Investment Guide
to the
Textile and Garment Sub-sector
MINISTERIAL FOREWORD

The Textile Development Unit (TDU) of the Ministry of Industry and Trade (MIT), has prepared the Investment Guide to the Textile and Garment Sub-sector to provide potential investors with summary information about the growing and dynamic Tanzania textile and garment sub-sector. The Guide covers a range of issues from the impressive potential of the industry, to incentives, support for investors and practical considerations, when setting up a business in Tanzania. The TDU is available to provide further details on opportunities to interested investors.

The potential offered by the Tanzanian textile and garment sub-sector is substantial and wide-ranging. Tanzania is one of Africa’s major cotton producers. The average crop yield for the past three years is 275,700 tonnes of seed cotton. The country has a long history in garment and textile production going back as far as 1966. Tanzania is therefore a country which offers opportunities for value addition from field to factory. The country is an emerging textile and garment investment destination with significant investments in recent years from both new foreign investors and existing domestic firms looking to diversify and grow.

Tanzania’s attractive investment climate stands out in the region and beyond: it has a dedicated textile and garment support unit (TDU), based in the Ministry; competitive, low wages and an impressive range of investment incentives. The people of Tanzania have buried their cultural, ethnic, religious and political differences and have enjoyed peace ever since attaining independence over 50 years ago. The people are united by a common language, Swahili. Tanzania is indeed one of the most stable and peaceful business environments in the developing world.

The country, located on the Indian Ocean, has unparalleled access in the region to export markets via three major sea ports and land borders with eight neighbouring markets. As a member of both the East African Community (EAC) and Southern African Development Community (SADC), Tanzania enjoys tariff-free access to 19 African countries as well as privileged access to the US market through the African Growth and Opportunity Act (AGOA) legislation and currently to the EU.

As part of the Government of Tanzania’s strategy to achieve middle income country status by 2025, textiles and garment manufacturing has been declared a priority sub-sector. The Government is ready to provide a series of further services and incentives to drive growth in the short, medium and long-term.

May I take this opportunity to welcome you to Tanzania and to assure you of the Government’s continued efforts to make your investments work to our mutual benefit.
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EXECUTIVE SUMMARY

The Tanzanian textile and garment sub-sector provides investors with outstanding opportunities to capitalise on its great but underexploited potential. Tanzania has latent comparative advantage, boasting extensive cotton production, and sea and land access to a number of major export markets. Low wages and the low price of electricity make Tanzania one of the most cost-competitive textile and garment producers in the world. Additionally, the Government plays a supportive role in the sub-sector. As one of the most stable countries in the developing world, Tanzania offers a rare combination of cost competitiveness and highly credible investment guarantees.

In recent years, investment in the sub-sector has grown quickly, with new and existing businesses already seeing substantial gains. The root of these successes is clear; Tanzania is a rare example of a country which can support a profitable, integrated manufacturing value chain from cotton field to finished garment production. In addition, there are opportunities for joint venture partnerships.

The Tanzanian economy is undergoing rapid economic transformation, with growing domestic and regional markets. The Government of Tanzania aims to reach middle-income status by 2025, with manufacturing playing the key role. The Government has named the Textiles and Garments Industry as a priority sub-sector, and recently established the Textile Development Unit within the Ministry of Industry and Trade. The TDU supports investors at every stage of the investment process.

Within this Guide, investors will find the information they need about the sub-sector, the advantages of investing, and the investment incentives and guarantees, as well as practical information on setting up a business in Tanzania.

For further information please refer to:
‘An Overview of the Investment Climate and Investment Potential in Tanzania’ which can be found on the Tanzania Investment Centre’s website at: www.tic.co.tz
OVERVIEW OF THE SUB-SECTOR

Tanzania’s textile and garment sub-sector has great potential, with a significant and growing domestic market, substantial trade and infrastructure connections, and an abundant supply of cotton and labour. Tanzania has the ability to supply inputs of cotton, yarn and fabrics for each stage of the added value chain. It is therefore a prime investment destination with substantial potential for growth.

Cotton Growing and Processing

Tanzania has two main cotton growing zones:

• The Western Cotton Growing Area (WCGA), comprising seven regions of Shinyanga, Mwanza, Tabora, Mara, Singida, Geita, and Simiyu, growing 97% of Tanzania’s cotton

• The Eastern Cotton growing Area (ECGA), comprising the three regions of Coast, Morogoro, and Tanga

In 2012, the country produced around 350,000 tonnes of seed cotton of which approximately 80% was exported unprocessed. There are therefore opportunities for value addition with significant potential returns from producing yarn, fabrics, garments and related products.

