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FOREWORD

Transformation of Uganda's economy is one of the fundamental goals and commitment of the Government of the Republic of Uganda.

Uganda is a cotton producing country that once recorded an annual production of 254,000 bales, and with the potential of producing 1,000,000 bales at full employment level. However over 90% of the lint produced in Uganda is exported at a miserable price of less than US$ 1 per Kilo, and is entirely dependent on the increasingly fluctuating international commodity prices. This has resulted into loss of value to Uganda since conversion of such lint translates into 8-10 fold growth in value when conventional cotton is processed fully into garments. The persistency of the above situation limits the tax-base, exports, purchasing power, employment creation, and generally inhibits economic transformation which in part explains the deteriorating terms of trade for Uganda with all major trading partners.

Following the coming into force of the National Industrial Policy in February 2008, priority Sub Sector Policies like the National Textile Policy, had to be formulated in order to realize its broader objectives. The "National Textile Policy, a Framework for the Textile Sub Sector Transformation, Competitiveness and Prosperity" is formulated with the view to enhancing the performance of the agro-based industries in the country, so as to increase value addition on locally available raw materials and export of manufactured goods. This National Textile Policy contains a framework to guide specific policy actions/interventions for the revival and sustainability of investments in the sub sector in addition to offering policy makers and private sector operators a coherent direction to guide co-ordinated performances and implementation of the policy.

I am aware that, the National Textile Policy is a product of extensive and prolonged consultations involving Government officials, private sector executives, academia, donor community, and mass media. In this sense the process has been as important as the product in building consensus on the measures and strategies needed and set out to meet Uganda's vision. The process has also been able to align both private and public sectors in a solid partnership for implementing and executing this policy document.

Finally, I am pleased to present to the people of Uganda, The National Textile Policy, and I appeal to all the stake holders to ensure its speedy implementation to transform Uganda from a peasant society into a modern, industrial, and prosperous country.

For God and my country

Yoweri Kaguta Museveni
PRESIDENT OF THE REPUBLIC OF UGANDA

LIST OF ACRONYMS

AGOA	Africa Growth Opportunity Act
ATM	African Textile Mills
CDO	Cotton Development Organisation
COMESA	Common Markets for Eastern and Southern Africa
EAC	East African Community
EPA	Economic Partnership Agreement
EU	European Union
GATT	General Agreement on Tariff and Trade
GOU	Government of Uganda
ICT	Information and Communication Technology
LAP	Libyan Africa Investment Portfolio
MAAIF	Ministry of Agriculture Animal Industry and Fisheries
MES	Ministry of Education and Sports
MFA	Multi Fiber Agreement
MFPED	Ministry of Finance Planning and Economic Development
MTTI	Ministry of Tourism Trade and Industry
NYTIL	Nyanza Textile Industries Limited
PPDA	Public Procurement and Disposal of Assets
RIUMP	Regional Industrial Upgrading and Modernisation Programme
SADC	Southern African Development Cooperation
SME	Small and Medium Enterprise
TEMAU	Textile Manufacturers Association Uganda
TEXDA	Textile Development Agency
UDB	Uganda Development Bank
UDC	Uganda Development Corporation
UEPB	Uganda Export Promotion Board
UGIL	Uganda Garment Industries Limited
UIA	Uganda Investment Authority
UIRI	Uganda Industrial Research Institute
UNBS	Uganda National Bureau of Standards
UNIDO	United Nations Industrial Development Organisation
UPE	Universal Primary Education
URA	Uganda Revenue Authority
USE	Universal Secondary Education
WTO	World Trade Organisation

EXECUTIVE SUMMARY

Uganda is a cotton producing country that has recorded an annual production of 254,000 bales as the highest output in the last five years, with the potential of producing 1,000,000 bales at full employment level. However over 90% of the lint produced in Uganda is exported at a miserable price of less than US$ 1 per Kilo, resulting into loss of value to Uganda since conversion of such lint translates into 8-10 fold growth in value when conventional cotton is processed fully into garments while for the case of organic cotton the value can grow to 15 fold. The export of lint has therefore over the years resulted into complication of the "Prosperity for All" program in that, farm gate prices for cotton continues to degenerate due to limited competition for the lint owing to minimal local value addition.

Following the coming into force of the National Industrial Policy in February 2008, it became apparent that to implement the Industrial Policy, sub sector policies had to be formulated as well. The Government of Uganda identified the cotton-textile sub sector as a priority with the view to enhancing the performance of the agro-based industries in the country, so as to increase value addition on locally available raw materials and export of manufactured goods to improve the balance of payments position that has over the years deteriorated owing to the pre-dominance of raw material exports. In order to improve efficiency and competitiveness of textile industry on a sustainable basis; the key areas inhibiting the optimal performance of the textile sub sector have been identified as: lack adequate management expertise, poor technology, absence of trained technical workforce, unfair trading practices and absence of level playing field due to market distortions arising from export incentives especially in Asia, high cost of doing business due to very high cost of finance and supportive infrastructure; low industrial productivity, weak domestic trade policies that encourage imports at the expense of local sourcing.

The Ministry of Tourism, Trade and Industry after an extensive consultative process covering other Ministries, agencies, academia and the private sector which revealed that there are overwhelming economic justifications for the revival of the cotton and textile sector in Uganda, has formulated a National Textile Policy and Strategy. Special attention has been given to retention and attraction of new investment into the sub sector, developing human resources to address shortage of trained personnel in clothing and textile technology, technological up-gradation, critical infrastructure development, addressing cost of doing business, resolving present market distortions that result into unfair competition between locally made textiles and imports and supporting local textile sourcing by the public sector. It is evident that addressing the inhibiting factors to optimal performance of the textile sector in Uganda will translate into optimal performance of the textile sub sector that is key in the poverty eradication campaign in Uganda given that abject poverty is most prevalent in cotton producing areas relative to other parts of the country. Above all, improved market share by local producers shall eventually enable expansion of firms and attraction of new investment into the sub sector to increase local lint value addition which is required critically for Uganda to take full advantage of the great market potential existing in EAC, COMESA, SADC, E.U, AGOA and many others.

The situational analysis indicated that the Ugandan textile sub-sector is positioned as follows:

Strengths:

- Conducive business environment and good political will; the government economic policy encourages value addition to agricultural commodities, such as cotton, and employment generation towards poverty alleviation.
- Availability of idle capacity in the private sector; Idle infrastructure includes, Lira Spinning Mill, African Textile Mill, Mulco, and LAP Textiles Limited.
- Presence of trainable labour force
- Availability of abundant good quality cotton and adequate ginning capacity
- Huge domestic/regional/international markets

Weaknesses:

- Export of unprocessed cotton
- Low spinning and weaving capacity
- High cost of finance
- High infrastructure costs
- Weak linkages along the value chain

Opportunities:

- Great market potential
- Commercial cotton farming
- Exploration of the organic cotton niche

Threats:

- Unfavourable competition
- Counterfeit and second hand articles

Based on the analysis of the critical focus areas, the vision, objectives and recommendations for reviving the textile sub-sector have been formulated as below and the details are in the main body;

Vision:

'To create a strong and vibrant textile and clothing industry with sustainable capacity utilisation and enhanced investment, through the textile value chain'

The specific objectives:

They are inter-linked and summarized into a three –step development strategy; short, medium and long-term development objectives as follows:

(i) The first stage is the improvement period of 1 - 2 years, that will include;

- To improve the capacity of production, marketing and competitiveness of the existing textile enterprises;
- To reduce the cost of doing textile business in Uganda by benchmarking against regional and international best practices, and enhancing the up-gradation and modernization of equipment,
- To stabilize the home and regional markets by curbing undervaluation and under declaration of imports as well as enhancing public sector business support to the textile sector,
- To control the influx of second hand clothes and counterfeits which shall result into attraction of more local and foreign direct investments in the sector;

(ii) The second stage is the expansion period within 3-5 years that will:

- Focus at improving the quality and quantity of products from the textile sub-sector by developing textile industrial parks that, attract garmenting as well as developing a strong multi-fiber raw material base for the sector given, the labour intensiveness of the activity and therefore relevance to the economic emancipation of especially women and the youth in Uganda.
- Target to increase the spinning and milling capacity from the present 20 Million meters per annum to 180 Million meters per annum in five years.
- Make ICT an integral part of the entire value chain of textile production and thereby facilitate the sector to achieve international standards in terms of quality, design and marketing.
- Support the industry to withstand pressures of import penetration and maintain a dominant presence in the domestic market.

