of the FAP debacle. In fact the CEO of the Botswana Insurance Fund Management (BIFM) indicated that his organization would not fund any project in this sub sector.

Citizen Entrepreneurial Development Agency - CEDA

With the demise of the FAP, CEDA was established in August 2001 with the aims of redirecting efforts to deal with constraints affecting the development of citizen businesses and citizen participation in the economy.

While CEDA provides working capital to small and medium scale enterprises particularly orientated towards citizen participation in the economy, it also operates a venture capital fund that may be of interest to industrialists wishing to invest in textiles and apparel. This is a 10-year, P200 million commercial fund established to assist citizens and their partners to acquire businesses in Botswana and will also fund expansion of these businesses beyond the country's borders.

The venture fund looks to take a minority stake of between 26% and 49% for equity partnerships where funding would range between half a million to thirty million Pula.

Botswana Export Credit Insurance – BECI

This facility was established by the BDC in 1996 to assist exporters to insure their foreign debts. There has been little take up of this facility from the textile and clothing industry in the past although there has been interest from the industry recently and particularly from the new start-ups.

BECI is working closely with the Government with the intention of establishing an export finance scheme. This would be advantageous to the textile and apparel subsector considering the huge financial requirements to fund major export orders from raw material purchase to negotiating the letters of credit on successful dispatch of goods.

Utilities

Electricity and water are the main utilities consumed by the industry. While industrialists believe the cost of utilities is too high, from a regional perspective the cost must be considered average.

The majority of Botswana electric power is purchased from South Africa with about 28% being produced locally. The Botswana Power Corporation is the service provider and it claims that it is quite capable of supplying the requirements of the country's industries and would welcome new investment. Industrialists claimed that the power supply was mostly reliable although half of those interviewed reported erratic and disrupted supplies during the rainy season.

Water is supplied to the industry by the Water Utilities Corporation which functions on a commercial basis supplying water to all major urban and industrial areas. The officers of the Corporation expressed their confidence that they had sufficient water resources at their disposal to supply Botswana's requirements without disruption. The Corporation quotes rates for both treated and untreated water. Industrialists requesting untreated water will generally have to pay for the reticulation of that water the cost of which could be prohibitive. The supply of raw water to the industrial estates for use in dyeing and washing would be of considerable advantage to industry.

Currently the industry does not generate significant volumes of waste water. The waste currently generated is pre treated on site and then released into the municipal waste water treatment plants. The volume of water that can be treated in this way is dependent on the size of the municipal treatment plant. It follows that Gabarone has the largest capacity to deal with this type of waste water. The cost of waste water disposal is incorporated into the property rates and is not charged separately.

The Workforce

Cost of Labour

There is a perception that wages are high and uncompetitive in Botswana. In fact the recent devaluation of the Pula against the Rand has increased the competitiveness of labour considerably. At a minimum manufacturing wage of Pula 2.90 per hour, monthly minimum wages can be calculated to be in the region of Pula 550. At current exchange rates[11] this is equal to Rand 740 per month or US$120. Expensive in dollar terms at a time when the dollar is showing historic levels of weakness but quite competitive in regional terms when compared with manufacturing wages in excess of R2,000 in the South African urban areas.

Comparative Weekly Wage Rates	
Botswana	$27
South Africa Metro	$80
South Africa Rural	$40
Lesotho	$26
Namibia	$30
China	$15 to $30

Industrial Relations

Discussions with labour union representatives, Government officials and industrialists seem to indicate that this sub sector may be characterized as one in which there is a fair amount of industrial harmony.

This may be partly due to the fact that prior to 2004 it was very difficult for labour to organize effectively as trade union organizers were not allowed to work full time for the unions but had to be in full time employment in a business.

The fact that this law has been repealed and that the international retailers and indeed AGOA legislation require that freedom of association be entrenched in vendors businesses, it is likely that there will be considerable growth in union activity in this sector over the next few years.

There is currently no association of employers representing the textile and apparel industries. The sub sector appears to be growing steadily and it would prudent for manufacturers to organize themselves into a collective body to represent their specific interests including lobbying government, providing in puts to trade agreement negotiations and to negotiate wage agreements and conditions of service both at the Wage Board level and with the emerging unions.

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[11] October 2004

A strong partnership between government, labour and industrialists is a necessary formula for industrial peace particularly in an industry that is very labour intensive. In countries such as Swaziland the large workforce involved in the textile and apparel sector has become a vibrant political constituency in the absence of any alternative political platform. Unless the relationship between workers, management and government is proactively managed, disruptions may follow which impact on the reliability and reputation of the industry.

Both the representative trade unions and factory management should be encouraged to receive training on industrial relations processes.

Conditions of Employment

None of the companies visited had a Human Resources Department although each had a person whose duties included these responsibilities. No formal training in Human Resource Management had been given.

All of the companies had an average daily absenteeism level of 10% and an Annual Labour Turnover of between 10-20%. These figures taken with the low levels of productivity indicate the absence of a structured recruitment, selection and induction programme for employees.

There were conflicting experiences of the availability of labour with some companies reporting that there was a good pool from which to choose while others were experiencing a poor response to their recruitment initiative.

All were agreed that no skilled operators were available. One company had employed a number of expatriate machinists from Zimbabwe.

Each company had Grievance and Discipline Procedures set down but none felt they had any problems with their industrial relations. Only two of the companies had established works committees.

Ten companies had Codes of Conduct imposed by their customers and they were visited regularly to ensure that the standards were being maintained.

All of the companies were aware of their Health and Safety responsibilities and emergency exits and equipment were clearly marked and evacuation procedures displayed.

The Employment Act governs the terms under which companies operate and the Government sets out annually the minimum wage to be paid. This is presently P2.90 per hour with an additional premium being paid for any overtime hours worked.

An employee is also entitled to 14 days sick leave and 15 days annual leave per annum. Maternity pay as a percentage of their wages is paid for 3 months and there is a severance benefit of 60 days payable after 5 years of service. This severance benefit creates a contingent liability within companies and, where these companies are struggling, may act as an incentive to close just prior to the majority of its workers reaching this anniversary. The severance legislation should be altered to protect the interests of workers possibly by the payment of a small monthly contribution to an independent pension service provider.

A number of companies have introduced bonus schemes based on output as a method of improving productivity but these had largely been ineffective. Motivation of workers appears to be a problem across all of the companies.

The companies also expressed frustration at the delays and drawn out procedures for obtaining Work Permits for their expatriate staff.

Constraints and Opportunities

We have discussed the characteristics of the Botswana apparel industry and the Botswana business environment. We will now analyse which of these manufacturing characteristics will give Botswana producers competitive advantages and how these can be combined with manufacturing and services in other countries to create globally and regionally competitive supply chains. We will then suggest which market segments these supply chains are likely to be competitive in, and identify the constraints that must be overcome for these competitive supply chains to form.

In our interviews with Botswana manufacturers four favourable characteristics of the business environment were consistently cited:

- Botswana was a safe place for foreigners to invest in. There was little corruption, the legal system was sound, assets were safe, and it was unlikely that local partners would cheat.
- The lack of currency controls made doing business globally very easy.
- There was no problem with labour disputes and strikes
- Personal security was good compared to other countries in the region.

In addition, our research has shown other favourable factors:

- Untreated water cost is low (200 thebe per cubic metre).
- Electric costs while not the lowest in the region are moderate.
- Botswana is close to sources of excellent cotton in Zambia and Zimbabwe.
- The various trade agreements to which Botswana is a party means apparel and textile products can enter major markets duty-free.
- Using Walvis Bay, Botswana manufacturers can reduce shipping time to Europe and the East Coast of the United States by a week or more over Durban.
- Labour cost is competitive.
- Factory shells suitable for apparel and textile manufacturing are available at reasonable rental rates.
- Some equipment suitable for export quality apparel and textile manufacturing is available from companies that have ceased operation.

Some major disadvantages exist, however:

- Although labour cost is competitive on an hourly basis, productivity is low.
- There are almost no support services for the industry in Botswana. Most parts, supplies and services have to come from South Africa, or further abroad.
- Over half the manufacturers reported frequent electric supply interruptions, particularly during the rainy season.
- Existing manufacturers dyeing fabric and yarn report major difficulties and/or expenses in getting access to inexpensive untreated water.
- All but one of the manufacturers reported delays and difficulties in getting work permits for expatriate skilled labour.
- There is no export credit finance available locally. This makes it difficult for Botswana companies, without foreign capital sources, to operate.
- Few trained technicians and supervisors exist in the country, and there are no facilities to train them.
- The industry is totally dependant on Durban for imports and exports, and experiences frequent and unpredictable shipment delays.
- The country is land-locked. As a result, product for export requires two-way shipment over expensive inland routes.
- Government, banks, and the general public have a lingering suspicion of the apparel and textile industry due to the bad experience with some foreign investors under the FAP.

In the section on Recommendations we will discuss how to mitigate these disadvantages.

Competitive Production Stages

Botswana has moderate energy, labour, and water costs. It also presents very low risk for capital investments. What does this tell us about the production stages Botswana manufacturers might be competitive in?

The apparel supply chain consists of a series of manufacturing stages, each with very different requirements. As a result, being competitive at each production stage means having different resources available competitively.

