KENYA

TEXTILE AND CLOTHING VALUE CHAIN ROADMAP

2016-2020

International Trade Centre

TEXTILE & CLOTHING VALUE CHAIN ROADMAP OF **KENYA**

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This value chain roadmap was developed on the basis of the process, methodology and technical assistance of the International Trade Centre (ITC). The views expressed herein do not reflect the official opinion of ITC. Mention of firms, products and product brands does not imply the endorsement of ITC. This document has not been formally edited by ITC.

The value chain roadmap was elaborated within the framework of ITC's SITA project, a South-South trade and investment initiative that aims to improve the competitiveness of select value chains through the provisions of partnerships from institutions and business from India. SITA is funded by the U.K. Department of International Development (DFID).

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The formulation of the value chain roadmap was led by the Ministry of Industrialization and Enterprise Development (MoIED) with the technical assistance of ITC. This document represents the ambitions of the private and public sector stakeholders for the development of the sector. Stakeholders' commitment and comprehensive collaboration have helped build consensus around a common vision that reflects the realities and limitations of the private sector, as well as of policymakers and trade-related institutions.

The document benefited particularly from the inputs and guidance provided by the members of the sector team.

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ACRONYMS

The following abbreviations are used:

ACTIF	African Cotton and Textiles Industries Federation
AGOA	African Growth and Opportunity Act
CAGR	Compound Annual Growth Rate
CMT	Cut, Make & Trim
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
EAC	East African Community
EBAP	Export Business Accelerator Programme
EPC	Export Promotion Council
EPZ	Export Processing Zone
EPZA	Export Processing Zones Authority
EU	European Union
FDI	Foreign Direct Investment
FOB	Free on Board
GDS	Global Development Solutions
HS	Harmonized System
ICAC	International Cotton Advisory Committee
IIHT	Indian Institute of Hardware Technology
IL&FS	Infrastructure Leasing and Financial Services (India)
ISO	International Organization for Standardization
ITC	International Trade Centre
KAM	Kenya Association of Manufacturers
KAMEA	Kenya Apparel Manufacturers and Exporters Association
KEBS	Kenya Bureau of Standards
KenInvest	Kenya Investment Authority
KNCCI	Kenya National Chamber of Commerce and Industry
KRA	Kenya Revenue Authority
KTTI	Kenya Textile Training Institute
kWh	Kilowatt-hour
MFA	Multi-Fibre Arrangement
MLS-SCM	Modular Learning System – Supply Chain Management
MoEST	Ministry of Education, Science and Technology
MoIED	Ministry of Industrialization and Enterprise Development
MoU	Memorandum of Understanding
MSEA	Micro and Small Enterprise Authority
MSME	Micro, Small and Medium-Sized Enterprise
NRCA	Normalized Revealed Comparative Advantage
NID	National Institute of Design (India)
NIFT	National Institute of Fashion Technology (India)
NITA	National Industrial Training Authority
PoA	Plan of Action
REACH	Registration, Evaluation, Authorization and Restriction of Chemicals
SADC	Southern African Development Community
SITA	Supporting Indian Trade and Investment in Africa
SME	Small and Medium-Sized Enterprise
T&C	Textile & Clothing
TISI	Trade and Investment Support Institution
TMEA	TradeMark East Africa
TNC	Transnational Corporation
TVET	Technical and Vocational Education and Training
TVETA	Technical and Vocational Education and Training Authority
UAE	United Arab Emirates
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Tax
WEAMACO	Handloom Weavers' Marketing Cooperative Society
WTO	World Trade Organization

FOREWORDS

HON. ADAN MOHAMED
CABINET SECRETARY
– MINISTRY OF INDUSTRY
INVESTMENT & TRADE (MOIIT)

At this important point in time for Kenya's Textile and Clothing (T&C) sector, the Ministry of Industrialization and Enterprise Development (MoIED) takes particular pleasure in welcoming this Strategy Roadmap and its detailed Plan of Action.

After 10 years of consistent growth, thanks in part to the African Growth and Opportunity Act (AGOA), Kenya's T&C sector stands at a crossroads. In order to remain competitive, the sector must move gradually from contract manufacturing and begin to provide fully integrated services including input sourcing, value-added product development and design. The sector is also well aware that Kenya has to maintain its efforts in attracting foreign direct investment (FDI), specifically for benefiting from technology and knowledge transfer, updating inventory management and enterprise resource systems.

The T&C Roadmap has exceeded our expectations, not only in the successful mobilization of sector stakeholders, but also in facilitating extensive and fruitful discussions between public and private sectors. Some 65 representatives attended two successive consultations, allowing for a realistic evaluation of the challenges and opportunities the sector currently faces and extensive debates as to define the best way forward. The dedicated work of sector stakeholders outlines in this Roadmap a five-year Plan of Action to upgrade skills and improve the business environment, a Plan that the Ministry is proudly endorsing and into Kenya's Industrial Strategy, where T&C comprises one of the priority sectors.