(iii) The third stage is the period of steady and sound development within 5 years and beyond that will:

- focus at increasing down stream linkages within the cotton and textile sector especially on cottage industrial production enhancement for ancillary products associated with cotton and textiles like thread making, garment accessories, food oils extraction, animal feeds making and so on
- Involve and ensure the active cooperation and partnership of local Governments, financial institutions, entrepreneurs, farmers and civil society in the fulfilment of these objectives.

Recommendations:

The proposed recommendations and measures have been reconciled with the approved National Industrial Policy for Uganda. The priority focus areas indicate possibilities to use support of existing horizontal policies and to motivate entrepreneurs/ investors to be more active in the textile sub-sector. These are particularly aimed at;

- Improvement of the Business Environment;
- Technological Up-gradation and modernization.
- Strengthening textile sub-sector support institutions
- Increase the raw materials supply base
- Enhance Human Resources Development
- Regional Strategy Development
- Strong Domestic Market Development.

In addition, solutions to boost the textile sub-sector that were identified in the "Mbale Public Private Partnership Meeting of 6th August 2008" for the revival of the textile sub-sector in Uganda have been included in the Implementation Strategy.

The National Textile Policy shall be implemented on the basis of an effective and efficient Public-Private Partnership model within a time frame of five years. The Ministry of Tourism, Trade and Industry will lead the implementation of National Textile Policy while collaborating with other Ministries, agencies and private sector that have a direct role in its implementation

1.0 INTRODUCTION

After an extensive consultative process involving Ministries, Government agencies, the academia and the Private Sector, the National Industrial Policy was completed and approved by Government in 2008. This Policy that complements the various National Policies and Strategies, whose major priority is to enhance competitiveness of Uganda's products and services in the domestic, regional and international markets, sets out the strategic direction for industrial development in Uganda for the next ten years. One of the proposed policy actions under the National Industrial Policy is to develop action agendas for key industrial development sub-sectors, textiles being one of them. The textile industry in Uganda has largely remained a low technology labour intensive sector and this has made it attractive as a first stage in industrialization hence the need for a National Textile Policy.

Textile manufacturing in Uganda is dependent on cotton lint fiber processing by either the handful vertically integrated big textile millers or by rudimentary processors that are engaged in hand loom weaving. In both cases, the products are largely more coarse count textile and garment products that can be easily produced by the prevailing technologies in the sector as well as the medium staple cotton that is grown in Uganda.

Uganda Government considers the textile sub sector as one of the strategic areas in the economic and social transformation of the country, owing to the fact that the sub sector is supported by wholly locally grown raw materials (cotton lint) that undergoes enormous transformation by processing, thereby creating opportunities for Ugandans across the value chain; from the cotton farmers to fabric/garment retailers.

In all her recent development programmes, like the "Prosperity for All" Government of Uganda is stressing value addition on all locally available raw materials. Owing to the significance of the textile sub sector in the socio-economic transformation of Uganda and the fact that it is still consuming a paltry less than 10% of Uganda's lint production, it is therefore imperative to evolve a textile sub sector policy that shall facilitate the necessary interventions. This policy is also critical to spur additional investments into the sub sector with the view to enhancing cotton lint processing in Uganda.

1.1 Textile Policy Vision

To create a strong and vibrant textile and clothing industry with sustainable capacity utilisation and enhanced investment through the textile value chain.

1.2 Mission Statement

To stimulate and support sustainable value addition through the textile value chain with the ultimate objective of creating employment, enhancing human resource skills and capabilities, product up-gradation and diversification through Research and Development, increasing exports and contributing to the economic growth and prosperity of the country.

1.3 The specific objectives for the National Textile Policy:

Given that the textile sub-sector in Uganda is still very weak and fragile, the specific objectives of the textile policy are inter-linked and summarized into a three –step development strategy; short, medium and long-term development objectives that will enable the conversion of all lint produced in Uganda into good quality yarn for the production of fabrics and creation of a dynamic apparel manufacturing sector to transform fabric to clothing and garment accessories of acceptable cost and quality for domestic, Regional and international markets:

(i) The first stage is the improvement period of 1 - 2 years, that will include;

- To improve the capacity of production, marketing and competitiveness of the existing textile enterprises;
- To reduce the cost of doing textile business in Uganda by benchmarking against Regional and International best practices, and enhancing the up-gradation and modernization of equipment,
- To stabilize the home and regional markets by curbing undervaluation and under declaration of imports as well as enhancing public sector business support to the textile sector,
- To control the influx of second hand clothes and counterfeits which shall result into attraction of more local and foreign direct investments in the sector;

(ii) The second stage is the expansion period within 3-5 years that will:

  - Focus at improving the quality and quantity of products from the textile sub-sector by developing textile industrial parks that attract garmenting as well as developing a strong multi-fiber raw material base for the sector given the labour intensiveness of the activity and therefore relevance to the economic emancipation of especially women and the youth in Uganda.

- Target to increase the spinning and milling capacity from the present 20 Million meters per annum to 180 Million meters per annum in five years.
- Make ICT an integral part of the entire value chain of textile production and thereby facilitate the sector to achieve international standards in terms of quality, design and marketing.
- Support the industry to withstand pressures of import penetration and maintain a dominant presence in the domestic market.

(iii) The third stage is the period of steady and sound development within 5 years and beyond that will:

- focus at increasing down stream linkages within the cotton and textile sector especially on cottage industrial production enhancement for ancillary products associated with cotton and textiles like thread making, garment accessories, food oils extraction, animal feeds making and so on and
- Involve and ensure the active cooperation and partnership of Local Governments, Financial Institutions, entrepreneurs, farmers and Civil Society in the fulfilment of these objectives.