Table 11: Requirements for textile and apparel production

	Energy Usage	Water Usage	Labour intensity	Capital Intensity	Lead time for new production
Natural fibre preparation	low	little or none	low	low	moderate
Man-made fibre production	moderate to high	moderate to high	low	Very high	long
Yarn texturising	moderate	low	low	moderate	moderate
Yarn spinning	moderate	little or none	low	moderate	moderate
Yarn Twisting	moderate	None	Low	moderate	moderate
Yarn dyeing	very high	very high	low	moderate	moderate

	Energy Usage	Water Usage	Labour intensity	Capital Intensity	Lead time for new production
Weaving	high	Moderate (low for twisted yarn weaving)	low	high	long
Circular Knitting	moderate	Low	Low	moderate	moderate
Hand-flat knitting (manual)	Low	Little or none	High	Low	low
Hand-flat knitting (automatic)	Moderate	Little or none	Low	Moderate	moderate
Fabric dyeing and finishing	very high	very high	low	Very high	long
Garment production	low	low	high	low	short
Garment washing	moderate	high	low	moderate	short

Source: Modified from Coughlin, Rubin, Darga, 2001:Table 3

Although Botswana does not have the lowest labour costs in the region, manufacturers are producing labour intensive stages such as garments production and manual hand-flat knitting (knit to shape). To be competitive strictly on price at these stages, however, we would expect the labour productivity to be higher than average to offset somewhat higher labour costs. As discussed in the section Productivity Levels (page 54) this is not the case. As a result, garment and hand-flat knitting manufacturers will either have to address the productivity problem, or serve market segments that are less price sensitive.

Similarly with water and energy costs, where costs are moderate but not the lowest in the region, Botswana can be expected to have competitive manufacturers in production stages requiring more of at least one, but perhaps not both, of these factors. A further consideration is that those production stages requiring more energy and water are also those stages requiring more capital. As a result, although Botswana might not have the lowest cost for these factors, the fact that it presents among the lowest capital investment risks in Africa gives it a strong competitive edge in attracting investment in those production stages requiring more capital.

The moderate water and energy costs, and the low capital risk, therefore, would make Botswana an attractive location for such production stages as:

- Yarn Spinning
- Yarn Texturising
- Automated flat knitting
- Circular knitting
- Low water usage weaving (such as weaving twisted yarns)

Botswana would also able to have competitive production at production stages requiring moderate amounts of either water or electricity and high amounts of the other, particularly if other competitive issues, such as response time or product complexity require production to be as close as possible to the apparel manufacturing. The production stages with these characteristics are:

- Weaving

- Garment Washing

It is unlikely natural fibre preparation will find a home in Botswana as that is usually done close to the where the fibre is produced, to minimise the cost of transporting waste and by-products, and Botswana produces almost no natural fibre.

Similarly, it is unlikely that Botswana will attract any investment in man-made fibre. Man-made fibre is produced in large chemical plants requiring good bulk transportation facilities. To be economical, the plants have to be very large scale. In addition, worldwide there is excess capacity in most of the important man-made fibres.[12] Furthermore, the AGOA and Cotonou agreements do not require local origin of fibre, so producing it in Botswana would offer no special cost advantage. SACU does impose duties on imported fibre, although these are lower than the duties on imported yarn, fabric, and garments made from these fibres. From a cost point of view, therefore, the best scenario would be to import the fibres and process them into yarn, fabric and garments in the region.

So far we have considered production competitiveness in terms of cost. Response time and response reliability is also an important factor in some market segments (Table 7). The biggest cause of delayed shipments in the apparel supply chain is the delivery of finished fabric to the apparel manufacturer and in response sensitive markets is the weakest link in the supply chain.

One of the main reasons for the weakness of this link is the fact that fabric finishing can have a high percentage of re-works due mostly to colour matching problems. When the fabric has to be shipped long-distances, particularly by sea, it is only economical to ship container loads at a time. As a result, if part of fabric order is delayed due to production problems, often the whole order will not be shipped if it means sending less than container loads. On the other hand, if the fabric finishing is done near to the apparel manufacturing, even if part of the fabric cannot be shipped, the shipments can be done economically in small quantities by lorry, and the apparel manufacturer can begin cutting and producing the order. This often means there is no delay in production, as the apparel manufacturer is busy with the first part of the order while the remaining fabric is prepared. For similar reasons, the proximity of fabric finishing to apparel production can also be helpful for markets where very quick response and small quantities are required.

Thus we feel there may be some scope for fabric finishing and dyeing and yarn dyeing in Botswana, even though these production stages are highly energy and water intensive. If the supply chain is serving markets that require smaller orders with a great variety of fabric finishes or colours, the response advantage from proximity to the apparel manufacturer may offset the possible cost disadvantages. Not only do such markets often require very rapid response, but they also are often less price sensitive, with the potential for higher margins per unit.

[12] At the moment shortages of viscose fibres have been reported, but it is unlikely that Botswana would attract investment in a plant large enough to be economical.

One other important advantage for Botswana manufacturers in response time is the potential for shipment via the Walvis Bay corridor to reduce shipments times to the USA and Europe by a week or more. This corridor is not fully functioning at the moment, however. Lowering overland transport costs to, and increasing sailing frequency from Walvis Bay are thus important for making production stages in Botswana competitive in markets that are more response, rather than cost, sensitive.

Regional Linkages

In addition to considering how Botswana manufacturers might be competitive in individual production stages, we must consider how regional linkages offer further scope for creating competitive production facilities in Botswana.

Four important regional supply linkages exist that provide opportunities for Botswana manufacturers to join competitive supply chains:

- Yarn and cotton from Zambia and Zimbabwe
- Fabric Finishing in South Africa
- Apparel design and retailing in South Africa
- Apparel design and merchandising in Mauritius

Yarn and cotton from Zambia and Zimbabwe

Zambia and Zimbabwe are both sources of high quality, medium staple cotton fibre that is sought after for ultimate production into garments for major export markets. At the moment both countries export a significant portion of their cotton as raw lint. As indicated earlier, Botswana is in a position to attract investment in the more capital intensive spinning, weaving and dyeing stages and much more likely to do so than Zambia or Zimbabwe.

Cotton yarn spinning does exist in both Zambia and Zimbabwe, and the quality and costs of such production are competitive for world markets. Thus, in addition to the opportunity to spin cotton from these countries, Botswana manufacturers can also use the spun yarn for further processing into fabric and garments.

This regional linkage, therefore, has the potential to support supply chains that are competitive on both price and quality.

To effectively exploit these opportunities one important issue has to be addressed. The transit corridor from Zimbabwe and Zambia is currently subject to delays and complications at the Zambia-Zimbabwe, Zimbabwe-Botswana, and Zambia-Botswana borders. Most of these problems are not with customs on the Botswana side, which most manufacturers agree is cooperative, relatively efficient, and not corrupt. In the section on Recommendations, we will discuss how to improve the efficiency of this important corridor.

Fabric Finishing in South Africa

South Africa has the most extensive and sophisticated textile industry in the region. Competitive pressure, particularly from garment imports from the Far East has caused a general contraction of the industry, however. The industry has not, for the most part, responded to the yarn-forward rule of origin under AGOA, and increased the quality and quantity of fabric required by regional garment manufacturers producing for the USA market. The extension of the LDC derogation under AGOA to September 2007 has taken away the immediate incentive for South Africa textile producers to invest in producing more fabric for this market.

On the other hand, September 2007 is only two and a half years away, and some Botswana apparel manufacturers we interviewed said that after 2007, if the LDC derogation under AGOA is not extended again, their future in Botswana is uncertain, particularly if they cannot get good quality, competitively priced fabric in the region. As a result, South Africa fabric finishing will be an important part of some competitive chains that include Botswana apparel manufacturers in the future.

Some of the fabric finished in South Africa may of course be formed in South Africa itself. On the other hand, some of the growth in greige[13] fabric production may come from Botswana as well. As discussed in the previous section, Botswana has the potential to use Zimbabwe and Zambian cotton and yarn to produce yarn and fabric. Rather than be finished in new facilities in Botswana, some of this cloth could also be finished in South African plants. Botswana apparel manufacturers, as well as manufacturers in Lesotho, Swaziland, and Namibia, can use this fabric to produce for the export and South African markets. The SACU MFN duty on garments, and the rules of origin for other trading agreements, make such supply chains competitive on price. The proximity of fabric finishing to garment producers in the region will help such supply chains compete on response as well. The high quality of the cotton from Zambia and Zimbabwe will give the supply chains a competitive edge on quality.

Apparel Design and Retailing in South Africa

South Africa is the largest and most sophisticated apparel market in the region, and probably the most sophisticated in Africa. In addition to world class design and merchandising, apparel wholesalers and retailers have adopted some of the more sophisticated logistic and supply chain management techniques in use by the major retailers in Europe and the United States. This size and sophistication offers several opportunities for Botswana manufacturers.

Because of its size, sophistication, and diversity, the South African market offers a wide variety of markets, and in particular, niche markets where proximity to the retailers and product flexibility are important. For the modern markets, where response is important,

[13] Greige fabric is fabric that is un-dyed and un-finished.

Botswana apparel manufacturers can compete, and have the added advantage of offering competitive cost over production in South Africa.

For both the regional and export markets, South Africa apparel designers can develop sophisticated products. South Africa, however, may not be the most cost competitive place for these products to be sewn. This presents opportunities for Botswana manufacturers to produce garments for export that are designed in and merchandised from South Africa.

Apparel Design and Merchandising in Mauritius

Mauritius has been the most successful supplier of apparel products to Europe and the United States in the region for about two decades. Agents, merchants, and designers exist that can serve these sophisticated markets. Most importantly, Mauritius companies have extensive contacts with customers and long experience in providing them with the products and services they want.

On the other hand, rising production costs have driven many Mauritian manufacturers to look for *delocalisation* opportunities in the region. Mauritian manufacturers have invested in production facilities in Mozambique, Botswana, South Africa, and most notably Madagascar. This trend is likely to continue.[14] Botswana is certainly among the attractive options for apparel production in the region. Thus, there is a good opportunity for Botswana apparel manufacturers to produce high-quality garments for export for the customers of Mauritian apparel merchants.

Threats

Although Botswana has a number of important market opportunities for its textile and apparel industry, a number of threats exist that could make it difficult to exploit those opportunities. These are all external threats and there is little, if anything, that can be done in Botswana to prevent them. The best the industry can do is to consider how to react and to mitigate their effects on the industry's competitiveness.