The T&C road map defined Kenya's thread to achieve export success building around four strategic objectives: 1. Maximize productivity and uphold quality requirements through skills development; 2. Improve the business environment to further support the development of the T&C industry; 3. Expand the benefits of investment throughout the T&C value chain and 4. Enable market penetration and product development through trade intelligence.

In order to maintain the momentum sparked by the consultations, the Ministry is taking steps towards collaborating with the Apex Body for Textiles and Clothing established under the Kenya Association of Manufacturers (KAM) and support the implementation of the operational objectives defined in the Plan of Action. Moreover, the Ministry is looking forward to the imminent operationalization of Kenya's T&C Apex body as a formalization of the public-private discussions underpinning the Roadmap.

FOREWORDS

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A Great Opportunity for the Textile & Clothing Sectors in EAC

The African Cotton and Textile Industries Federation (ACTIF's) mission is to promote and facilitate both international and inter-regional trade and investment of the cotton value chain in Africa.

South-south trade and investment opportunities have been expanding rapidly in recent years. South-south trade constituted just 10% of world trade 20 years ago and rising to almost 1/3 today. India is one major player driving this trend, and is creating new opportunities in East African countries for trade and investment-led economic growth and job creation.

With global FDI in the Textile & Clothing market estimated to be worth US$24 billion in 2013, a 100% increase from 2012 and with rising costs and growing domestic consumption in emerging Asia, Indian businesses are increasingly looking at new destinations like East Africa for investment and trade opportunities.

The Kenya textile and clothing value chain roadmap, complete with a detailed 5 year action plan is the product of extensive public-private sector stakeholders' consultations. Along with the technical guidance of ITC, the roadmap offers the best chance to facilitate business transactions, technology transfer and knowledge exchange between India and East Africa.

In addition to Kenya, similar endeavours were conducted across the East African region covering Ethiopia, Uganda, and Tanzania. There is no doubt that the East African region can only grow its textile and clothing industries by strengthening its competitive advantage on all fronts including product, quality, productivity and competitiveness.

ACTIF will continue to work closely with ITC along with all key stakeholders in the region to ensure seamless implementation of the roadmap, cross sharing of information and leverage on strategic linkages with India – a great power house in the textile and clothing business.

EXECUTIVE SUMMARY

The goal of Kenya's

The goal of Kenya's Textile and Clothing (T&C) Value Chain Roadmap is to set the sector on the course of strategic development by addressing constraints in a comprehensive manner and defining concrete opportunities that can be realized through the specific steps detailed in its Plan of Action (PoA). Kenya's current model has performed well, yielding strong economic and social returns. However, a progressive shift to a new strategic model is required to remain competitive. The industry must unite and evolve in order to leapfrog into higher growth and value addition.

The sector's strategic orientation should follow a two-pronged approach. Firstly, Kenya has to build on its assembly and cut, make and trim (CMT) prowess. Secondly, the sector has to move up the global value chain, shifting from basic items to superior products in order to capture greater value and penetrate premium market segments. The PoA responds to these two visions by setting four strategic objectives to support their implementation:

1. Maximize productivity and uphold quality requirements through skills development.
2. Improve the business environment to further support the development of the T&C industry.
3. Expand the benefits of investment throughout the T&C value chain.
4. Enable market penetration and product development through trade intelligence.

The global T&C sector has been in a constant state of change since the turn of the century, characterized by a continual evolution in the location of both the most significant producing and exporting countries and regions as well as the main end markets. Demand surged in developing countries, production was consolidated in Asia, and new countries emerged as fast-growing exporters of T&C products. Buyers are looking to shift more activities to their suppliers while at the same time demanding larger volumes and quicker turnaround times; consumers are pressuring the industry to adhere to corporate social responsibility (CSR) standards; information and communications technology (ICT) is becoming critical to modern production and inventory management; and man-made fibres have become the sector's preferred material.

Kenya's T&C sector enjoyed strong growth over the past 10 years, spurred largely by the market access provided under the American Growth and Opportunity Act (AGOA). The sector's advances were supported by a number of internal factors including internationally competitive wages, a supply of skilled workers in garment making, relatively high worker retention, significant water supplies, decreases in electricity costs, recent infrastructure investments, improved port efficiency and relative proximity to Europe. Kenya also benefited from growing concerns about CSR, which caused Western buyers to look for new suppliers outside low-cost Asia.

Photo: Carmina Campus Production Kenya (c) Louis Nderi & ITC Ethical Fashion Initiative (11).jpg

Nevertheless, Kenya has been unable to keep pace with the global industry's dynamism. Despite being active throughout the entire value chain, meaningful integration has remained elusive. Nearly all the sector's gains since 2001 have been realized in the apparel segment, which accounts for nearly 90% of Kenya's total T&C exports. The textile subsector remains uncompetitive: limited investment downstream has led to capacity imbalances and relatively weak productivity and quality in the spinning, weaving and fabric finishing segments. It is telling that 93% of the garment segment's textile inputs are imported.