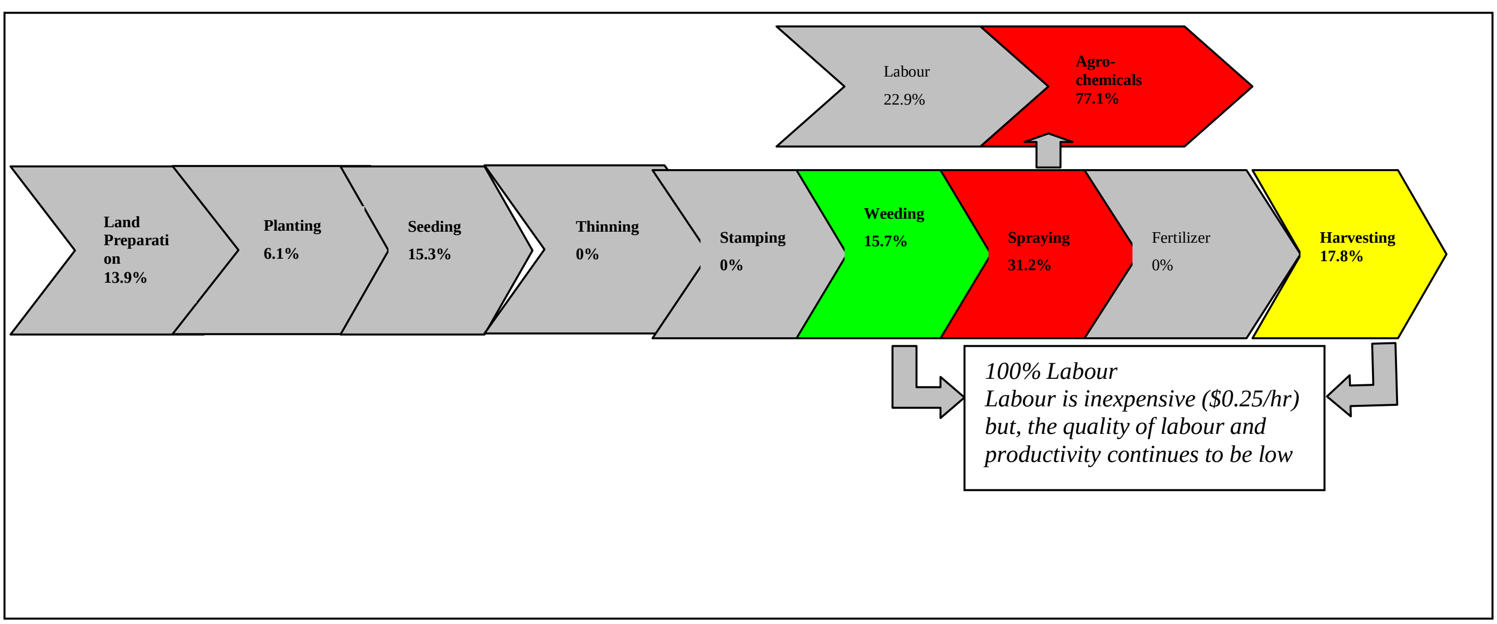
2.0 SITUATION ANALYSIS: - STRENGHTS, WEAKNESSES, OPPORTUNITIES, AND THREATS (SWOT) ANALYSIS

The production of cotton in Uganda is characterized by small-holder producers many of whom lack appropriate farming skills. In many cases, farmer groups are not well organized and the organizational structures themselves are weak while in most of the cases, there are no farmer groups at all. This aspect constrains capacity building for farmers and their ability to adopt new technology. Due to weak organization, farmers also have limited influence on policy decisions.

Smallholder farmers also face a problem with low yields mainly due to poor agronomic farm practices. The African average yield is 379 kg/ha which is way below competing countries such as China with 1270 kg/ha, Israel with 1700 kg/ha and a world average of 589 kg/ha. Among the important factors that contribute to low yields are poor quality planting seed, the absence of price assurance mechanisms and the collapse of an effective credit input system mainly due to the lack of collaterals by small-holder farmers. To compound the situation, extension services for farmers in most of the member countries are extremely weak.

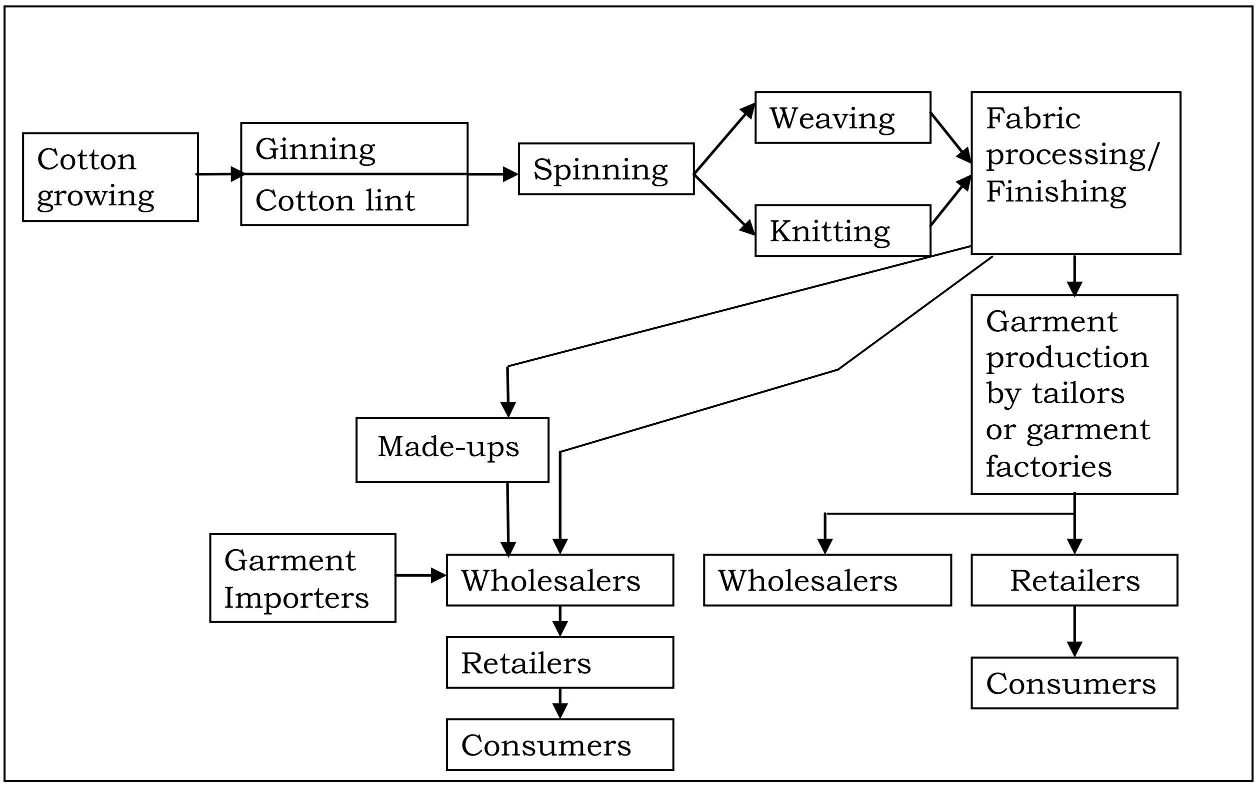
An analysis of the cotton value chain reveals that key farm practices such as thinning and stamping are usually overlooked by small-holder farmers. It also suggests that there is limited use of fertilizers and agro-chemicals due to their high cost. Agro-chemicals and farm labour dominate the overall cost structure associated with cotton farming. Cotton Development Organization (CDO) has taken up the up-hill task of addressing the distortions in the Cotton Value Chain which is why this Policy shall focus at exclusively value addition. The diagram 1 below reflects a typical cost structure of the cotton chain.

Diagram 1: Cotton Value Chain Cost Drivers



The cotton – to – clothing sector or supply chain in Uganda and indeed the other East African countries has not achieved its true potential. The supply chain can be divided into four major sub-sectors for ease of analysis and understanding the constraints to growth. The principal sub-sectors are cotton growing – mainly by smallholder cotton farmers, ginning, spinning; and textile, garment and apparel manufacture. The Diagram 2 below presents the various components of the cotton – to – clothing supply chain.