Expiration of the AGOA LDC Derogation

The LDC derogation that permits Botswana garment manufacturers to use fabric and yarn from anywhere in the world and still export to the USA market duty-free will expire in September 2007. The original AGOA provision called for its expiration in September

[14] Mauritius has recently been accorded LDC status under AGOA. This may temporarily slow the exodus of production from Mauritius to the region.

2004, but was extended earlier this year. Anecdotal evidence suggests that if the derogation does expire a significant amount of apparel production will leave Botswana.[15]

There is no point in speculating if the derogation will be extended. The important thing is to understand how it will affect Botswana's competitiveness in the garment and textile industry and what Botswana manufacturers can do in response.

Botswana will be no worse off than any other sub-Saharan African country. Thus from a price competitive point of view the loss of the LDC derogation will not make Botswana garment manufacturing any less competitive than anywhere else in sub-Saharan Africa. It will, however, mean the loss of a price advantage with respect to other regions, such as Asia.

Among the options for Botswana apparel manufacturers are:
- Shift market focus away from the USA to other markets, such as Europe[16] or SADC, where the rules of origin are not as restrictive.
- Shift market focus to SACU, where duties on fibre, yarn and fabric is still lower than on garments.
- Shift the sourcing of raw material to AGOA eligible countries. Even if the materials cost more, Botswana apparel may still be price competitive if the additional cost does not exceed the advantage from being duty-free.
- Reduce manufacturing costs through improved labour and material efficiency.
- Reduce manufacturing costs by investing in more automated equipment. The best opportunity for this is converting from hand-flat to automated flat knitting.
- Shift market focus to less price sensitive markets, such as niche markets, and concentrate competing on product, response and quality.
- Shift production to apparel made from fabric and yarn that is considered in short-supply in the USA (see next paragraph) and therefore still duty-free to the USA under AGOA.

The last item is an important opportunity that has not received full attention from African garment manufacturers. Under AGOA, apparel made from yarn and fabric that is not available in commercial quantities in the United States can be exported duty-free to the USA from AGOA eligible countries without any limit. Apparel manufacturers in Mauritius have been the most aggressive in using this rule, as Mauritius from the inception of AGOA was not eligible for the LDC derogation. Taking advantage of this rule can, however, be complicated and very technical. The Mauritian manufacturers who are using the rule are, for the most part, units of large Asian groups working in conjunction with major US buyers. There is no reason Botswana manufacturers, particularly those owned by Mauritian or Asian companies cannot do the same in Botswana if the LDC derogation were to end.

[15] One manufacturer reported that it lost over a million units of orders earlier this year due to uncertainty over the LDC derogation's extension. Other manufacturers, whose principal market is the USA, indicate that if the derogation is not extended beyond 2007 they will have to close operations in Botswana.
[16] Assuming, of course, the terms of Cotonou have not changed- see below.

Africa reaches the "Cap" on the LDC derogation

Duty-free shipments of apparel to the USA from LDC countries using third-country yarn and fabric are limited to a yearly cap that is a certain percentage of total US apparel imports (Table 14). Initially, there was little concern that this cap would ever be reached. The percentage increased every year, and US apparel imports were expected to increase. In the first years of AGOA less than half cap was utilised.

Two things have changed that may make it possible for the LDC cap to be reached. The first is that under AGOA III, passed in early 2004, although the LDC derogation was extended to September 2007, the cap under the LDC derogation is lower than that for garments made from regional fabric. On the other hand, shipments under the LDC derogation have been increasing every year.

The second is that it was recently announced that Mauritius has been accorded LDC status under AGOA. Mauritius was a large and growing apparel supplier to the USA when AGOA was passed, and it continued to supply nearly half the garments duty-paid. With the acquisition of LDC status it is likely there will be some increase in exports from Mauritius under the LDC derogation. Combined, these two changes could lead to the LDC cap being reached perhaps as early as the end of 2006.

The options for Botswana manufacturers under this threat are essentially the same as those under the threat that the LDC derogation is not extended. The only difference is that the inability to ship apparel duty-free under this derogation would occur earlier.

The end of the Multi-Fibre Arrangement in December 2004

At the end of 2004, the ten year ATC (Agreement on Textiles and Clothing) is set to expire, and with it the Multi-Fibre Arrangement (MFA). Under the terms of the MFA, countries set quotas for imports of various apparel products from major apparel producing countries. When the MFA expires, no quotas will be imposed on apparel imports, although duties can still be imposed.

As a result, starting in 2005, it is expected that major low-cost apparel producing countries, most notably China, will take a greater share of the apparel export market. This has created some concern that other regions, such as southern Africa will not be able to compete with China and the apparel and textile industries there will suffer as a result.

There is no doubt that some buyers will switch from Africa suppliers to Asian ones, once the MFA ends, particularly those in price sensitive markets segments. On the other hand there are a number of reasons that this is probably not as serious a threat as often feared:

- Many buyers do not want to source all their products from a single country or region and Africa offers a reasonable alternative source to Asia.
- Price is not the only point of competition in apparel. Africa supply chains offering quicker response times, smaller production runs, and greater product flexibility could still compete with Asian suppliers.

- African apparel meeting the rules-of-origin can still be imported duty-free into the USA and Europe. This gives a 16% to 34% cost advantage.
- China and other low-cost Asian producers do not have an infinite capacity to expand production. As production expands, cost pressures there will increase offsetting some of the price advantage.
- The end of 2004 is only two months away, and we are not witnessing a major exodus of apparel manufacturers or buyers from the region. In fact, several apparel producers in Botswana have plans to increase production. The same pattern is seen in other apparel producing countries outside Asia, such as Turkey. It appears that most of the buyers who are going to switch to Asia have already done so, or will do so only gradually.

This threat is strictly a price competition threat. To counter this threat, Botswana manufacturers can either take steps to lower costs, or increase their competitive advantage on other dimensions:

- Lower costs through increased productivity.
- Increase the use of automated manufacturing equipment, particularly in flat knitting.
- Adopt more flexible production facilities to meet more demanding buyer requirements.
- Take advantage of the increased product flexibility and improved response time from regional sources of yarn and fabric.
- Using Walvis Bay, reduce delivery time and therefore improve response competitiveness.
- Find and adopt production to more specialised niche markets.

Changes to the Cotonou Agreement

Botswana is an ACP (African, Caribbean, Pacific) country under the Cotonou agreement and as a result can export textiles and apparel, which meet the rules-of-origin, duty and quota free to the European Union. This agreement is scheduled for renegotiation now, with new, WTO compliant, agreements to be in place by 2008.

The EU has said that it prefers to set-up regional agreements rather than a single agreement covering all the ACP countries.

It is perhaps unwise to speculate on what changes will be made in the apparel and textile trading rules in the new agreement with the EU. It seems likely, however, that whatever changes do occur will affect either the rules-of-origin or the customs duties on apparel and textile products.

Any increase in the duties for exports to the EU is a price threat. To meet such a threat, Botswana manufacturers will have to use the same strategies discussed in the previous section on the end of the MFA (see page 43).

Any changes in the rules-of-origin will mean manufacturers will either use the same sources of raw material and subject their exports to increased duties, or they will change their sourcing strategies. The new rules-of-origin will almost certainly require more regional content. Thus the sourcing strategies will need to concentrate on building up regional supply chains as discussed in the section on Regional Linkages.

One of the most important aspects of promoting the interests of this industry is ensuring favourable trading terms for exporters in terms of negotiated trade agreements. See reference on page 48 – *Negotiating New Trade Agreements*.

Far Eastern Apparel Imports to SACU

Producing apparel for the SACU market is an increasingly attractive option for Botswana manufacturers. The authors found at least one new plant that will produce exclusively for the South African market. Some sweater manufacturers use South Africa as a counter-seasonal market to offset the low demand seasons in the northern hemisphere. Like all apparel manufacturers in South Africa, however, those in Botswana face a mounting threat from imported garments from the Far East.

One way to approach this threat is to consider it strictly a price threat and adopt strategies to lower material, production and shipping costs. Another approach is to compete on other dimensions, notably response and product.

Response and product competition strategies will focus on the most important advantage Botswana manufacturers have in the SACU market over those in the Far East: they are closer to their customers. This suggests three specific strategies: (i) improve response time, (ii) provide more flexible product offerings, and (iii) provide smaller shipments. These three strategies will help their retail customers in South Africa have lower inventories, and inventories that meet consumer demand more closely. The result will be lower cost, better retail sell-through, and thus higher profits for the retailers.

Implementing these strategies effectively will require the Botswana manufacturers to create supply chains that include yarn, fabric, and apparel manufacturers and retailers joined together in close strategic alliances. This is a more sophisticated business arrangement than the traditional buyer-seller one. There is no reason Botswana manufacturers cannot do this, but it will require changes in attitudes all along the supply chain.

Rising Fuel Costs

Botswana being a land-locked country is particularly vulnerable to rising costs. Currently, most apparel produced for export, requires raw materials to be shipped from Durban, and finished product to be shipped back over a long inland route. Any changes in fuel costs will affect transports costs over these route more than equivalent distances by sea.

Botswana itself cannot do much to counter rising fuel costs. The most important response to this price threat is to find cheaper shipping routes. Two of the most straightforward ways of doing this are:

- Shift raw material sourcing to closer regional suppliers, if possible. This assumes that any additional price paid to regional suppliers will not be greater than any saving in transport costs.
- Ship exports for Europe and the USA via Walvis Bay rather than Durban. This assumes that Walvis Bay will have frequent enough direct sailings and that enough two-way traffic exists on the trans-Kalahari corridor. Without the former, shipments will take longer. Without the latter, shipments to Walvis Bay will have to subsidize cost of the return trip.