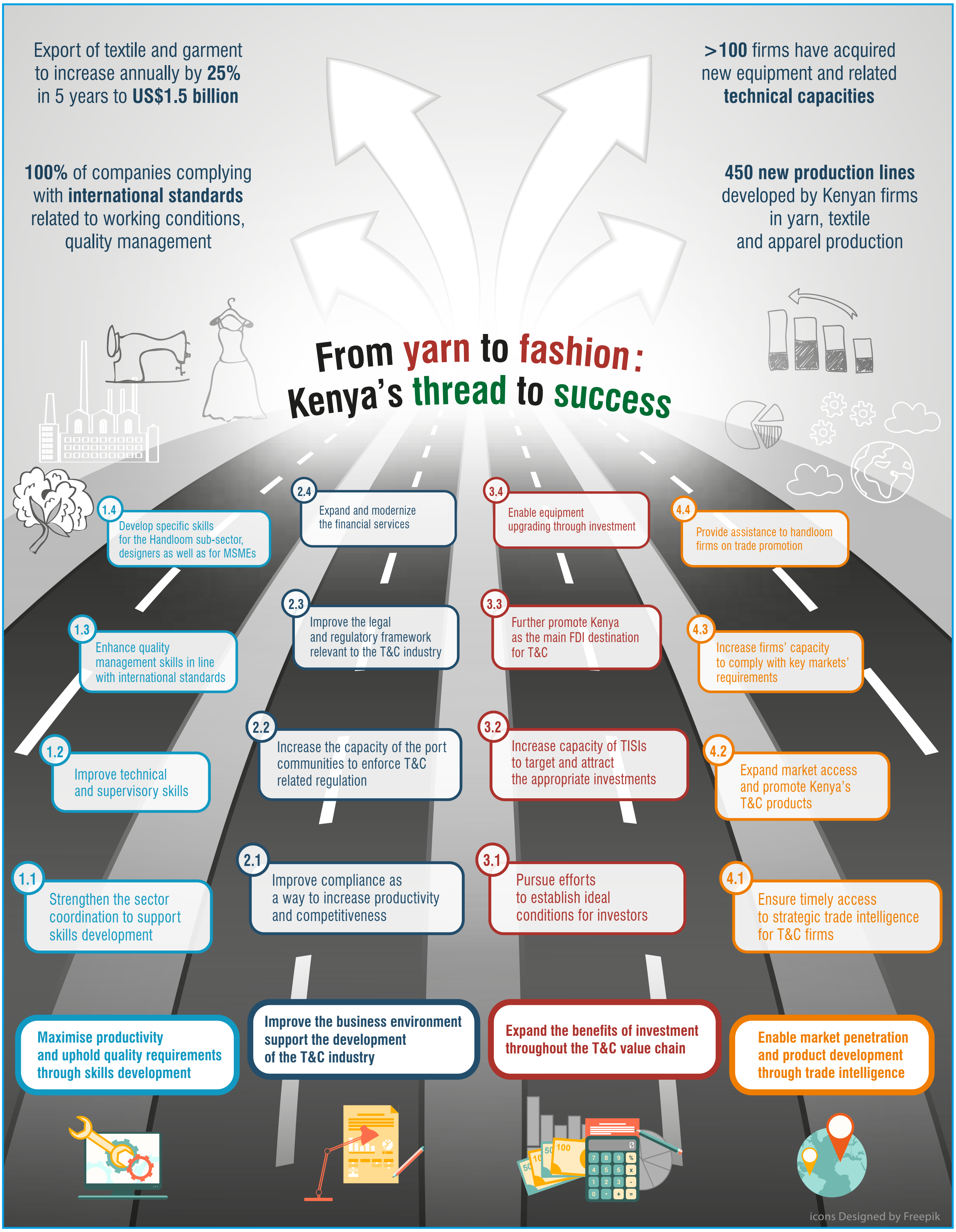
Yet even in the apparel subsector growth has stagnated and there has been a recent trend towards value attrition: whereas other countries are moving up the value chain, integrating and providing a greater breadth of services to buyers, Kenya has focused increasingly on CMT activities. It is also noteworthy that the vast majority of the sector's goods are exported to the United States of America. The limited level of market diversification is evidence that the sector has yet to achieve the levels of productivity, quality and service provision needed to be truly competitive.