Diagram 2: The Cotton – to – clothing supply chain

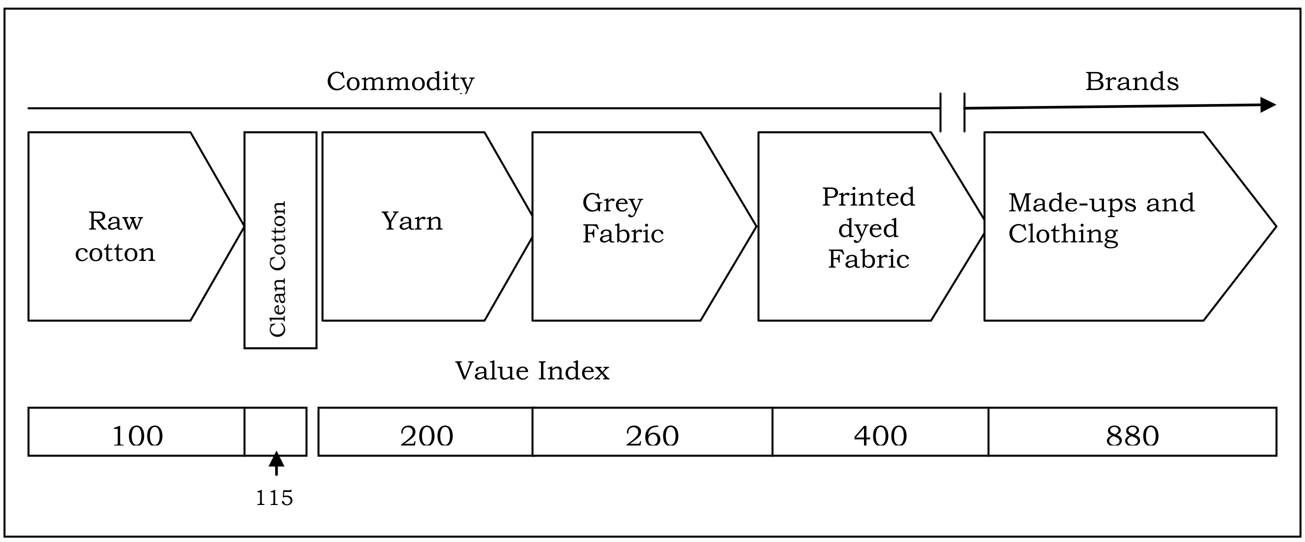


Whereas the sector in the region has considerable growth potential it must essentially become competitive to perform on the world market. In this regard, efforts will focus on enhancing industry performance and competitiveness through improved farm productivity, ginning and manufacturing efficiency. Similarly, efforts will be directed at enhancing the sector's sustainability through institutional development and capacity building of stakeholders. The governance structures for farmer organization, processing and marketing; and the concomitant management systems will also be strengthened.

If the textile industry does not grow, it will be a threat to the thousands of small-scale farmers who rely on it and will result in the eminent death of the industry itself. The AGOA facility offers preferential market access for clothing and some textiles upon which Sub-Saharan countries can rebuild their industries.

For now however, the industry is mono-product both in Uganda and East Africa generally. Apart from making it susceptible to attacks from imports it denies Uganda an opportunity to participate in the market for high value products such as made-ups and clothing. As reflected in Diagram 3 below, the value addition is highest in the made-up and clothing segments of the textile market. The made up products are the fastest growing segment of the world textile market.

Diagram 3: High Value Addition in the Textile Chain



At present, whereas the sub sector is considered to be underperforming relative to her full potential, she employs at least 2.5 Million Ugandans, mostly women and youth, across the value chain with the potential to more than double the number at full employment level.

The Ugandan textile sub sector was founded in the 1950s and 60s, spearheaded by the Uganda Development Corporation (UDC) that worked hand in hand with international partners like the Calico Printers of the United Kingdom and YAMATO International as well as other Asian families to establish mills across Uganda.

The other Textile Mills, other than the defunct Rayon Textiles in Kawempe and the Uganda Garment Industries Limited (UGIL) that were established under the above arrangement are located up-country, near sources of either raw materials or energy. These included Nyanza Textile Industries Limited (NYTIL) in Jinja, Mulco Textiles in Jinja, African Textile Mills (ATM) in Mbale and Lira Spinning Mill in Lira.

Under the auspices of UDC as the vehicle for industrialization in Uganda, a National Textile Board was established in the late 1960s to guide textile industry activity in Uganda that focused at import substitution.

Following the Nationalization Policy in the early 1970s, the textile mills in Uganda were nationalized like any other investments in Uganda, marking the beginning of the sub sector's journey to total collapse by the early 1990s when all mills had virtually closed. At its peak in 1972/3 the textile industry consumed approximately 400,000 bales of cotton

By the divestiture of the government owned mills, machinery was obsolete due to a long period of disrepair and mismanagement across the board which is why the only two functional mills in Uganda, Phenix Logistics and Southern Range Nyanza have had to invest in excess of **United States Dollars Thirty Million** to modernize and up-grade equipment. Following the investment, annual output aggregates to about **25 Million meters**, which in value terms translate into about 10% of the local market size of about **350 Billion Shillings** per annum. Due to market distortions, the current consumption of cotton lint is about 15,000 bales per annum against the highest annual production of 250,000 bales per annum in the last five years.

Production in the sector is still largely for the local and regional markets, focused at production of suiting and uniform materials, corporate promotional wear, bed sheets, curtains, Institutional and Armed Forces Uniforms and a wide range of knits and smart coarse casuals. In addition, one of the operational firms has managed to venture into international market exports based on exportation of value added organic garments niche. It is important to note that conventional cotton garment exports into the international market have been impeded by the high cost of doing business in terms of high transportation, energy and finance cost that result into low competitiveness of garment exports from Uganda.

Additionally, absence of formal training in clothing and textile technology in Uganda increases cost of labour as millers have to train labour force on job which also reduces productivity. Rampant counterfeits, second hand clothing and undervaluation/declaration of imports have continue to undermine the sub sector's performance, constraining rapid expansion in addition to perpetuating presence of idle capacity in form of facilities like Lira Spinning Mill, African Textile Mill, Mulco and Rayon Textiles.

There are presently 2 functional mills and LAP Textiles that directly support the livelihood of **3000 Ugandans** whose aggregate annual income is in excess of **UGX 2.5Billion.** These two mills consume about **15,000 bales** per annum with the capacity to consume over **50,000 bales** on accomplishing targeted investment plans in the next five years.

The operation of the Mills is powered by energy supplied from the national grid and owing to the high cost of energy in Uganda, energy remain one of the major costs of production, accounting for over 20% of the production cost for the millers, aggregating to at least **3.5 billion** annually.

The major bottleneck in the value chain is at spinning and weaving levels as the existing mills can not process more than 10 percent of the cotton lint currently being produced in Uganda. The value chain analysis indicates that with added capacity at spinning, weaving and finishing stages, more revenue can be generated and more jobs could be created internally in Uganda beyond the present 2.5 Million across the value chain. Both GOU and the private sector have plans and budgets to further improve production and value addition in the chain and to make the sector more competitive.

Uganda is a member of various trading regimes that include but unlimited to the East African Customs Union, COMESA, EPAs, AGOA and others that guarantee broad market access potential. At a more regional level, for example, COMESA offers a market of 400 Million people that require at least 2.4 Billion meters of fabric per annum, at an average per capita consumption of 6 meters only. On the other hand, under the AGOA initiative as well as under EPAs, Uganda has duty and quota free access to both United States of America and Europe. However, access to both markets has been constrained by inability to have from within Sub Saharan Africa the internationally acceptable fabric quality that can support local/sub Saharan production of exportable garments. This therefore condemns the entire region to third country fabrics from Asia that have failed to sustain the Ugandan AGOA export efforts even when Government took deliberate efforts to do so under Apparel Tri-star Limited.