FAP Expiration

The authors heard rumours of at least one manufacturer planning to leave Botswana once their FAP eligibility expires. On the other hand, we interviewed several manufacturers whose FAP eligibility will expire soon who emphatically stated their intentions to stay, at least one backing this up with a big investment in new equipment.

Although there is a possibility that there will be some apparel manufacturers who leave, the authors do not consider this to be a major threat to the industry. We suggest that BEDIA talk about the future with the manufacturers who are currently receiving subsidies under FAP to find out what barriers to competitiveness each faces. BEDIA needs to make sure that these barriers, some of which are discussed in this report, are overcome as far as possible.

Pula Exchange Rate Changes

The rising value of the Pula against the US dollar reduces the cost competitiveness of Botswana manufacturers in important export markets. This is of course a threat to price competitiveness, and therefore, manufacturers will need to consider the strategies to counter price threats discussed above (on page 43).

Failure to Develop Traffic on the Walvis Bay Corridor

Walvis Bay is important for two aspects of Botswana's textile and apparel competitiveness: (i) response and (ii) cost. Walvis Bay's contribution, however, is dependant on increase in both import and export traffic through Walvis Bay. Without more traffic sailings will not be frequent enough, there will be no direct sailings to the USA, and the land transportation costs will remain high.

The only way to increase this traffic is for commercial interests to make concerted and sustained efforts to market this corridor as an alternative to Durban. This marketing effort should focus not just on Gauteng, but also on the wider region, including Botswana, Lesotho, Zambia and Zimbabwe.

Market Segments Opportunities

As we have seen Botswana manufacturers have a number of opportunities to join competitive supply chains. To promote investment in the industry, the authors believe it will be more effective if BEDIA not only suggested the type of manufacturing to invest in, but also the market segments that this manufacturing will serve.

Europe and the United States

Formal modern niche markets in Europe and the USA are extensive and varied. They are ideal for Botswana based supply chains as they require relatively small production runs, high quality and rapid response, and are not especially price sensitive. Botswana based supply chains that use regional yarn and fabric can be particularly response sensitive as the apparel manufacturers can source cloth in small quantities quickly. The Walvis Bay corridor will be an important element in the response competitiveness for these markets.

Botswana based supply chains may have less of a competitive advantage in formal traditional niche markets in Europe and the USA. These markets are usually less response sensitive, but it is very expensive to find and service such customers, and their suppliers. Manufacturers who want to service these markets should not be ignored but will best be considered only opportunistically.

Traditional and Modern mass markets are probably not the best bets for Botswana based supply chains as they are very price sensitive. On the other hand, many merchandisers in these markets behave like modern niche markets for part of their sourcing strategy. The buyers will rely on large low cost apparel manufacturing countries for their initial seasonal stocking and basics and use more responsive regions for in-season replenishment and the fashionable parts of their collections. Although these buyers are always very price sensitive, they realise that they have to pay a premium to get response and production flexibility. As a result, we suggest targeting the investors who want to serve the large buyers, but not those providing basics and initial stocks.

One exception to this is basic cotton yarn spinning. This is a commodity product, is used in all market segments, and the most important competitive elements are quality and cost. The cotton from Zambia and Zimbabwe is used to produce very high quality yarn. Yarn spun in Botswana is AGOA eligible[17]. Using the high quality cotton from Zimbabwe and Zambia, cotton yarn spinning in Botswana will have the advantage that it is closer to the cotton source than spinning located elsewhere in the region thus saving the cost of transportation material that is ultimately wasted.[18] As discussed earlier, yarn spinning is capital intensive and Botswana is more attractive for such investments that either Zambia or Zimbabwe.

South Africa

[17] As is yarn spun in Zambia. Yarn spun in Zimbabwe is not AGOA eligible.
[18] About ten percent of the raw cotton lint weight is wasted in the spinning process.

Supply chains based in Botswana can only effectively compete on price with supply chains currently operating exclusively in South Africa. These supply chains in turn can only compete effectively with Far Eastern suppliers on response, quality and product. Thus for South African markets we need to concentrate on those market segments that are looking for rapid response, and highly specific products. Most likely we will find investors who are already serving niche markets, or replenishment for mass merchandisers who want to delocalise apparel production to Botswana to reduce cost.

An important difference between South African markets and those in Europe and the United States is that Formal Traditional Niche markets and their suppliers will be much easier to identify. Manufacturers who are currently serving such markets from South Africa are good targets for investment in Botswana.

Regional Markets

South African merchants have taken much of the apparel market in the region. As a member of SACU, Botswana apparel and textile manufacturers will have no special duty advantage over those in South Africa with one exception- Zimbabwe. The Botswana-Zimbabwe FTA enables apparel manufacturers in Botswana to ship some garments to Zimbabwe duty-free.[19] The tariff phase-down in Zimbabwe's offer to South Africa calls for most duties on apparel to be reduced from 40% in 2004 to 30% in 2005 and a further ten percent a year until they reach zero in 2008. Thus for another three years, apparel made in Botswana will have a price advantage over that made in South Africa for the Zimbabwe market. This coupled with the lower production costs in Botswana means some suppliers to the Zimbabwe market may be persuaded to shift production from South Africa to Botswana.

The only other opportunities that exist in the region are probably informal markets. The only real assistance BEDIA might give to developing Botswana supply chains for these markets is to conduct surveys among regional wholesalers and importers about the type and destination of apparel they are selling to small retailers. On the other hand, it may be more effective for BEDIA to identify this opportunity generally and the names of wholesalers, and let local entrepreneurs find the specific opportunities themselves.

Summary of Market Segment Opportunities

BEDIA will be more successful if it focuses its promotion effort on suppliers to specific market segments who can create competitive Botswana based supply chains. The most likely market segments are:

- Formal Modern Niche markets in Europe, the USA and South Africa
- Formal Traditional Niche markets in South Africa
- The replenishment segment of Traditional and Modern Mass markets in Europe, USA and South Africa
- South African based apparel manufacturers supplying the Zimbabwe market.

[19] *Clothing* must have 20% local content, defined as the cost of direct labour and materials (DTIP 1988).

BEDIA can also promote investment to serve local and regional markets by identifying wholesalers and importers who trade in apparel.

Negotiating New Trade Agreements[20]

Over the next couple of years it is anticipated that Botswana will engage (either by itself; or together with either its SADC and SACU partners) in a number of negotiations with trading partners that will affect its textile and garment manufacturers' access to regional and global markets. To this end the following proposed agreements will impact on Botswana's textile and garment manufacturing industries :

- SACU – USA proposed free trade agreement
- Economic Partnership Agreement (EPA) with the European Union
- SACU – People's Republic of China Free Trade Agreement
- SACU – India Free Trade Agreement
- SACU – Mercosur Fixed Preferences Trade Agreement
- SACU – Egypt Tree Trade Agreement

In addition Botswana will have a definite interest in the outcome of the proposed industrial tariff negotiations which will be a consequence of the Doha agenda of the World Trade Organisation (WTO). The Doha arrangement envisages further cuts in the tariffs of industrial products.

In summary :

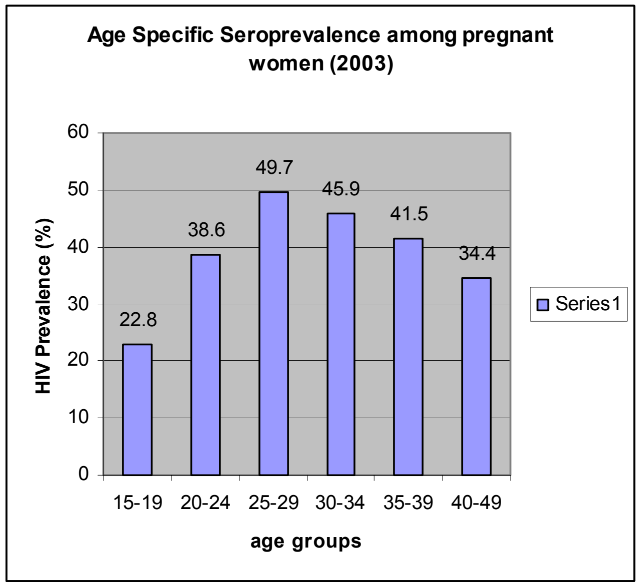
- Botswana's defensive interests should be that SACU should not reduce tariffs on garment products as this would negatively affect the ability of its manufacturers to supply the SACU market place (South Africa in particular). Botswana should also try to ensure that the proposed industrial tariff cuts (as a consequence of Doha) should specifically exclude clothing and textile products. The reason for this is that it is in Botswana's interest to ensure that the clothing and textile MFN tariffs of the USA and the EU remain high so that Botswana's exports to these massive trading blocks (generally at 0% duty) will provide them with some advantage over imports into these countries that originate from the China and India.
- Botswana's offensive interests are to see as much of its garment and textile exports being able to penetrate the market places of the USA, the European Union and Canada. Not only should the tariff negotiations deal with issues of preferential market access – with duties as close to 0% as possible; with suitable rules-of-origin; trade negotiators should try to ensure that the "developmental" provisions of the agreement are as favourable as possible to the clothing and textile industries (e.g. arrangements could be made that would allow developmental assistance for Botswana that would provide resources for its industries to market their products in the country with whom the deal is being struck.

[20] This section prepared by Mark Bennett – ComMark's Textile and Apparel Sector Technical Assistant to the Lesotho Government.

To this end it is proposed that Botswana should regularly commission mini briefing papers that would be able to inform its trade negotiators of potential approaches when they deal with clothing and textile products in any trade negotiation. Ideally Botswana should work very closely in developing joint negotiating positions on clothing and textile tariffs with Lesotho, Namibia and Swaziland. While Botswana is heading the EPA negotiations (at a political level) with the EU it is proposed that consideration should be given to Botswana (possibly together with Lesotho) being given the responsibility of co-ordinating all work concerning the garment and textile industries (currently Mozambique has been assigned the responsibility of co-ordinating all aspects of the EPA related to industrial products (clothing and textiles included)).