Kenya's T&C sector stands at a crossroads. While its current growth model has yielded positive returns, trends in the global market make it clear that Kenya will be unable to compete sustainably. A new, strategic orientation can follow a two-pronged approach. Firstly, Kenya can foster its current position and build on its assembly and CMT offerings through improved process efficiency, workforce development and the formation of conducive policies. In order to remain truly competitive, however – particularly given the rise of low-cost centres of production such as Ethiopia and Myanmar – Kenya must shift from contract manufacturing and begin to provide fully integrated services including input sourcing, product development and design. Both scenarios will require workforce development, skills acquisition, foreign direct investment (FDI), an enhanced policy and business environment, and a strong business association.

This value chain roadmap was the result of extensive consultations with public and private sector stakeholders, leading to unprecedented levels of cooperation among sector operators. Key private sector stakeholders and leading institutions facilitated an exhaustive analysis of the sector. Market-led strategic orientations, prioritized by stakeholders and embedded into a detailed implementation plan, provide a clear roadmap that can be leveraged to address constraints to trade, maximize value addition and support regional integration. In addition, the inclusive approach ensured that all stakeholders were committed to the process and left with a clear understanding of each actor's role.

The value chain roadmap provides Kenya with a detailed PoA to achieve growth in the sector within the next five years. It is built around four strategic objectives.

VALUE CHAIN ROADMAP ILLUSTRATION



GLOBAL TRENDS 2025 – LIVING THROUGH A TRANSFORMATIVE PERIOD

THE ONLY CONSTANT IS CHANGE

While the global T&C industry has always been a fast-evolving sector, over the past 15 years the structure of sector has been constantly redefined by significant changes. These changes have been characterized by a continual evolution in the location of both the most significant producing and exporting countries and regions as well as the main end markets. While disjointed production was consolidated in Asia and China grew to dominate the market, new players including Viet Nam, Myanmar and Cambodia have emerged as some of the fastest-growing exporters of T&C products. Changing demographics and economic performance, meanwhile, have resulted in a proliferation of demand in new and fast-progressing markets such as South Africa, the Russian Federation, the United Arab Emirates (UAE), China and India.

One of the key drivers behind these transformations is the ever-changing policy environment: while the dismantling of the Multi-Fibre Arrangement (MFA) facilitated a consolidation of production in Asia, the introduction of AGOA catalysed renewed competitiveness in Africa. In turn, the Trans-Pacific Partnership (should it come to fruition) will surely redefine the competitive landscape once again and therefore requires continued advocacy with the United States Government by the Ministry of Industrialization and Enterprise Development (MoIED) to ensure some safeguards are established within the Trans-Pacific Partnership mechanism. Changes in the policy environment have been complemented by technological evolutions that have stimulated remarkable gains in productivity, product diversity and quality, thereby allowing polyester and blended fabrics to become preferred materials. Together with advancements in logistics and supply chain management that allow for greater and more flexible speed to market, these technical improvements have contributed to the increasingly rapid rotation of collections.

For now, Western countries have retained much of the higher value added portions of the value chain, including research, design, marketing and financial services. More tangible activities, which are frequently labour intensive, continue to be concentrated in developing markets. Yet even this has been subject to the pressures of change in recent years. Given the low profit margins in the manufacturing segment of the value chain, one of the few ways for retailers to reduce costs, and for producers to add more value, is to shift more of the design and development work to the manufacturing country. This has stimulated a shift in developing countries, where suppliers who were once engaged only in CMT activities are being entrusted with larger portions of the value chain and increased responsibility in delivering Landed Duty Paid orders, which may include form development of styles to final delivery in the buyers' stores.

Photo: MIMCO x EFI 2nd collection © Louis Nderi & ITC Ethical Fashion Initiative (59).jpg

Figure 1: Trend towards greater value addition

Assembly, payment base on a processing fee and fabric sourced and owned by the buyer.	The contractor is trusted with the whole manufacturing process (from sourcing fabric to delivering to the retail outlet (FOB).	Includes design and whole production of a garment and may include distribution to the final customer.	Coordinate supply chain, contract manufacturing or invest in production in foreign markets.	Post production capabilities, product dev., the focus is on branding, marketing, retailing and consumer research.

Source: Based on Gereffi, G. and Frederick, S. (2010); and Staritz, Cornelia (2012).

Large international retailers (transnational corporations (TNCs)) have grown to dominate the T&C value chain. They have gained significant influence over the choice of production locations and enjoy considerable bargaining power. These companies, which are generally based in the United States, European Union (EU) and Japan, purchase large quantities of goods. Following the elimination of the MFA, they have been consolidating production in fewer and fewer countries. Where they exist, foreign affiliates of TNCs often account for the majority of T&C exports from developing countries.