Whereas the available global textiles and clothing markets offer credible potential for the revival of the cotton and textile sub sector, it's imperative to note that the global textile industry has undergone major changes. Following the expiry of the Multi-Fiber Agreement (MFA), new challenges have emerged particularly for African producers. Whereas competing countries particularly from Asia and the Far East have seen their exports to

USA and Europe grow significantly, Africa has lost its market share. This trend is expected to persist unless the industry in Africa becomes competitive.

2.1 Strength

2.1.1 Conducive business environment and Good Political will

The free market economic reforms introduced in the 1990's have over the years created macro economic stability in Uganda which has endeared the country to global investors. In addition, partnership with the private sector, as an engine of growth, is at the centre stage of Government policy development, implementation and monitoring. The government economic policy encourages value addition to agricultural commodities, such as cotton, and employment generation towards poverty alleviation. Furthermore, the political leadership in Uganda is unequivocally committed to industrialization, economic transformation, and modernization.

2.1.2 Availability of idle capacity in the private sector

Uganda has only two functional vertically integrated textile mills and several garmenting factories which are all operating below capacity. Mills like Mulco, African Textile Mills, Rayon Textiles as well as Lira Spinning Mill are closed even though their aggregate capacity triples the utilized/functional capacity at full employment. These mills can be revived only with the presence of an enabling policy regime for textile sector that guarantees returns to investment. In addition, LAP Textiles Limited has taken over former Apparel Tri-star Limited with the view to establishing a vertically integrated mill, over and above her desire to purchase controlling stake in Southern Range Nyanza Limited and Phenix Logistics Limited. These efforts are still constrained by the absence of an acceptable policy environment to justify the business move.

2.1.3 Presence of trainable labour force.

Following the introduction of the Universal Primary Education (UPE) and Universal Secondary Education (USE), enrolment has increased to 7 Million pupils in primary schools from 2.5 Million, with about half a million joining secondary schools every year.

The above state of affairs offers an incredible opportunity for a robust human resources base for trainable labour after a minimum of O-Level of education, who can be trained on-job, for the entire sector to guarantee a reliable base for human resources for present and future investors into the sub sector.

2.1.4 Availability of abundant good quality cotton and adequate ginning capacity.

Uganda’s cotton is of medium to long staple lengths. In the last five years, the highest annual cotton production registered was 254,000 bales (each cotton bale weighs 185Kg) while during the same period, the highest annual local value addition registered was 15,000 bales. This clearly represents the great potential Uganda still has in the area of value addition on cotton since far less than 10% of annual out-put is processed locally.
There is adequate ginning capacity, which has increased from 100,000 bales to 1,000,000 bales in Uganda. More over, the Cotton Development Organization is striving to re-discover the pre-1972 annual production levels of over 500,000 bales per annum with anticipated production for 2008/9 estimated to be 300,000 bales.

2.1.5 Huge domestic/regional/International markets.

Uganda has a population of **30 million** people, requiring **180 million** meters per annum at the average of 6 meters per capita. This translates into a market of about **Uganda Shillings 350 Billion** per annum. At an East African level, the Region has a population of **120 Million** people which translates into a market size of **820 Million** meters per annum and in value terms this translates into **1.4 Trillion shillings**. At COMESA level, the population is **400 Million** people, at a per capita annual consumption of 6 meters, this result into a market size of over **4 Trillion Shillings.** This market size is quite significant to justify promising investment in Uganda; in addition to the European Union and AGOA market potential; both of which offer quota and duty free market access.

2.2 Weaknesses.

2.2.1 Export of unprocessed cotton.

More than 90 percent of Uganda's lint is exported by the about 20 cotton lint exporters and or cotton ginners. Although most of Uganda's cotton lint is sold at a premium on the world cotton market, the value is far much lower that what the country would have earned had there been sufficient value addition. Whereas 1kg of exported cotton fetches approximately **US $ 1**, the two made-up garments, like shirts made from the same quantity of cotton lint can fetch at least **US $8**. This is in addition to the other merits associated with local cotton processing like creation of employment. This therefore means that, whereas Uganda earned **United States Dollars 46,990,000** when she produced highest in the last five years some **254,000 bales** of cotton, the same level of cotton production had the capacity to generate **United States Dollars 375,920,000! The Table 1 below summarizes the challenges of value loss that Uganda continue to suffer from the export of unprocessed or semi processed cotton products.**

Table 1

Sr.No	Level of Transformation	Returns in US$ per Kilogram
1	Lint	>2
2	Yarn	3
3	Fabric	5
4	Garment	8-10

Source: TEMAU presentation during the 30th April 2008 Cotton and Textile Sector Stakeholders meeting held at Hotel Africana, Kampala, Uganda.

2.2.2 Low spinning and weaving capacity.

Technology is another key area of concern which needs upgrading to enhance the competitiveness of the over all textile industry. The present combined annual production for the two functional mills plus the production made by the informal sector that comprises of small scale hand loom and cottage operators is still averaged at a paltry 25 Million meters capacity. This underpins the very low spinning and weaving capacity despite the presence of an abundant raw material base. The situation is further worsened by the high investment cost required to establish meaningful spinning or weaving units that stand at an international average of at least **United States Dollars 10 Million** which create a major entry barrier into a sector already requiring major investment in capacity expansion and modernization of equipment.

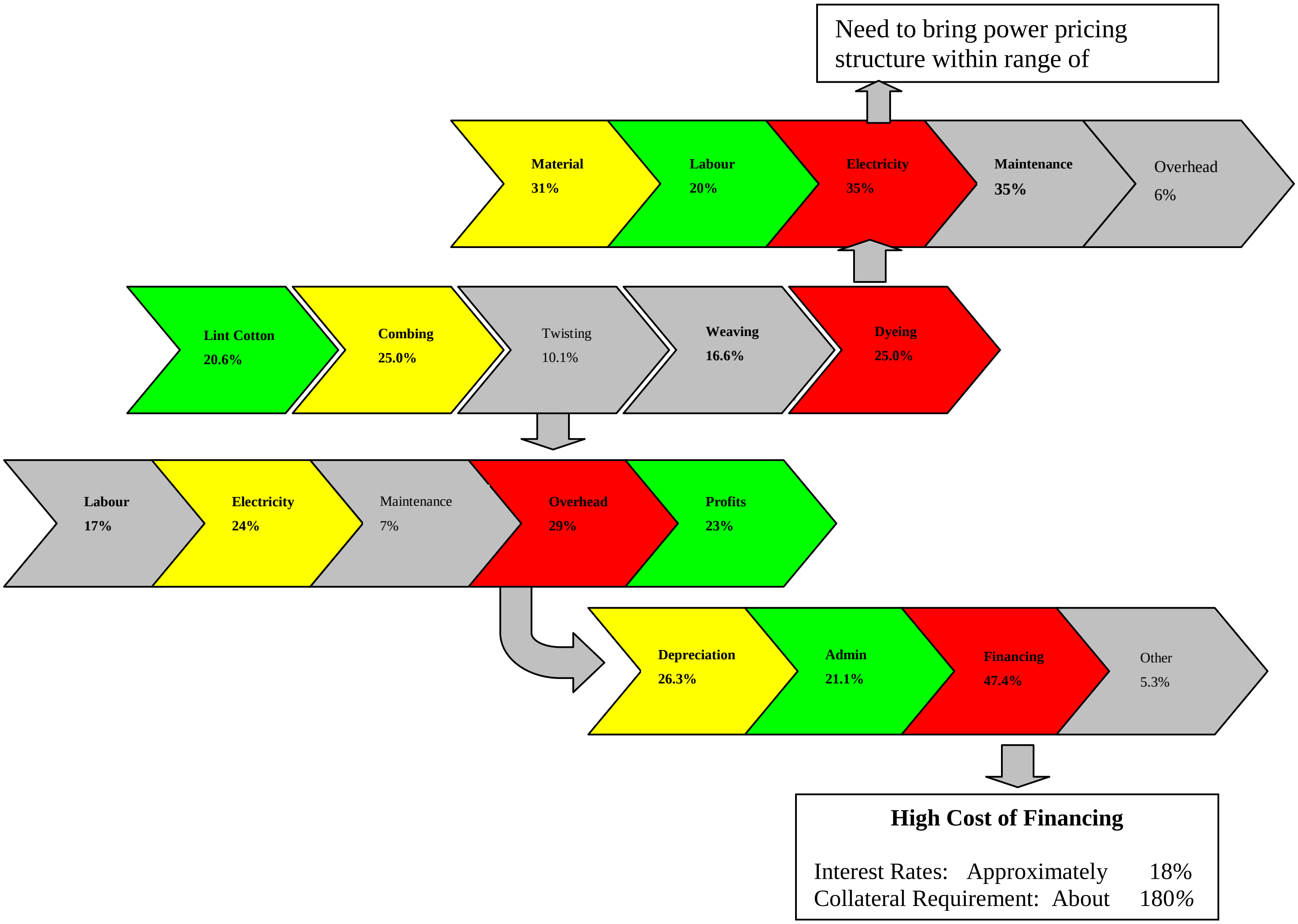
2.2.3 High cost of finance.