HIV/AIDS in Botswana

Botswana has the highest HIV/AIDS infection rate in the world. The 2003 second generation HIV/AIDS sentinel survey shows that Botswana's adjusted prevalence trends have been between 36.2% (2001) and 37.4% (2003) over the past three years. While this shows very little increase, it is still extremely high. Annual mortality has increased on average by about 15 percent per annum between 1995 and 1999, with nearly 20% of the deaths attributable to AIDS.



Of particular concern from the survey is the highest prevalence among women in the 25 – 34 year old age groups. These are the most productive ages in the nation, but are now heavily burdened with the disease, which will likely lead to a reduction in the available workforce.

As Botswana is one of the wealthiest African countries with a comparatively good national health care system, treatment is available. With an estimated 150,000 individuals with full blown AIDS, most have not been tested or are aware that they have the disease. There are only 29,300 who have been tested with a CD count less than 200 at government VCT centers (personal communication from NACA).

Levels of infection
The main locations for garment factories are in Lobatse, Gabarone, Francistown, and Selibe Phikwe. As can be seen in table xx, below, the rates in most of these towns are above the national average, in particular in Selibe Phikwe.

Table 12: HIV/AIDS

District	2001	2002	2003

Gabarone	39.3%	38.2%	44.8%
Selibe Phikwe	51.2%	48.1%	52.2%
Lobatse	30.9%	34.6%	32.4%
Francistown	45.6%	40.2%	45.8%
National Average	36.2%	35.4%	37.4%

Source: Botswana 2003 second generation HIVAIDS surveillance, Ministry of State President, NACA

Potential effects on the industry

The major effects to the industry will most likely be indirect, as the factories do not have medical or retirement plans for their employees (other than senior managers) which usually account for most of the direct costs. While illness and death will lead to replacing workers and training new ones, the costs associated with this are not high for the factories. However, they will lead to losses in productivity stemming from inexperienced workers and increased absences from the workplace due to illness and attending funerals. In an industry that already has comparatively low productivity, any further losses will hurt its ability to establish a competitive advantage for the post AGOA era.

HIV/AIDS can lead to potentially very large costs to the garment industry, which might reduce its profitability and damage its potential for long term growth. As a brief introduction to this issue, table 1, below, outlines some of the costs stemming from an individual with HIV/AIDS or from high HIV/AIDS rates in the workforce or society in general. These costs are either direct or indirect, meaning they will lead to increased payments from the firm (direct) or will lead to reduced productivity (indirect). These costs arise from a number of causes. While this brief review does not have the information to calculate the current financial impact on the sector, findings from South Africa have demonstrated significant costs to firms from HIV/AIDS.[21]

Table 13: Workforce Related Costs of HIV/AIDS

[21] A study by Boston University of the financial impact of HIV/AIDS on firms has shown that the cost per infection to companies varies between one and five times the annual salary of the individual infected, from the point in time that the infection is identified.

	Direct costs	*Indirect costs*
From an individual employee with HIV/AIDS	• Benefits payments • Medical care • Recruitment and training • Overtime and casual wages	• Reduced on-the-job productivity • Increased absenteeism
From high HIV/AIDS rates in the workforce and society	• Market impacts on insurance premiums and wage rates • HIV/AIDS programs	• Management burden • Loss of workplace cohesion • Loss of workforce experience

Source: Boston University

Total Workforce-Related Costs of HIV/AIDS

HIV in the Garment Industry
While there have been no seroprevalence studies of garment workers, it is likely that their rate of infection is similar to or higher than the national rates. The garment factory labour force is predominantly female, and includes many migrant workers. Just as migrant male mineworkers have higher infection rates than the general population, female migrant workers are also at greater risk than settled workers. They are more susceptible to risky behavior as they are separated from their primary partners, or may be forced to trade sex for transport and for food.

Potential effects on the Garment Industry.

There is no hard data on the actual effects to the industry, thus far, and there are no fixed models for predicting the precise financial impact of the disease for this industry. However, based on experiences in other countries where there is more information, it is very likely that there are serious potential future effects on the industry. The following paragraphs lay out some possible impacts based on other experiences.

Clearly, if there is an overall infection rate of 37 percent in the country, then this is likely to be the minimum level of infection among the garment workers. The effects of this high infection rate are not being felt yet, as the great increase in HIV seropositive has come in the last few years. But the effects will start to become important in the next few years. The likelihood is that there will be a severe impact on the Batswana garment worker labour force. Many of the workers will be forced to stop working and return to their homes or will become a burden on the local health services.

The consultants found little evidence of in company HIV and AIDS education, prevention and mitigation programmes in the factories they visited. While the industry may be too small to expect a coordinated private sector response to the pandemic, one would expect, given the extent of the problem and the fact that workforce is particularly vulnerable to the disease, HIV and AIDS agencies to be targeting this concentration of workers. Clearly there is an urgent need to develop a programme of informing workers about the risks, preventive measures and ways of dealing with HIV and AIDS.

AIDS Treatment in Botswana
Estimates of infected individuals who would qualify for anti retroviral therapy (ART) are about 100,000.[22] Since September 2001, the government has started an ART programme free of charge to all Botswana citizens. To date there are about 26,000 persons enrolled in the ART programme with a mortality rate of about 10 percent. Voluntary Counseling and Testing (VCT) uptake is still very low, but is about 4-5,000 per month, meaning that many of those who would qualify for ART are not aware of their status. When they do become aware, it is often times because they are already very ill and admitted to the hospital.

However, the free programme is not indefinite. On December 1, 2004, the President of Botswana announced that the government could not maintain the intensive ART programme that it has without significant external funding. The current programme is being funded primarily by grants from U.S. government and the Gates Foundation, but that funding has a limited lifespan.

Transport Corridors

One of the key issues affecting the response competitiveness of the apparel supply chain in Botswana is the transport route to market. Currently, most exports are routed via Durban's port, in spite of this not being the most efficient system in terms of congestion, delays and uncertainty. A major opportunity exists for the apparel sector in Botswana, namely to diversify their transport route via the Walvis Bay Corridor, which presents a potential 30% time saving compared to current transit times through SA.

The opportunity consists of (i) developing Walvis Bay as a major export port, not just for Botswana, but also potentially for South Africa, Zimbabwe, Swaziland and Lesotho, and (ii) promoting the Trans Kalahari Corridor as the major transport corridor for the region.

The following services currently offered by Walvis Bay to Europe and the US include:

Walvis Bay	**Frequency**	**Sailing Route**	**Transit Times (minimum – maximum)**
To Europe	Biweekly	Direct	18 - 21 days
From Europe	Weekly	Direct	18 – 21 days
To US	Weekly	Via Cape Town / Durban	20 - 23 days

[22] To qualify for ART you should have a CD4 count of less than 200 or an AIDS defining illness (pneumonia, skin cancer, TB, etc)

To US	Weekly	Via Dakkar	38 - 43 days
To US	Biweekly	From Dakkar	+/-18 days

While the services between Walvis Bay and Europe are direct, direct sailings do not exist to the east coast of the US. Walvis Bay offers an advantage over Cape Town, however, in that it has zero delays whereas Cape Town is often overbooked, resulting in frequent delays.

The capacity offered by Walvis Bay is reflected in Annex 2. On average, Namport ships 45000 TEU's per year. Total tonnage increased 8,5% for the previous financial period, and container numbers increased by 22,3%, a major portion of which was due to containers imported by Ramatex. According to their most recent Annual Report, Namport's philosophy of building ahead of demand paid off with the highest performance in 8 years of cargo handling and financial results for the period 2002 / 2003.

Namport's measurement indicates that cargo remains in port for an average only of 18 hours, without experience of delays. They guarantee a transit time of 48 hours to Gauteng and are actively looking to take business from that area. With a transit time of 5 days to Durban, this presents a significant saving for Gauteng firms in terms of both time and cost.

Trans Kalahari Corridor (TKC)

In August 2004, a memo of understanding was signed between South Africa, Namibia and Botswana initiating the implementation of single customs documentation. Ease of transit via the corridor is further enhanced by the quality of infrastructure and extension in border hours between both Botswana and Namibia and Botswana and South Africa[23].

In the same period that cargo handling increased via the port of Walvis Bay, road cargo traffic on the TKC has grown as much as threefold.

Constraints of Walvis Bay Corridor (WBC)

Several barriers hinder the uptake of services offered by the Walvis Bay Corridor:

- Lack of export traffic (supply side volumes) resulting in reluctance on the part of shipping companies to expand their service offerings, viz. direct sailings to and from the US[24];
- Lack of awareness in the market of the WBC as a competitive route alternative;
- Lack of back haul freight on the TKC which raises the cost of shipping products to Walvis Bay for export.[25]

[23] Border hours between Botswana and Namibia extend from 6h00 to 24h00.
[24] Currently, all shipments from the US go via Cape Town.
[25] In a recent study by the USTDA which examined the potential traffic from Gauteng to Walvis Bay (TERA 2004), the cost of a shipment from Gauteng via Walvis Bay was found to be marginally more expensive than via Durban.

- Conservativeness of the transport sector; Firms tend to keep to the routes they know and forwarders, for example, are reluctant to invest extra effort in creating new offices;
- The regional economy is driven by South Africa. Perception in the industry is that while change is easy enough to implement, logistics decisions need to be made and the lack thereof is what is preventing firms switching their strategies.