While acceptable price levels are a condition that potential suppliers must meet, the world's leading buyers consider a number of fast-evolving criteria to be key success factors, including:

- Quality production and assurance (product testing)
- Timely delivery
- Competitive pricing
- Product development capacities
- Social compliance (health and safety, workers' rights, environment)
- Adequate distribution capacities
- Vendor-managed inventory capacities.[1]

From a macro perspective, buyers often take care to mitigate the following risks:

- Inflation
- Poor energy and water provision
- Wage increases
- Unstable currency exchange rates
- Weak rule of law
- Barriers to trade
- Political instability
- Weak intellectual property protection
- Difficult physical access to markets and unattractive credit environments.

This highlights the role of the Government in ensuring a stable and attractive overall business environment. More specific to the T&C sector, suppliers such as Kenya wishing to secure their place in the global value chain must be able to adapt to the following trends and market requirements.[2]

Volumes

Another important trend is the increased volumes required by retailers. Retailers are growing in size and they require significant quantities of product. While these volumes used to be sourced from a variety of locations during the MFA era, retailers want to streamline their production by reducing the number of countries/suppliers that they source from. Suppliers must therefore be able to meet buyer volume requirements, either alone or in partnership through consolidation, if they are to enter some of the most attractive supply chains.

Speed to market

Fast fashion brands such as Zara have revolutionized supply chain management. Point-of-sale technologies now allow retailers to analyse trends. This analysis is then used to quickly produce and stock goods according to the latest market dynamics. This has resulted in fast turnover where products have short life spans and suppliers need the capacity to respond to variable orders. Upstream and downstream service providers (and material suppliers) must also support clothing manufactures in their efforts to turn around and deliver finished products in such a short time frame.

Consumer pressures

Consumers have become increasingly concerned about the treatment of workers in the T&C sector. This has put pressure

1.– Price Waterhouse Coopers (2008). *Global Sourcing: Shifting Strategies*.

2.– Information for Development Programme (2008). *The Global Textile and Garments Industry: The Role of Information and Communication Technologies (ICTs) in Exploiting the Value Chain*.

on the industry to begin adhering to CSR programmes and Codes of Conduct. These schemes, which also cover suppliers and subcontractors, require that firms be audited in order to ensure compliance with various health, safety and environmental issues. While this can result in higher costs, better social and working conditions may also lead to increases in productivity, thereby fostering increased profitability. Some buyers based in the United States and the EU have begun excluding suppliers that do not meet such criteria.

Man-made materials

The past decade has seen a marked shift away from natural fibres towards man-made materials. In 2013 man-made fibres accounted for 70% of fibre production worldwide, compared with just 55.5%[3] in 2007.[4] Spurred in part by technological advancements that allowed for enhanced productivity, increased quality, lower costs and greater diversity, a turning point came with the financial crisis of 2008. At this time, retailers turned to synthetic materials as a means of cutting costs in an effort to survive.[5] The trend was reinforced when cotton prices spiked considerably in 2011. Consumers have also developed a preference for synthetic or blended materials. In light of these trends, it is of the utmost importance that Kenya expands its multi-fibre expertise, particularly given that Kenya enjoys a higher preferential margin for man-made fibres under AGOA. This will require improved sourcing practices or the development of a parallel chemical industry for the production of synthetic materials.

3.– Food and Agriculture Organization of the United Nations and International Cotton Advisory Committee (2013). *World Apparel Fiber Consumption Survey*. Washington D.C.: ICAC.

4.– Leonie Barrie (2015). Man-made fibres climb to 70% of total production. Just-Style, 14 January. Available from http:/ /www.just-style.com/news/man-made-fibres-climb-to-70-of-total-production_id124084.aspx.

5.– Alexandra Wexler (2014). Cotton's crown threatened by man-made fibers. The Wall Street Journal, 25 April. Available from http:/ /www.wsj.com/articles/SB10001424052702304049904579516282130809074.

Lean retailing

Retailers increasingly want to focus on sales while transferring all other supply chain activities to their suppliers. Retailers are also beginning to engage more directly with producers, removing the middlemen of the past. As a result, they are requiring suppliers to act as 'full package' service providers. Suppliers are expected to provide more services than before, from the sourcing of materials to logistics and delivery. While the ability to provide such full package services requires integration and significant management skills, it does present an opportunity for low-cost manufacturers to capture greater value.

ICT

The growing role of ICT is a direct response to some of the other trends. Disaggregated production and fast fashion both require efficient and timely information sharing. ICT also allows suppliers to vertically integrate and provide full package services to lean retailers. Technologies such as computer-aided design are required for modern production. ICT can aid the communication between supplier and buyer, allowing for the automated checking of orders, stocks and prices, while enterprise resource planning integrates orders, sourcing, manufacturing, account handling and logistics, thereby helping companies optimize operations. In addition, modern ICT tools can allow manufacturers to track units throughout the production line in real time, facilitating more effective monitoring.