While bank borrowing and share listing on the stock exchange market are globally acceptable as the main source of investment capital, both sources are not within the reach of the textile sector/investor in Uganda. Whereas there are several international banks operating in Uganda, interest rates remain very high and range between 18-24%. On the other hand, the only Government owned development bank available- Uganda Development Bank (UDB), her level of capitalization cannot even revamp a single mill! To worsen the story on financing, no single textile mill has so far listed on Kampala Stock Market as the performance of the two millers is still average to be attractive for public investors as opposed to the other listed companies. The resultant effect has been the perennial lack of modernization and or development finance for the sector as opposed to the competition in Ethiopia or Asia that enjoy development finance at 7% per annum interest and less than 5% respectively in local currency courtesy of Government intervention to deliberately develop and transform the sector. There is need to replace the old mills, upgrade production and process technologies and introduce computer aided design facilities.

2.2.4 High energy costs.

2.1 The energy cost has increased to an all time high in Uganda in the last three years and currently, Ugandan energy rates are the highest in the region, accounting to at least 15-20% of the overall production cost. Besides, reliability of electricity service is as important as its cost. The loss in production time and output from outages, the loss of equipment from power surges and the efficiency loss caused by interruption and uncertainty constitute severe competitive disadvantages. Interruptions in supply are particular disruptive to dyeing and washing operations. In many parts of Uganda where interruptions in supply are common, firms often rely on back-up generators. The need for these generators adds to energy costs.

Diagram 5: Textile Value Chain Cost Drivers



Source: Global Development Solutions, LLC™

2.2.5 High Transport costs

The land locked nature for Uganda pose significant challenges on the cost of doing business in especially the textile sector that is increasingly under global stress following the end of the Multi Fiber Agreement on Textile and Clothing (MFA) in 2005 that marked the end of the quarters. The situation is further aggravated by the poor state of the roads and railway, cost of trucks and fuel cost that explain the very high internal and external transport costs relative the other regions which impact on price paid to the farmers.

2.2.6 Weak linkages along the value chain

2.2.6.1 There is very little to no cooperation among the various stakeholders within the value chain. This undermines business collaboration that is necessary for the growth of the sub sector as there is no information sharing for market access yet this is critical for success since this can enhance intra industry linkages.

2.2.6.2 Supporting services like international sourcing and buying houses are still missing while specialized services in fashion and designing are inadequate and therefore require expansion and integration within the value chain to grow national capacity in these fields.

2.2.6.3 Human resource skills: Even though the government has emphasized UPE and USE, beyond this there is a need to emphasize vocational training in the area of textile and clothing technology. Currently, there is no proper training in textile and clothing technology.

2.3 Opportunities.

2.3.1 Great market potential

The East African Community is evolving into a Common Market by 2010 while COMESA is also expected to have a Customs Union by the same date, India, Canada, Japan have also opened up for additional market access in addition to AGOA and EU. Most critical, is the fact that export potential at present is based on third country fabrics from China which can sustain investment in garmenting in the immediate and near future in addition to the same situation warranting investment in vertical integration since this third country sourcing shall stop in 2015..

2.3.2 Commercial cotton farming

Government is committed to producing 1 Million bales of cotton by 2015. This means that the successful Ethiopian Model of cotton production being controlled by commercial farmers up to 50% of annual output can be realized given that returns to investment in cotton farming warrant massive production. This approach would resolve the challenges of extension services presently expected from Government since the commercial farms shall constitute centres of excellence.

2.3.3 Exploration of the organic cotton niche.

The world organic lint demand is currently 32,326 metric tons expected to grow at the rate of 50% per annum. A third of the global output is produced in East Africa. In value terms, organic cotton fetches up to 40% above conventional cotton prices while yarns and fabric derived from organic cotton fetches up to ten times. Therefore, it is opportune for the sector to attract investment in vertical integration to add onto local value addition being done by only one firm at the present.

2.4 Threats

With the coming into force of the World Trade Organization (WTO), the General Agreement on Tariff and Trade (GATT) was adopted and its customs valuation system based on invoice declaration. This gave an opportunity to unscrupulous business people to under invoice from time to time, which coupled with export incentives in much of Asia work to make imports artificially competitive.

2.4.1 Unfavourable Competition

Following the end of the Multi Fiber Agreement (MFA) in January 2005 and the coming into force of the Customs Union on 1st January 2005, the textile industry is under threat. The MFA had initially encouraged Chinese and Asian companies to set up facilities in Africa but, many such firms have relocated back to their countries of origin where labour, overall production, transportation and handling costs are lower and productivity is higher than in Africa in addition to them enjoying export incentives of up to 8% in some instances. The cumulative effect of both developments has exposed the local textile sector to untold competition, since leading textile manufacturers like China and India have taken over the textile business

2.4.2 Counterfeit and Second Hand articles.

2.4.2.1 Counterfeits

All major local brands have had their brands copied by unscrupulous business people. Unfortunately, the present legal framework is not strong enough to prevent the practice from spreading resulting into huge losses to investors in the textile sector. Therefore, it is critical to have the present Counterfeit Bill passed into law at the earliest opportunity.

2.4.2.2 Second hand articles

Under the East African Community the Common External Tariff on second hand clothing is **USD 30** per Kilogram or **45%** which ever is higher. Whereas this would look prohibitive, there is need to have a five years phase-out strategy for the importation of second hand articles so that by 2015, there is no more importation of second hand clothes into the East African Community. This approach is what has transformed and developed the Ethiopian textile and clothing sector that hitherto faced problems akin to what Uganda presently face.

3.0 GUIDING PRINCIPLES

(i) Continued commitment to stable supply of raw materials.
(ii) Creating capacity for financing textile sector transformation through value addition on lint.
(iii) Promotion of supporting institutions and related industries of textile sub-sector, like training institutions, garments manufacturing through public private partnership model.
(iv) Creating national capacity to source exportable quality fabrics to sustain profitable exports to existing and future market opportunities.
(v) Create an attractive market environment through the control of smuggling, under declaration, proliferation of counterfeits which allows mills to offset rising costs with higher capacity utilisation.
(vi) Fast tracking the development of critical infrastructure to address the cost of doing business to enable Regional/International Competitiveness: Railway and Energy.
(vii) Emphasize environmental protection for sustainable development, especially upon Uganda's breaking through into the niche organic market export.