Recommendations

In spite of the evidence of a highly organised sector in Namibia, primarily through the efforts of the Walvis Bay Corridor Group, and catalysed by Namport, it is apparent that more needs to be done in the following areas:

- Aggressive and continuous marketing needs to be directed at both suppliers and shipping agents. In spite of a briefing session held in Botswana with the industry last year, exporters were not forthcoming in their uptake of the opportunity to diversify their route to market. Key to encouraging firms to change their behaviour would be the demonstration by example of cost and time savings for a firm / firms in Botswana. While WBDC maintains that the Corridor's competitiveness is proven, a sustained marketing effort will have to be made. This is best undertaken by commercial interests who see the profit potential in making this work. Further study could investigate the potential cost savings to firms of shipping via Walvis Bay rather than Cape Town or Durban.

  To address the question of export volumes, greater cooperation is needed to achieve economies of scale and therefore cost efficiencies. Volumes of +/- 150 TEU's have been cited as the minimum required to persuade shipping lines to offer a dedicated and direct service.

  Comprehensive measurement of volume and type of freight traffic through the TKC (both current and potential) needs to be undertaken, most likely by BEDIA, Namport and the Southern African Global Competitiveness Hub. In addition, such a study should investigate the possibility of achieving synergies and economies of scale by persuading firms to work together; this includes the potential to divert traffic from Lesotho and even Swaziland, as well as Botswana and Zimbabwe, in addition to traffic to and from Gauteng.

Productivity Levels

The consultants found that the levels of productivity within the garment manufacturing and textile industry in Botswana were low with the best examples estimated to be 50% of the established international standards.

The underlying reasons for these poor levels of performance are inadequately trained operators and a lack of control by supervisory management resulting in targets of output and quality not being met.

The present management response to these targets not being achieved is to allocate additional operators to the problem areas rather than using industrial best practice and motivational techniques to improve the performance of the existing operators.

The use of properly trained Industrial Engineers is important in the setting of realistic and achievable targets. Their input on workplace layout, handling techniques, line balancing and workflow would significantly improve the levels of productivity that could be achieved. None of the companies visited had an Industrial Engineering Department.

It was felt that the lack of skills available in maintaining sophisticated technical equipment restricted a company's ability to invest in labour saving machinery and reduced the opportunity to increase productivity through the use of modern technology.

Training Service Provision.

If the textile and apparel sub sector industries in Botswana are to achieve World Class Manufacturing Standards then the problems of low productivity which the consultants have highlighted need to be addressed by structured training programmes relevant to each level of company employee.

None of the 21 companies interviewed was aware of any training provision available in Botswana specifically aimed at the needs of the garment manufacturing and textile industries. (See Annex 2 – *Training and Vocational Education*)

All of the companies interviewed recognised the importance of skilled sewing machine operators and training in other skills particularly cutting and pressing.
The training of the operators takes place on the production line and they are taught basic skills on one type of machine only. There was no structured programme that would include training on a number of different machines, the achievement of the appropriate quality standards and output targets. Similarly those individuals carrying out the training had, themselves, not been trained in the instruction techniques.

The consultants did not find any companies using a formal recruitment policy or the formal testing of potential employees during the selection process.

Well-trained line managers and supervisors are key to a company's performance since they are in a position to directly influence the levels of productivity and quality. Those interviewed believed that these supervisory management skills do not exist in Botswana and that is the reason these positions are filled with expatriates. Only 24% of companies had any Batswana supervisors. It is important for the long-term future of the industry that more Batswana are properly trained in the role of supervisor so that the industry's reliance on expatriate staff can be reduced.

Most of the equipment being used in the garment manufacturing industry is of a reasonable standard using basic mechanical and electronic controls. In general the machinery in the textile companies is a bit more sophisticated but in both cases the mechanics maintaining the equipment are almost exclusively expatriates. Only one company had a Batswana mechanic who had been trained many years ago in South Africa and had returned when the opportunity arose.

There is a need to encourage local individuals to become involved in this aspect of the industry and to provide structured training programmes.

The consultants identified the following areas of textile and apparel specific training that needs to be addressed in order to assist the industry maintain its international competitive advantage.

- Supervisory management training
- Operator instructor training
- Operator flexibility training
- Recruitment / selection training
- Technical / mechanic training
- Training of Industrial Engineers

Conclusions

The textile and apparel industry has been through a number of growth cycles followed by periods of retraction. It would appear that it is now consolidating following the closures brought about by the retraction of the FAP and is poised for a period of steady expansion.

There are a number of competitive advantages that should continue to attract investors to Botswana. This country held a successful general election in October 2004 which was conducted in such an exemplary manner that most interested countries did not consider it necessary to send observer missions. This type of transparency and lack of corruption is exceptional in Sub Saharan Africa and must count in the countries favour when courting foreign direct investment.

The ability of companies and individuals to transfer funds free of exchange control restrictions is a strong attractor for large textile and apparel investments where the ability to trade without restriction or hindrance is essential.

Unlike Lesotho and Swaziland the industry in Botswana is diverse in terms of range of product, markets and ownership. This makes it more robust and less vulnerable to shocks in any particular market. While the industry is currently relatively small, it does form a significant portion of formal employment in the manufacturing sector. It also has the potential to grow significantly if it can maintain its world class competitiveness. Currently productivity rates are low. While this is a disadvantage in terms of penetrating the international markets and retaining regional market share, it provides an opportunity to significantly improve efficiencies during the period the preferential trade agreements still confer advantage on Botswana.

The industry in Botswana is currently servicing domestic, regional and foreign export markets reasonably successfully. There is scope for this industry to continue to grow particularly with regard to exports of apparel to the USA and Europe.

Developing a Vision for the Botswana Garment Industry

The textile and apparel industry has been growing steadily since the downturn in employment brought about by the ending of the FAP. Those industries that remain are, for the most part, robust and likely to survive. Employment in this industry is currently at the 8,500 level and likely to increase to 10,000 by mid 2005. Total textile and apparel exports in 2003 were in excess of 300 million Pula and these should continue to rise steadily as new manufacturing capacity is brought on stream.

It would not be unreasonable to expect employment in this subsector to reach 15,000 workers by the end of 2006 with exports in excess of US$100 million. To achieve this concerted effort will have to be made to facilitate both current and prospective investors. The Foreign Investment Advisory Service (FIAS) report on Botswana's regulatory and procedural environment for conducting business makes far reaching recommendations on the need and procedures for implementing change which will make Botswana more competitive in its attempts to attract FDI.

There is already a base of circular knitting manufacture in Botswana although this only services around one third of the industry. The establishment of further manufacturing facilities for knit fabrics along with dyeing and finishing facilities should be actively pursued. Any significant increase in exports to the USA coupled with the increasing production in Namibia's apparel industry will start to make direct vessel sailings from Walvis Bay to the USA an attractive proposition. The moment this happens Botswana will be in a very good position to exploit this competitive advantage in terms of order response times.

That section of the market that is manufacturing woven garments for export to the USA is at risk beyond the end of 2006[26] unless it is able to source its raw materials in Sub Saharan Africa. It is likely that it will be able to source denim fabric regionally (i.e. from Lesotho and South Africa) but may have difficultly sourcing other woven fabric in the requisite quantities and at globally competitive prices. This sector will either have to become more specialized and limited in product exported overseas or move the emphasis back into regional markets where it is likely to remain reasonably competitive.

One of the greatest potential markets for increasing exports is in the knit-to-shape sweater market of the European Union. With exports into Europe standing at Pula 62 million in 2003 significant penetration of this market has already been achieved. The significant

[26] It is estimated that, as there is no mechanism for the phasing out of exports under the special LDC preference in 2007 when the CAP on exports is halved, all the year's quota will be shipped in the first quarter of 2007.

tariff advantage that these goods enjoy entering Europe together with the fact that they comply with the EU Rules of Origin despite the fact that the yarn is competitively sourced in China and Taiwan makes this a potentially significant area of growth.

An important opportunity for the Botswana textile and apparel sector will be participation in regional supply chains for both export and regional consumption. As participants in these supply chains, Botswana manufacturers will process products at the stages at which they can contribute to the supply chains' competitiveness. An example is spinning cotton yarns using cotton lint from Zambia and Zimbabwe. Weavers and knitters throughout the region will use this yarn for making fabrics that will in turn be used to make garments eligible for trade benefits under the AGOA, SADC and EU-ACP trade agreements. Participating in such supply chains will increase trade and employment not only in Botswana but also throughout the region.

All factory owners interviewed expressed the opinion that there is an urgent need to upgrade the competitiveness of the industry through increasing the efficiency of the operations and productivity of the workforce. While there are training and productivity institutions in Botswana that could cater for the needs of the textile and apparel industry the uptake from the formal sector is minimal. This is partly due to the fact that there is no formal association that deals with the specific needs of this industry. This is an issue that should be addressed as it will provide an essential focus for many interventions that the industry will require to build it global competitiveness.

Recommendations

The textile and apparel industry in Botswana is in a state of transition from a heavily subsidised and protected industry to one in which free market principles are allowed to operate. The fact that the industry is growing again after the initial contraction caused by the withdrawal of the FAP indicates that it is robust and capable of sustaining itself and of producing further growth.

In order to ensure that the textile and apparel industry survives and continues to grow it must address the issues of factory efficiencies and productivity. Unless the industry becomes globally competitive it will gradually lose its markets. There is much that can be done in this area but it requires investment and commitment from industrialists, labour and the Government.

While the industry may be able to survive without cash incentives, it will flourish only in an environment where the barriers to conducting business are low. The FIAS report into Botswana's regulatory and procedural environment produced a matrix of administrative procedures that managers viewed as obstacles to the growth of their companies. The most significant of these was the issuing of work permits.