Box 1: Key takeaways for the Kenyan T&C sector

In light of these trends, Kenyan stakeholders must build capacities in a strategic manner so that their enterprises are enabled to meet the rigorous demands of today's buyers. Growth must be consumer-oriented and ICT integration will be crucial. To this end, efforts must be made to attract FDI to specific domains that require investment, technology and knowledge transfer, including online inventory management and enterprise resource planning. While technical skills must be enhanced in order to allow for greater productivity, improved managerial skills will be required to engage in complex, full package service delivery.

In addition, stakeholders must increase coordination so that they can supply adequate volume through consolidation and advocate for necessary policy support. It is particularly important that enterprises improve compliance with CSR principles and standards throughout the value chain so as to improve productivity and meet the requirements of an increasingly large portion of buyers. The Government meanwhile must address policy constraints (particularly on CSR issues and electricity provision), facilitate the upgrading of infrastructure and remove other trade hurdles.

RESILIENT TRADE IN THE FACE OF GLOBAL UNCERTAINTY

Global T&C exports have grown by 6% annually since the turn of the century, despite the 2008 financial crisis. Indeed, exports of clothing fell by only 12% in 2009, whereas total exports declined by 23%. This resilience is one of the reasons that the sector continues to attract investment. The steady demand for T&C products makes it a relatively stable source of foreign exchange earnings for many countries.

Valued at US$781 billion in 2013, sectoral exports currently account for 4% of international trade. The most important product categories include knitted apparel (US$192 billion), woven apparel (US$187 billion), cotton fibre and textiles (US$55 billion), made-ups (US$50 billion), man-made filaments and textiles (US$38 billion), and man-made staple fibre and textiles (US$36 billion).

Apparel accounts for 57% of the global T&C sector. The largest markets for clothing imports are the United States (21.2%), Germany (9%), Japan (8%) and the United Kingdom of Great Britain and Northern Ireland (6.3%). A number of markets, including the Russian Federation, the UAE, Viet Nam, Korea, Australia and China, have been growing at a very fast pace. The top 10 markets account for 65.5% of total imports today, down from 77.3% in 2003, highlighting the growing consumer base in developing and frontier markets.

Clothing exports have concentrated significantly over the past decade: whereas the top 10 exporters accounted for 59% of global exports in 2003, that share had grown to 73% in 2013. This period saw China solidify its position as a market leader, its share of exports having nearly doubled from 20% in 2003 to 38.8% today. In addition to China, export growth in Bangladesh, Viet Nam and India has been notable: the former two have gained relative market share with respect to China.

Production has shifted steadily towards Asia. The region now accounts for 65% of world exports, compared with 32% in 2004. This shift was stimulated by the dismantling of the MFA, after which producers sought to consolidate production in low-cost locations throughout Asia. In addition, international buyers have been steadily shifting greater responsibility to their suppliers. By moving away from simple CMT, larger portions of the value chain are now concentrated in supplier countries. It should be noted that despite the shift to Asia, a variety of countries still maintain competitive advantages based on factors such as proximity to markets (for example Turkey to the EU) or access to specific markets under preferential trade agreements.

Textiles account for the remaining 43% of sectoral trade. The structure of textile imports has remained fairly static over the last 10 years and the United States and China have continued to be the top two importers. Even so, a number of new markets have begun to grow in importance. These include Viet Nam, whose imports had a CAGR of 18.1%, Bangladesh (15.9%), Indonesia (22.9%), the Russian Federation (15.9%) and the UAE. Markets meanwhile have become slightly less concentrated: the top 10 importers now account for 46.7% of the market, down from 53.5% in 2003.

Table 1: Top exporters of clothing, 2003-2013

No.	Exporters	Exported value in 2003 (US$)	Exported value in 2013 (US$)	CAGR*	Share
1	China	45 757 114	165 044 601	13.7%	38.8%
2	Bangladesh	5 040 792	26 258 818	17.9%	6.2%
3	Italy	15 449 056	21 625 743	3.4%	5.1%
4	Viet Nam	3 386 376	18 496 564	18.5%	4.3%
5	Germany	9 127 940	18 320 287	7.2%	4.3%
6	India	5 916 206	15 702 657	10.3%	3.7%
7	Turkey	9 546 445	14 961 774	4.6%	3.5%
8	Spain	3 384 396	11 065 848	12.6%	2.6%
9	France	6 580 732	10 079 791	4.4%	2.4%
10	Belgium	5 167 839	8 678 581	5.3%	2.0%

Table 2: Top exporters of textiles, 2003-2013

Exporters	Exported value in 2003 (US$)	Exported value in 2013 (US$)	CAGR	Share
China	27 454 487	108 898 007	14.8%	33.4%
India	6 521 615	19 854 948	11.8%	6.1%
Germany	13 973 846	16 493 995	1.7%	5.1%
United States	11 888 902	16 080 252	3.1%	4.9%
Italy	14 008 743	13 926 994	-0.1%	4.3%
Republic of Korea	11 579 132	13 782 165	1.8%	4.2%
Turkey	5 430 513	12 560 332	8.7%	3.9%
Chinese Taipei	10 052 788	10 920 608	0.8%	3.3%
Pakistan	5 862 994	9 398 146	4.8%	2.9%
Japan	7 139 211	8 209 987	1.4%	2.5%

Source: International Trade Centre (2015). *Compound Annual Growth Rate.