Textiles and Garments

Textile mills and garment factories are located across the country – primarily in the cotton growing areas and in the two main port areas in Tanga and D’Salaam.

There is significant market potential for Tanzanian textile and garments in domestic, regional and international markets. Tanzania has thus far, not produced enough fabrics demanded by the downstream garment producers. Some local firms are investing in modern machinery and capacity improvements. Investment in short staple spinning will provide a good supply of quality yarn required for further development of the downstream value chain.

Market Demand

There is a great demand for knitted fabrics and garments within the domestic market to replace the current high volume of imports – there is also potential in regional and international markets.
WHY INVEST IN TANZANIA?

The Tanzanian Investment Guide 2013, issued by the Tanzania Investment Centre, covers in detail the advantages of choosing Tanzania, among Sub-Saharan African countries, as an investment destination. It highlights Tanzania’s business environment, investment incentives and guarantees, visa requirements, passes, resident permits, human resources and labour relations, occupational safety and health administration, utilities and amenities, land acquisition, and the Textile Development Unit (TDU) as the point of contact.

For further and more comprehensive information please refer to the TDU website.
The link is: www.tdu.or.tz
WHY INVEST IN TANZANIAN TEXTILES AND GARMENTS?

Potential for vertically integrated operations given a plentiful supply of cotton

Tanzania is a major cotton producer with the expertise and infrastructure to sustain the spinning, weaving and manufacturing elements of the value chain. The country can therefore be a base for vertically integrated textile and garment operations. Major firms are already successfully using this model in Tanzania.

The majority of cotton produced in Tanzania is grown in the Western Cotton Growing Area (WCGA). The map below shows the concentration of cotton growing across regions. As can be seen on the map, cotton growing is not limited to any one area, giving scope to set up upgrading operations in several regions. There are new cotton growing regions, Geita and Simiyu, which are not shown on the map. The new region of Geita is located between Kagera and Mwanza regions, whereas the new region of Simiyu lies between Mwanza, Shinyanga, and Mara regions.

Cotton Production in Tanzania

Production (tonnes/district)
- 1 - 50
- 50 - 125
- 125 - 15,000
- 15,000 - 50,000

Lakes
Regions
Tanzania’s production of seed cotton for the past seven years is shown below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>200,664</td>
</tr>
<tr>
<td>2008/09</td>
<td>267,004</td>
</tr>
<tr>
<td>2009/10</td>
<td>163,517</td>
</tr>
<tr>
<td>2010/11</td>
<td>225,262</td>
</tr>
<tr>
<td>2011/12</td>
<td>356,262</td>
</tr>
<tr>
<td>2012/13</td>
<td>244,892</td>
</tr>
<tr>
<td>2013/14</td>
<td>368,697</td>
</tr>
</tbody>
</table>

While there has been variability in production levels in recent years due to price instability and weather fluctuations, there has been recent progress in introducing contract farming in some of the growing regions, which is already leading to higher and more stable yields, as well as higher quality cotton.

The Tanzania Cotton Board regulates the cotton sub-sector on behalf of the Government. It ensures adherence to cotton farming procedures and regulations, ensures steady supply of agro-inputs, maintaining a level playing ground for the cotton business companies and collecting, refining and disseminating information to stakeholders. It guarantees producers availability of cotton lint throughout the year.

Source: Tanzania Cotton Board
Preferential access to a number of lucrative export markets

Tanzania boasts a large domestic market and an emerging middle class, pushing up demand for quality garments. This situation is replicated across many East and Southern African countries, creating a substantial regional market for apparel. As a member of both the East African Community (EAC) and Southern African Development Community (SADC) regional trading blocs, Tanzania is ideally placed to take advantage of this. These regional markets show increasing demand for imported clothing, much of which is currently being met by China. There is scope for regional exports to replace current imports from Asia.