While it is desirable that Batswana occupy key positions in industry, the high level of technical skills required by the textile manufacturing process and key positions in the complex apparel industry, dictate that highly experienced and trained expatriates are required to fill these positions. The financial risk of attempting to run a successful production facility with inadequately trained staff is enormous. Unless investors can rest assured that they can staff their production facilities with the right staff, they will hesitate to invest. This will still be the case if they are allowed a certain period to use expatriate staff and then must convert to local staff. It is in the investors' interest to train local staff as this would be a cheaper option than employing foreigners but it would be short sighted to impose this condition on reluctant investors.

The FIAS[27] report also indicates that a large percentage of managers regarded the labour regulations as being a barrier to competing competitively. The other area of concern is the issuing of manufacturing licenses. Clearly the GoB needs to accept the findings of the FIAS report and start to implement the changes recommended at its earliest convenience.

[27] Botswana - Further Improving The Regulatory And Procedural Framework For Encouraging Private Investment – Foreign Investment Advisory Service – A joint service of the International Finance Corporation and The World Bank – April 2004.

Productivity and Training

In all of the factories visited the consultants observed that productivity was unacceptably low. This was confirmed by factory managers. While there are a number of training and productivity service providers in Botswana none of these specifically addresses the requirements of the textile and apparel industries.

Recommendation 1.

It is recommended that BEDIA should develop a comprehensive response to the lack of productivity in the textile and apparel industry. It should commission productivity audits and training needs analysis, identify suitable service providers to address the needs of the industry both nationally and regionally, identify means of financing productivity enhancement and training and develop the market for training service providers to the industry.

In addition it is recommended that BEDIA should use its offices to facilitate the establishment of an association of Botswana Textile and Apparel manufacturers that is constituted as an independent, officially registered body. This association would then become the key point of contact with the industry and would represent its interests in discussions with Government, Labour Unions and could participate in the preparation for trade negotiations.

Competitive Environment

Attracting new FDI, retaining current foreign and local investors and fostering new local business start-ups is dependent on a business environment that is competitive with the minimum bureaucracy. S*tarting a business in Botswana takes about 97 days with 10 required procedures to complete which is not competitive with other countries in the region.*[28]

Recommendation 2.

It is recommended that the GoB should address the onerous regulatory environment and bureaucratic delays by implementing the recommendations of the FIAS report as a matter of urgency.

Recommendation 3

It is recommended that the Government of Botswana should adopt the practice followed in Lesotho in which companies in the textile and garment industry can have work permits for a specified percentage of total employees without question. Additional work permits might require justification. We recommend that for the apparel production, including

[28] "Doing Business in 2004: Understanding Regulation," World Bank, the International Finance Corporation, and Oxford University Press, 2004.

hand-flat knitting, this be set initially at 4% of the work force. For yarn and fabric manufacturing, which requires fewer workers and more highly skilled ones, this be set at 8% of the total work force.[29] Work permits issued under these conditions should be perpetually renewable.

Recommendation 4

It is recommended that the GoB should encourage the Water Utilities Corporaton to supply raw water to the industrial estates where textile and apparel manufacturers are located. This would be an enormous incentive to potential investors in weaving, knitting and dyeing plants.

Recommendation 5

It is recommended that Bedia should encourage the use of Walvis Bay as the preferred port for exporting apparel. Through the GoB it should request the Southern African Global Competitiveness Hub to facilitate efficient transportation over the Zambia-Zimbabwe-Botswana transportation corridor in the same way that it has for the Trans-Kalahari and Dar-Lusaka corridors. Part of the effort to market Walvis Bay should be focussed on major buyers in Europe and the United States, as well as the factories, and potential investors in textile and apparel production. The will play an important role in developing competitive apparel supply chains.

Recommendation 6

It is recommended that the Government of Botswana should consider altering that part of the Labour Code that entitles workers to two months pay after each period of six years to one in which a small contribution is made to an independent pension provider on behalf of each worker on each pay day. This would remove the temptation of some of the larger employers of absconding, shutting down or retrenching workers just days before the six years falls due.

Industrial Relations, Health and Safety

The industrial relations scenario is likely to change in Botswana with the introduction of more liberal legislation. The GoB must actively manage this change process to create a tripartite partnership with a common goal

Recommendation 7

It is recommended that the Government of Botswana through the Ministry of Labour and Social Welfare should proactively manage the relationship between textile and apparel

[29] For vertically integrated operations including both textile and apparel production, the number of work permits permitted under these rules will be calculated based on the number of workers in each type of operation.

sector industrialists, trade unions and Government by setting up a forum for discussion of matters of mutual interest including the promotion of the industry and its products.

Recommendation 8

It is recommended that the Government of Botswana through the National Aids Coordinating Agency should develop a programme to inform the industrial workforce about HIV and AIDS. It could consider utilising the apparel industry as a pilot sector in which to develop a programme of intervention as most “at risk” workers are concentrated in this industry.

Marketing

Botswana is well positioned to exploit the regional market and to grow its exports to the Northern hemisphere in specific product categories. The establishment of knitted fabric mills will consolidate its exports to the USA.

Recommendation 9

It is recommended that BEDIA staff should meet with all companies currently receiving assistance under the FAP, and discuss frankly any barriers to competitiveness once their FAP assistance expires. BEDIA should actively work with the Ministry of Trade and Industry and the other authorities to overcome these barriers in so far as possible. BEDIA should also monitor and report to the Minister of Trade and Industry at least every three months on the progress made addressing the competitiveness issues.

Recommendation 10

It is recommended that BEDIA should undertake a targeted investment promotion to manufacturers in the specific production stages, and for the specific market segments identified in this report. Rather than stating the general advantages for investment in Botswana, BEDIA should stress how a manufacturer can be competitive in the specific market segments and in the specific production stages.

Trade Negotiations

There appears to be little consultation with industrialists in this sector regarding the negotiation of trade agreements that will directly affect them. The negotiation of Rules of Origin will impact directly on this industry’s ability to export competitively and should be one of the key areas of focus of the Government and its investment promotion agencies.

Recommendation 11

It is recommended that Botswana should regularly commission mini briefing papers to inform its trade negotiators of potential approaches when dealing with clothing and textile products in any trade negotiation.

Botswana should work to develop joint negotiating positions on clothing and textile tariffs with Lesotho, Namibia and Swaziland. While Botswana is heading the EPA negotiations (at a political level) with the EU it is recommended that consideration should be given to Botswana (possibly together with Lesotho) being given the responsibility of co-ordinating all work concerning the garment and textile industries (currently Mozambique has been assigned the responsibility of co-ordinating all aspects of the EPA related to industrial products (clothing and textiles included)).

Annex 1

AGOA

The African Growth and Development Act (AGOA) was first signed into law by the US President in 2000. It has subsequently been amended twice, the so-called AGOA II and AGOA III, in 2002 and 2004 respectively.

The most important features of AGOA relevant to the Botswana textile and apparel industries are the opportunities to export garments to the United States duty-free. To qualify for this duty-free export, certain conditions have to be met:

Table 14:Conditions for Duty Free Imports to the USA under AGOA

Qualifying Condition	Quantity Limit	Expiration Date
1.)Apparel made from US yarn and Fabric cut in the US and sewn in one or more AGOA eligible countries. 2.)The apparel will qualify even if it is further processed (e.g. printed) in an AGOA eligible country.	None	September 2015
3.)Apparel made from US yarn and Fabric, cut and sewn in one or more AGOA eligible countries using US sewing thread. It may also be further processed in an AGOA eligible country	None	September 2015
4.)Apparel made from fabric sourced anywhere in the world, cut and sewn in one or more AGOA eligible countries	2.3571% of total apparel imports into the US for the previous year for the year ending Sept. 30, 2004. 2.6428% for the year ending Sept. 30, 2005. 2.9285% for the year ending Sept. 30, 2006. 1.6071% for the year ending Sept. 30, 2007	September 2007
5.)Apparel made from yarn and fabric produced in one or more AGOA eligible countries or yarn produced in the USA and fabric in an AGOA eligible country that is cut and sewn in one or more AGOA eligible countries	4.747% of apparel imports into the US during the previous year for the year ending Sept. 30, 2004, increasing each year until it reaches 7% for the year ending Sept 30, 2008 and subsequent years.	September 2015
6.)Sweaters knit-to-shape in an AGOA eligible country whose chief weight is cashmere sourced anywhere in the world.	None	September 2015
7.) Sweaters knit-to-shape in an AGOA eligible country using yarn of at least 50% merino wool of diameter 21.5 micronaire fibre or finer sourced anywhere in the world.	None	September 2015

Qualifying Condition	Quantity Limit	Expiration Date
8.)Apparel made in one or more AGOA eligible countries from yarn and fabric not available in Commercial Quantities in the USA	None	September 2015
9.)Handmade Textiles and apparel of folkloric nature and printed fabric with folkloric African prints	None	September 2015

Notes:

- An AGOA eligible country is one that is both eligible for AGOA GSP benefits, as well as the special AGOA apparel benefits. Botswana qualifies under both rules.
- For items 4 and 5, the percent of total apparel imports is measured in square metre equivalents (SMEs).

Annex 2 – Training and Vocational Education

The Department of Vocational Education and Training (DVET) was set up in 1994 and operates as part of the Ministry of Education. The range of vocational training programmes are delivered through the 6 Technical Colleges and 41 Brigades that are community based organisations throughout Botswana.

The Botswana Technical Education Programme (BTEP) aims to offer a 4 years training with qualifications at Foundation, Certificate, Advanced Certificate and Diploma levels.

At present only Foundation level courses in Clothing, Design and Textiles are available with the qualifications at Certificate beginning in 2005.

The Ministry of Education and the Scottish Qualifications Authority (SQA) jointly award certification. Quality Assessment and Assurance (QAA) have approved all of the Technical Colleges to deliver Botswana Technical Education Programme (BTEP) courses.

The Technical Colleges offer the BTE Clothing, Design and Textiles Programme that allows students at Foundation level to study 8 Mandatory Units and 4 from 6 Elective Units. The Key Skills of Communication, Numeracy, Information and Communication Technology, Entrepreneurship and Personal and Interpersonal Skills are also incorporated in the qualifications.