As with apparel, the largest exporter is China, which enjoys a 33.4% market share. The textile supplier base has also grown more concentrated: the top 10 exporters now account for 70.6% of total exports, compared with 63% in 2003. As textile production requires more technology and skill than apparel production, it is generally less flexible. It requires significant financial resources as well as time, and most developing countries are only engaged in textile production to a limited extent. Nevertheless a number of such countries, including China, India, Turkey and Viet Nam, have registered considerable growth over the past 10 years.

Box 2: Room for emerging producers

Trade statistics highlight the fact that the sector continues to favour developing countries with competitive cost structures. It should also be noted that while a significant portion of the market is dominated by the largest exporters, smaller countries have recently succeeded in capturing greater market share. This, in conjunction with the sector's continued growth even in times of crisis, indicates that there is ample space for exporters with attractive cost structures, such as Kenya, to expand their participation.

Today, Africa contributes only 2.3% to global apparel exports, down from 3.7% at the turn of the century. Even so, renewed interest in Africa may present Kenya with an opportunity to capitalize on its competitors' diminishing advantages.

THE DECADE AHEAD

Experts indicate that these market trends are likely to continue, helping to shape the sector throughout the next decade. The apparel market is expected to grow to US$ 2.1 trillion in 2025, up from US$ 1.1 trillion today. This will be driven largely by the growing consumption of T&C products in developing countries. Per capita spending on clothing will likely grow at the fastest pace in India (11%), China (10%), the Russian Federation (8%) and Brazil (4%). It should be noted that despite slower growth in developed countries, per capita spending on clothing will still be higher in the West. Nevertheless, the quicker per capita expansion, together with strong population growth, will help the developing world overtake the West as the main market for T&C products.[6]

The two fastest-growing markets will be China and India. This growth will be supported by the following trends in the two countries:

- Economic expansion and growth of disposable income
- Population growth
- Growing preference among Chinese consumers to buy for fashion rather than utility
- Increased exposure to organized retail and branded clothing in India
- Expansion of domestic brands
- Growth of online retail.

6.– Wazir Management Consultants. *Investment Opportunity for Textile Machinery Manufacturing in India: Tapping a US$ 75 billion textile machinery market by 2020.*

Box 3: Changing dynamics in China will lead to a US$ 100 billion trade gap

While China currently accounts for nearly 35% of the sector's total exports, its economy is at a crossroads in which private consumption will begin to overtake investment as the main driver of economic growth. This shift will likely result in structural changes to export-oriented sectors such as T&C.

As domestic demand for apparel grows, Chinese firms will become more oriented towards the local market, thereby reducing their exports. In addition, supply-side shifts are expected to reduce garment production. As a result of increasing costs and a greater focus on service providers, T&C output growth is expected to drop from 7% to a more moderated 5%–6% per year. The combination of these demand- and supply-side shifts will result in a global trade gap: worldwide clothing exports are expected to grow to US$ 1,700 billion by 2025 (CAGR of 6.5%), whereas China's T&C exports will only grow by a CAGR of 6%. The net result of this lag will be a US$ 108 billion market gap that represents an opportunity for other countries wishing to increase their share of the global market.

Source: Wazir Management Consultants (2013).

By 2025, China will account for 27% of the total market for apparel products and the combined market size of China and India will surpass that of the EU and the United States.

Experts also note that the sector will require significant investment in the coming years. The T&C sector is relatively capital intensive: the investment to turnover ratio is 1:1 for spinning, 1:1.5 for fabric production and 1:4 for clothing production. As such, an investment of US$85 million (land, building, equipment and other fixed assets) is required to produce a US$100 million value of production at the garment stage of the value chain. Enterprises must make investments in order to both increase capacity and replace existing machinery. Experts calculate that the growth in global apparel demand will require an additional US$165 billion of value of production by 2025.[7] Given the investment turnover ratios, this will require US$142 billion of investments throughout the value chain. The replacement/upgrading cost of current equipment is expected to be roughly US$210 billion during the same period. The total required investment in the sector is therefore expected to be US$350 billion.

7.– Apparel demand is expected to grow by a value of US$1 trillion (from US$1.1 trillion toUS$2.1 trillion). Given that this increase will be due to both price and volume growth, and assuming an average of 3% price inflation, demand will grow by US$410 billion (retail) or US$165 billion (value of production). (Wazir Management Consultants (2013). *The Road to 2025: 5 Market, Trade, and Investment Trends That Will Define the Course of Textile and Apparel Industry*, p. 22.)