4.0 POLICY MEASURES FOR THE REVIVAL OF THE TEXTILE SUB-SECTOR

There is need for backward integration within Uganda supported by a package of intervention. Value-addition is a pre-requisite for Uganda to sustain her position in the global textile arena and industrialization in general. In the textile sector, value-addition can be achieved via two pronged approach; firstly by improving the product mix, e.g. spinning both low counts yarns and finer cotton yarns, and secondly by moving into exports of high value items e.g. garments and made-ups. The following strategies and measures will be undertaken by the Government to enhance the development and revival of the textile sub-sector:

4.1 To improve the local Business Environment.

The Textile sub-sector has a vast market and it is labour intensive rather than technology intensive which means that it provides more employment opportunities. On one hand, the sector has a wide range of forward and backward linkages. It is therefore a key sector to industrialization as well as exploitation of local resources to promote exports.

The Government shall establish a conducive and competitive fiscal regime that is necessary for the optimal growth of the textile sub sector in Uganda.

4.2 To support Technological Up-gradation and modernization.

Despite the presence of an abundant raw material base and the considerable efforts made to increase the production to the pre-1972 levels; the spinning and weaving capacity of the sector is still very low. The policy will:

- Continue the efforts to modernise and up-grade technology to international levels by supporting investments in vertical integration.

- Facilitate harmonious development of cluster- based production facilities focused at optimizing production and adopting appropriate technology to meet the Regional and International demand for high value and large volume products.

- Promote Uganda as an attractive investment destination and shall establish economic zones necessary for the attraction of foreign direct investment in the sub sector.

4.3 To strengthen textile sub-sector support institutions

Across the globe, countries that are having strong textile sub sectors have transformed largely because of the excellent support functions that the support organizations related to textiles have performed. Therefore, for Uganda to enhance the performance of the textile sector, Government shall:

i. Strengthen Textile Development Agency (TEXDA), a textile training agency currently funded by UNIDO under Ministry of Tourism, Trade and Industry to work in partnership with Textile Manufacturers Association of Uganda (TEMAU) to offer support services to the sub sector in the areas of training in various textile and garments programs such as surface design, basic dyeing and printing; handloom weaving; business management; branding, merchandizing and others.

   TEXDA was established in 1999 as UNIDO project with a view to enhance the competitiveness of the textile sector at both local and international markets. Government procured land in Bukoto-Kampala for this establishment. Today this center has in stock various types of equipment utilized during trainings in weaving, surface design and garment making. In addition, it provides advisory services to entrepreneurs, access to state of art equipment, raw materials production and research facilities.

   Once the training institute is constructed, it can also be responsible for integrating micro and small entrepreneurs, designers and tailors into the national value chain especially then that the Private Sector Foundation and Government have already formed clusters for the SMEs on one hand and on the other; the medium and large millers are in principle agreeable to integrate the SMEs with the view to completing a national value chain.

ii. The government will continuously improve funding for lead agencies for the textile sub sector development like Uganda Export Promotion Board UEPB, Uganda National Bureau of Standards UNBS, Cotton Development Organization CDO, Uganda Revenue Authority URA and others with the view to enabling them adequately perform their mandate.

iii. Government shall strengthen the Department of Industry and Technology to oversee the development of the Textile and Garment Sector in Uganda.

4.4 To increase the raw materials supply base

i. Following the surging market potential for textiles and apparel, now valued at over 1 Trillion Dollars per annum, leading producers of textile is Asia and South America are competing for the decreasing cotton lint. It is therefore strategic for Uganda to pursue the vision for producing more cotton to realize the pre 1972 production capacities. This would ensure a sustainable supply of cotton lint for the present and future millers

   To ensure sustainability of cotton production, Government shall encourage private sector commercial cotton farming as a means of mitigating the dangers associated with the dependency on peasant growers of cotton based on rain fed agronomical practices.

ii. Silk is another fiber produced in a few districts in the country mainly in the western and central parts of the country. If the silk sector is developed, there is potential to spur village level processing especially the cottage industry which would offer income opportunities for women and youth.

   Government shall support the silk and other fiber production and processing in Uganda.

4.5 To enhance Human Resources Development

The most crucial factor in value addition is the development of human resource capacity. Currently the operating mills in the country have local workers who have no formal or have little education in textile processing. They have developed their skills over the years through on-job training. Most of these skilled local workers are not aware of the latest developments in their field where as in the leading textiles producing countries the skills such as fabric processing and finishing, weaving and spinning are transferred through training on state of the art equipment and modern facilities.

This requires restructuring of the existing textile mills (i.e. balancing, modernization and rehabilitation which is a regular requirement of any industry) so as to enable the processing, finishing, weaving and spinning segment to not only cater to the needs of the local apparel industry but also increase the share of processed fabric and garments available for regional and international exports.

In this regard, the existing training facilities would have to go through a revamping process by updating their syllabi, bringing it in line with the current and future industry requirements.

The Government therefore shall:

(i) Strengthen the existing institutions offering textile science and technology courses such as Busitema and Kyambogo Universities, vocational training centers to conduct courses in textile technology, fashion and textile design.

(ii) Support the strategic idea of COMESA owning a Regional Training Center for Textile Technologists. This will enable Ugandans train at a world class institution which will, in the medium term, answer the persistent shortage of world- class technical manpower.

(iii) Facilitate specialized training of public servants handling matters related to the textile sub sector for effective management, implementation and monitoring the development of textile sub – sector.

4.6 To support a Regional cotton-textile sub sector development Strategy.

Government shall

- Continue to negotiate and promote Uganda's membership to key trading blocs based on the principle of mutual benefit with the trading partners;
- Collaborate with other Regional Programs like PACT and Regional Industrial Upgrading and Modernisation Programme, (RIUMP) of COMESA in the development of the textile sector;
- Support the development of a Regional Strategy in the development of the textile sector like one being developed by COMESA.

- Support strategic alliances with textile majors at a Regional and International level with focus on business and new markets development;

4.7 To Strengthen Domestic Market Development.

In all countries that have transformed the textile sector, the stepping stone for the transformation has been increasing local consumption of textiles especially by the organized public sector. Government shall provide affirmative action to local suppliers under Government procurement, while ensuring conformity with existing National Laws focusing at:

(i) Supporting the "Buy Local and Build Uganda" strategy. In this, all Public Sector procurement for all types of textiles shall be sourced from Uganda save for where no local capacity to produce exists

(ii) Supporting the introduction of School Uniforms as a requirement for Universal Primary and Secondary Education (UPE& USE).

(iii) Supporting the amendment to the Public Procurement and Disposal of Public Assets Act (PPDA Act) to establish a mandatory requirement for all Government Institutions to source textiles requirements locally save for where no local capacity exits.

5.0 IMPLEMENTATION, MONITORING AND REVIEW MECHANISM

The Ministry of Tourism, Trade and Industry will lead the implementation of National Textile Policy while collaborating with other Ministries, agencies and private sector organizations that have a direct role in its implementation. These will include; Ministries of Finance, Planning and Economic Development, Agriculture, Animal Industries and Fisheries, Education and Sports, Energy and Mineral Development, Gender, Labour and Social Development, Lands, Housing and Urban Development, Water and Environment, Local Government and Foreign Affairs; as well as other Government Agencies and the Private sector.

The Department of Industry and Technology will be strengthened to serve and facilitate the developmental needs of the sector and will continuously monitor the implementation of the National Textile Policy.