Furthermore, textiles and garments are among the 6,500 products from Tanzania that enjoy duty- and quota-free access to the US market through the African Growth and Opportunity Act (AGOA). Additionally, Tanzania, as part of the EAC, has an interim Economic Partnership Agreement (EPA) in place with the European Union (EU). This guarantees tariff-free access to EU markets. A new EPA was expected to be signed in 2014.
Competitively priced labour in an industry with a commitment to improving manufacturing skills

As wages in garment and textile producing countries continue to rise, investors are looking for new economies which offer more competitive rates. Wages in Tanzania are far lower than those in large garment-producing Sub-Saharan countries. The table below demonstrates the distinct cost advantage Tanzania has over competitor economies in Sub-Saharan countries:

<table>
<thead>
<tr>
<th></th>
<th>TANZANIA</th>
<th>MAURITIUS</th>
<th>LESOTHO</th>
<th>SOUTH AFRICA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current average manufacturing wage</td>
<td>$0.51</td>
<td>$7.31</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Average wage 2011</td>
<td>$0.41</td>
<td>$4.18</td>
<td>$0.65</td>
<td>$7.46</td>
</tr>
<tr>
<td>Current minimum wage</td>
<td>$0.34</td>
<td>$0.45</td>
<td>$0.64</td>
<td>$0.90 urban</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$0.77 rural</td>
</tr>
</tbody>
</table>

Comparison of hourly wages (in US Dollars) between Tanzania and some Sub-Saharan African countries
Source: National Statistics Services in these countries.

In a survey for the 2012 UNIDO Tanzania Competitiveness Report, 83% of industrial firms said it was easy to find a suitable low-skilled workforce, and 66% of firms said it was easy to find a suitable medium-skilled workforce. In the World Bank’s Africa Competitiveness Report 2013, only 6.7% of firms in Tanzania said an ‘inadequately educated workforce’ was a problem for their firms – below the Sub-Saharan African average. Fewer firms in Tanzania report it as a problem than in competitor countries in North Africa like Algeria and Morocco and in Sub-Saharan Africa like Mauritius and South Africa.

Skill levels are set to rise. The Government has backed a scheme, initiated by the Textile Development Unit, to educate a group of trainers to improve the skill level of supervisors and thus of operators working in the Tanzanian textile and garment sub-sector. This scheme, currently being piloted in Western Tanzania, is expected to be rolled out nationwide.
Competitive Power Costs

Power costs in Tanzania are cheaper than in most of the Sub-Saharan countries in Africa. The table below shows the power cost advantage Tanzania has over these countries:

<table>
<thead>
<tr>
<th></th>
<th>TANZANIA</th>
<th>UGANDA</th>
<th>KENYA</th>
<th>SOUTH AFRICA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current power charges</td>
<td>$0.11</td>
<td>$0.24</td>
<td>$0.185</td>
<td>$0.813</td>
</tr>
</tbody>
</table>

Comparison of Kilowatt-Hour charges between Tanzania and some Sub-Saharan African countries. Source: World Bank report

Low cost labour, combined with very reasonable electricity charges, means that Tanzania enjoys significant cost advantages over many of its major international rivals.

Strong and growing Government support for the sub-sector

The relationship between the Tanzanian Government and the textile and garment sub-sector is growing stronger day by day.

In 2012, the Government formed the Textile Development Unit at the Ministry of Industry and Trade, with the main task of supporting the development of a large and internationally competitive textile and garment sub-sector.

In 2013, the Textile and Garment Manufacturers Association of Tanzania (TEGAMAT) was formed to represent the interests of the industry. The Government, TEGAMAT and the TDU are working closely to improve the regulatory environment, the incentives for investors, the quality of inputs, and the upgrading of the industry. Furthermore, the TDU will help new investors to locate empty factory space in identified regions and can link investors to joint venture partners.

Investment support in the regions

All areas in the country have their own investment committees. The TDU is in constant touch with these committees, and can therefore advise on the availability and suitability of opportunities in any part of the country. The TDU is also in touch with all of the current textile and garment operations, and is able to advise on potential joint venture opportunities, as well as the availability of yarn and fabric for garment manufacturers.
THE TEXTILE DEVELOPMENT UNIT

The Textile Development Unit (TDU), a specialist unit in the Ministry of Industry and Trade, began its activities on 1st August, 2012. It is able to provide information on, and links to, the textile and garment industry in the country. It is in constant touch with the industry and other important stakeholders. The unit is staffed by experienced industry specialists with international experience and knowledge.

The TDU has a close working relationship with the Tanzania Investment Centre (TIC). Would-be investors in the sector are referred to the TDU by the TIC, so as to get first hand and up-to-date information about the industry.

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