A total of 64 students have completed this Foundation course in the last 4 years bit no adequate follow up has been carried out to discover the current employment of these students and how relevant the syllabus of the programme has been to that employment.

A total of 6 of the 41 Brigades offer training under the National Craft Certificate (NCC) Programme in Textiles / Dressmaking. This is a 4year programme based on the apprenticeship system that includes work experience terms and takes participants through Trade Test C and B with the final year leading to the NCC qualification.

These qualifications may be relevant to individuals working in the craft industry or dressmaking but not for the garment manufacturing industry.

The Botswana Training Authority (BoTA) is a statutory body that validates institutions and the curricula of their courses in the delivery of vocational training and skills development on Botswana.

There are a number of training providers such as the Institute of Development Management (IDM) and the Botswana National Productivity Centre (BNPC) that offer a range of generic courses but none of them has been tailored to the needs of the industrial garment sector. Neither have these organisations targeted this sector in the marketing of their training programmes.

Botswana Bureau of Standards (BBOS) offers a number of generic courses for production and Quality Control personnel as well as training in internationally recognised standards such as ISO 9001:2000.

At present a Standards Officer is being trained specifically for the Clothing and Textile Industries and should be in place by early 2005.

To date BBOS is unaware of any companies from the sector registering for any of a their courses.

BBOS will be able to offer a full range of testing facilities by the end of 2005 when they move to their new custom built facilities.

BBOS will also offer it's own Quality Mark which it hopes in the future will be a prerequisite for companies wishing to tender for public sector contracts.

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Annex 2

Walvis Bay Traffic and Capacity Data

Table 15: Total Containers (TEUs) handled by Walvis Bay and Luderitz.

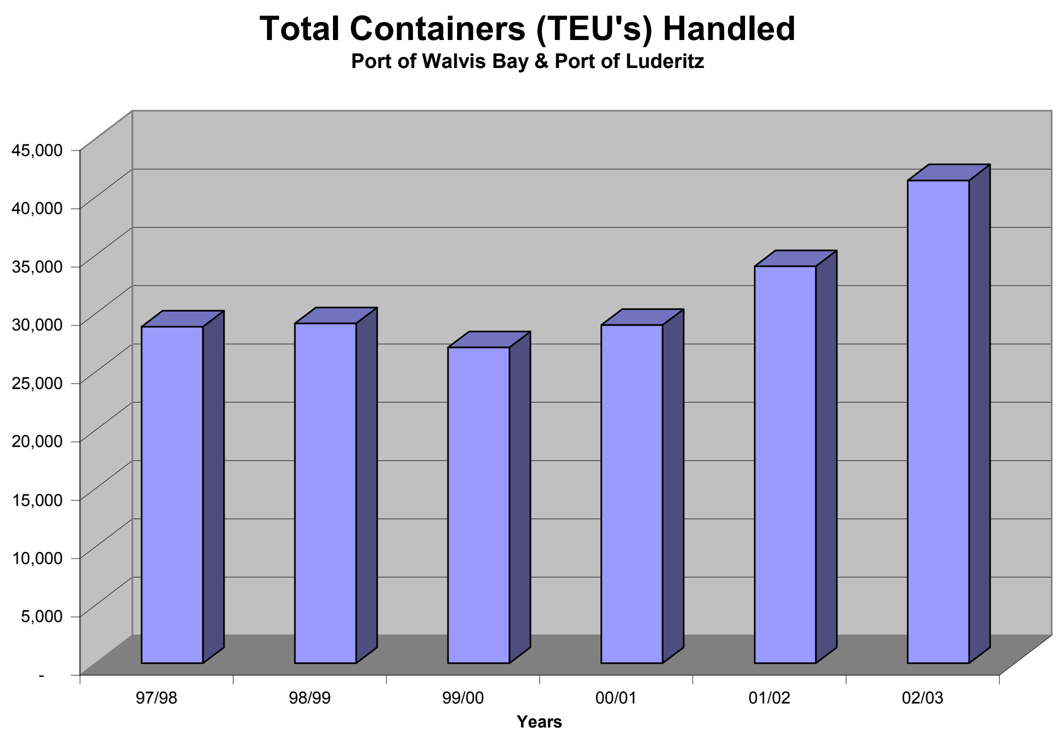

Table 16: Number of vessel visits to Walvis Bay

Number of vessel visits to the port of Walvis Bay (by type of vessel)

	97/98	98/99	99/00	00/01	01/02	02/03
Container	111	108	89	94	152	157
Reefer	75	60	87	73	82	98
Foreign fishing vessels	339	388	491	432	429	435
Namibian fishing vessels	104	159	133	142	197	252
Petroleum	37	29	33	26	29	34
General cargo vessels	96	105	104	119	170	139
Other	109	117	68	111	136	137
TOTAL	**871**	**966**	**1005**	**997**	**1195**	**1252**

Table 17: Main commodities handled by Walvis Bay

Main Commodities handled at the Port of Walvis Bay (Freight tonnes)

	Oct/Sep	Oct/Sep	Oct/Sep	Sep/Aug	Sep/Aug	Sep/Aug
LANDED	**97/98**	**98/99**	**99/00**	**00/01**	**01/02**	**02/03**
PETROLEUM	633,180	562,604	838,676	764,105	647,146	704,523
COAL	45,018	17,203	14,916	20,105	42,339	19,958
FISH PRODUCTS	156,839	120,878	157,086	167,227	138,944	115,578
WHEAT	28,572	45,661	48,206	21,529	35,000	54,204
SUGAR	48,380	51,845	52,294	34,337	63,879	52,432
CEMENT	16,861	45,006	12,895	14,292	11,070	7,242
WINE/ BEVERAGES	8,133	5,525	3,112	16,838	18,082	23,733
COPPER / LEAD	20,386	23	-	11,354	20,730	10,523
SULPHURIC ACID	6,823	52,211	159,963	143,876	187,039	146,126
SULPHUR	70,590	35,250	-	-	-	-
MANGANESE ORE	-	-	-	58,408	22,307	-
MALT	15,558	15,467	20,306	23,902	20,997	20,292
VEHICLES	2,216	3,094	13,335	15,241	24,193	22,363
LUBRICATING OIL	5,870	6,149	6,572	4,496	3,604	4,234
GENERAL CARGO	66,120	63,030	135,943	156,393	207,727	220,433
TOTAL	**1,124,546**	**1,023,946**	**1,460,304**	**1,452,103**	**1,443,055**	**1,401,640**
SHIPPED						
SALT	500,663	468,459	440,343	388,003	530,397	542,143
FISH PRODUCTS	77,169	77,524	79,315	93,035	117,027	112,019
FLUORSPAR	34,836	53,723	60,496	80,921	80,426	76,742
COPPER / LEAD AND CONC.	41,311	22,318	28,108	45,336	49,421	64,344
MANGANESE ORE	-	27,604	22,203	-	-	-
FLAT CARTONS	3,636	5,874	22,282	22,884	25,868	24,217
MARBLE AND GRANITE	13,137	10,404	4,799	4,822	8,015	12,741
SKINS AND HIDES	4,357	4,130	5,126	4,334	3,439	4,685
FERTILIZER (GUANO)	-	-	-	1,131	1,430	1,140
CHARCOAL	2,452	1,236	336	3,160	7,050	6,087
GENERAL CARGO	35,849	46,265	60,416	77,047	92,693	57,350
TOTAL	**713,410**	**717,537**	**723,424**	**720,673**	**915,766**	**901,468**
Transhipped						
GENERAL CARGO	**45,829**	**44,683**	**39,970**	**56,585**	**60,337**	**47,013**
Total	**1,883,785**	**1,786,166**	**2,223,698**	**2,229,362**	**2,419,158**	**2,350,120**

Table 18: Dry Cargo handled at Walvis Bay

Cargo cargo handled at the Port of Walvis Bay

	Oct/Sep 97/98	Oct/Sep 98/99	Oct/Sep 99/00	Sep/Aug 00/01	Sep/Aug 01/02	Sep/Aug 02/03
Cargo landed						
Bulk and Breakbulk	330,957	261,083	252,969	311,128	351,101	252,196
Containerized	153,586	148,048	211,696	232,993	257,770	298,795
Sulphuric Acid	6,823	52,211	156,963	143,876	187,039	146,126
Petroleum landed	633,180	562,604	838,676	764,105	647,146	704,523
	1,124,546	**1,023,946**	**1,460,304**	**1,452,102**	**1,443,056**	**1,401,640**
Cargo shipped						
Bulk and Breakbulk	590,970	596,915	593,827	567,805	616,235	727,568
Containerized	122,440	120,622	129,597	152,867	299,531	173,899
	713,410	**717,537**	**723,424**	**720,672**	**915,766**	**901,468**
Cargo transhipped						
Bulk and Breakbulk	26,213	28,502	35,322	50,617	55,600	37,448
Containerized	19,616	16,181	4,648	5,971	4,737	9,565
	45,829	**44,683**	**39,970**	**56,588**	**60,337**	**47,013**
Total cargo	**1,883,785**	**1,786,166**	**2,223,698**	**2,229,362**	**2,419,158**	**2,350,120**
Containers handled at the port of Walvis Bay (Twenty-foot Equivalent Units)						
Landed	13,284	12,439	12,725	13,338	16,814	18,230
Shipped	12,419	12,093	11,721	11,974	14,208	18,528
Transhipped	2,754	2,267	413	456	547	1,057
Total Teu's	**28,457**	**26,799**	**24,859**	**25,768**	**31,569**	**37,815**
Vessel visits	871	966	1,005	997	1,195	1,252

Annex 3

LIST OF PEOPLE CONTACTED

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