6.0 CONCLUSION

Under the National Industrial Policy, the principle focus for industrial growth in Uganda includes the growth and development of the textiles and garments sub sector. Although there are several challenges to the optimal growth of the sub sector, the prospects for the sub sector's development are good. This can be achieved through the comprehensive implementation of missing policy gaps that presently inhibit optimal development of the sub sector that include:

- Improvement of the Business Environment;
- Technological Up-gradation and modernization.
- Strengthening textile sub-sector support institutions
- Increase the raw materials supply base
- Enhance Human Resources Development
- Regional Strategy Development
- Strong Domestic Market Development.

The Government is committed to providing a conducive environment to enable the Uganda Textile Industry realise its full potential based on a Public-Private Partnership arrangements. In fulfilment of these objectives the Government will enlist the cooperation and involvement of all stakeholders to ensure an effective and responsive delivery system.

ANNEX: IMPLEMENTATION STRATEGY

Strategic Objective(s)	Output	Main activities to achieve the outputs	Support Institutions	Time Frame	Costs
To improve the local Business Environment.	A conducive and competitive fiscal regime that is necessary for the optimal growth of the textile sub sector in Uganda created.	To amend the Income Tax and Value Added Tax Acts to enable new vertically integrated textile mills investing **US$ 25 Million** in plant and machinery, using local cotton as the key raw material and the existing operational mills to be accorded the following incentives: • 10 years Corporation Tax Holiday. • 5 years Value Added Tax exemption on all in-puts/raw materials (dyes and chemical, artificial yarn fibres used for blending, utilities, garment accessories) spare parts and sales of textiles span, weaved and wet processed in Uganda.	MFPED, MTTI	FY 2009/10	
		To mainstream and provide annualized technology up-gradation funds for the textile sub-sector in the sums of **US$ 5 Million** that should be availed to commercial banks/Uganda Development Bank for on-ward lending to vertically integrated textile mills doing cotton value addition at a maximum 10% interest rate per annum in Uganda Shillings to enable further mills rehabilitation and value	MFPED	FY 2009/10	US$5Million.

		addition **Provided That** financing eligibility shall be subject to independent viability evaluation by the bank in issue and the project promoters shall at times be required to prove 50% contribution to access up to a maximum of **USD 3Million** development finance.			
		To pay for electricity charges beyond **US$ 5 Cents per KWH** for vertically integrated textile mills for a period of three years or until the Bujagali Dam power is available on the national grid(whichever fall fast).	MFPED	2009/2010	UGX 2.4Bn.
		To establish a revolving Cotton Buffer Stock Fund of **US$ 3Million** per annum managed by Uganda Development Bank/intermediating commercial banks that shall avail to millers cotton finance at 1-3% interest per annum to enable textile millers buy cotton lint without blocking business working capital throughout the year. The cotton financing shall be managed under a Collateral Management Regime by a reputable international firm to ensure accountability and sustainability.	MFPED	FY 2009/10	US$3 Million

To strengthen textile sub-sector support institutions		To transform the Textile Development Agency (TEXDA) into a fully fledged Garmenting, Fashion and Design Vocational Training Institute based on a Public Private Partnership Model working with Textile Manufacturers Association of Uganda (TEMAU) as the lead private sector Agency with the view to training at least 100 technicians (87% of the SME Garmenting Operators are women) per annum to bridge the skill gap prevalent in the sub sector at present.	MTTI, MFPED	FY 2009/10	UGX. 1.5 Billion.
		To link TEXDA to training arrangements that are available to Uganda on a bilateral or multilateral basis with the view to encouraging skills development in the country.	MTTI, MES	FY 2009/10	
		To build capacity for the public sector officials to understand the salient characteristics of the cotton-textile sector in terms of technical, fiscal policy, environment and international trade aspects.	MTTI, MFPED, & MES	FY 2009/10	
		To improve funding for the lead agencies for the textile sub sector development. Such lead agencies include UNBS, UEPB, UIRI, Department of Textile Technology, Faculty of Science, Kyambogo and	MTTI, MFPED & MES.	FY2009/10	

		Busitema Universities.			
		To strengthen the Department of Industry and Technology to serve and facilitate the developmental needs of the Textile and Garment Sector in Uganda	MTTI, & MFPED.		
To increase the raw materials supply base	Sufficient raw materials for the mills supplied.	To support private sector commercial cotton farming.	MFPED & MAAIF	FY2009/10	
		To support the silk and other fiber production and processing	MAAIF		
		To support new technologies in the area of fiber research and development as the case is for the banana fiber textiles	MTTI, MAAIF, UIRI, MES		
To enhance Human Resources Development	Productivity upgrading and skills development enhanced	To strengthen the existing institutions offering textile science and technology courses such as Busitema and Kyambogo Universities, TEXDA training Institute to conduct courses in textile technology, fashion, textile design and international marketing and merchandising.	MTTI, MFPED, MES	FY2009/10 .	
		To support and fast track the strategic idea of COMESA establishing and owning a World Class Regional	MFPED, MTTI	FY2009/10 .	

		Training Center for Textile Technologists with the support of the University of North Carolina at Busitema University.			
		To facilitate specialized training in textile technology of staff in the Department of Industry and Technology, MTTI for effective management, implementation and monitoring the development of textile sub –sector	MFPED, MTTI,		
To support a Regional Cotton – Textile Sub-sector Development Strategy	A vibrant competitive and sustainable cotton-textile sub sector evolved.	To continue negotiating and promoting Uganda's membership to key trading blocs based on the principle of mutual benefit with the trading partners.	MFPED, MTTI,	On-going	
		To promote Uganda as an attractive investment destination and establish economic zones necessary for the attraction of foreign direct investment in the sub sector and cluster based enterprises.	MFPED, MTTI	On going	
		To lobby other Partner States within the EAC/COMESA for the creation of a regional approach to the development of the textile sector through the review of the present Common External Tariff Structure "sensitive" categorization of textile imports into EAC so that a	MTTI, MFPED	On-going	

		minimum dutiable value of US$ 5 Dollars per Kilo of textile imported into EAC is established on which a 70% Import Duty should be charged to mitigate the excesses of gross under valuation of imports from especially Asia that distort global textile trade, which, coupled with export incentives given to exporters in Asia undermine competitiveness of Sub Saharan textile manufacturers.			
To Strengthen Domestic Market Development.	Increased market share for the locally manufactured textiles.	To amend the Public Procurement and Disposal of Public Assets Act with the view to supporting the "Buy Uganda-Build Uganda" sourcing strategy.	MFPED & MTTI,MFPED	2009/2010	
	Pressures of import penetration and a dominant presence in the domestic market contained and maintained respectively.	To support the introduction and mainstreaming of School Uniforms provision to all children attending Universal Primary and Secondary Education (UPE& USE) in Uganda.	MFPED, MTTI & MES	F/Y 2009/10	
		To create the necessary awareness and supportive measures for the sustainability of local sourcing of textiles and garments by the public and private sector to enhance efficiency, productivity and quality,	MTTI		

		environment and Human Resource Development.			
		To establish a Comprehensive National School Uniforms Decentralized Garmenting Program necessary for kick-starting nation-wide garmenting activity across the country for rural transformation. (i) Under this program, the Textile Manufacturers Association of Uganda shall assist local business communities across Uganda create 20 Model Factories of at least 50 machines each with the capacity to stitch uniforms for the entire country in five years of this Policy implementation.(Industrial Zoning and Clustering program implementation)	MFPED, MTTI, MES	2009/2010	
		To fast track enactment of key commercial laws: Counterfeits, UNBS, Competition, Intellectual Property Rights and others to address the present distortions resulting from obsolete legislation.	MFPED, MTTI	2009/2010	