Box 4: Implications for Kenya

The developments in the sector have a number of implications for Kenya as it seeks to secure its place in the global value chain.

- Consumers are putting increased pressure on the T&C sector to improve social responsibility: suppliers are required to comply with CSR.
- The demand for full package services from lean retailers requires suppliers to expand their service offerings and create strategic partnerships with vendors rather than purely transaction-based relationships; this presents an opportunity for low-cost manufactures to capture greater value.
- Firms must increase volume capacity, either internally or through consolidation/partnership agreements, to meet large and often unpredictable buyer requirements.
- Firms must increase their ability to quickly supply the market in response to fast fashion demands.
- Companies are highly encouraged to invest in quality, increase their product development competency and develop their multi-fibre expertise.
- Increased management and ICT capacities will be required to satisfy buyer demands.
- So far, Asian countries have emerged as winners in global trade. In the next few years some of them will become important markets as well. China's increasing focus on the domestic market and value added production will result in multibillion dollar trade opportunities for suppliers in competing nations. Trade intelligence will be essential to tap into these opportunities.

KENYA'S T&C SECTOR IS AT A CROSSROADS

A rich history

The historical roots of Kenya's T&C sector date back to the early 1900s, when cotton cultivation was introduced to the country. It was not until the 1960s, however, that concerted efforts were made to develop the sector. The newly independent Government quickly recognized the potential offered by cotton and its affiliated industries and significant measures were introduced through the adoption of the Import Substitution Policy. The goal of this policy was to encourage integration of textile mills with cotton producers. In addition, the Government invested in textile mills. Other interventions included controlling margins throughout the value chain. Moreover, the Government protected the domestic textile sector through the application of onerous tariffs. The policy served its intended purpose and the textile industry expanded. By the 1980s it was the most important manufacturing sector in Kenya: it accounted for roughly 30% of employment in the manufacturing sector and relied on over 200,000 household farms.

The sector began to decline in the late 1980s with the large-scale introduction of second-hand clothing, or 'mitumba'. This clothing was sold at low prices and severely undercut those of domestic goods. The decline was further complicated by an influx of cheap imports spurred by the sector's liberalization in the 1990s. As a result, the average capacity utilization at textile mills throughout the country fell to only 50%.

Photo: Mimco Kenya Visit - (c) Louis Nderi & ITC Ethical Fashion Initiative (5).jpg

Prospects for Kenya's T&C sector changed dramatically, however, at the turn of the century. The catalyst for this change in fortune was the adoption of two trade agreements: AGOA and the African, Caribbean and Pacific–EU Cotonou Agreement in 2000. The new market access conditions spurred an interest in the Kenyan T&C sector and in the years following the adoption of AGOA both investment and employment jumped significantly. The past 10 years have witnessed a marked expansion in demand for Kenya's T&C products: T&C exports now account for 7% of Kenya's total exports (2013), compared with only 2% in 2003, having grown by a CAGR of 48% between 2003 and 2013. This growth has been driven entirely by an expansion in apparel exports through the performance of Export Processing Zone (EPZ) firms. Textile exports were flat, while home textile exports have been declining by 5% per year.

The need for a new paradigm?

Despite significant growth over recent years, Kenya's T&C industry is still relatively small. Valued at US$330 million, it represents only 0.6% of gross domestic product and 6% of the total manufacturing sector.[8] In addition, there is a significant disconnect between the progress achieved in the textile and clothing subsectors. The garment subsector has outperformed in recent years, due largely to the preferential market access granted under AGOA and, in particular, the third-country fabric provision which allows Kenya to produce apparel with fabric imported from Asia.[9] Today the United States market buys the vast majority of Kenya's T&C exports. The textiles segment meanwhile continues to underperform: because the American-led growth of apparel production used imported materials, the textile sector participated little in this expansion.

According to the Kenya National Bureau of Statistics (2015), the growth in textile production in 2014 was driven by increased production of knitting wool (25.5%), woven fabric (16.4%) and blankets (4.3%). In contrast, the production of goods such as twine, cordage and rope declined by more than 25%. For apparel, the leading products in 2014 were cardigans (increase of 13.4%), T-shirts (increase of 5.2%) and shirts (increase of 1.4%).[10]

The sector's recent advances have been driven by a number of factors. Firstly, Kenya benefits from preferential market access to the United States and Europe, and regionally has a Free Trade Agreement with the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). In addition, wages in Asia have been rising: whereas salaries in Kenya's T&C sector range from US$120 to US$150 per month, they are US$500 per month along China's coast and US$250 per month in China's interior.[11] While regional neighbours including Ethiopia certainly offer competition, Kenya's workforce has an advantage: workers are quite skilled in garment making and worker retention tends to be higher in Kenya than in neighbouring Ethiopia, which suffers from greater turnover. In addition to the labour supply, Kenya's water supply, decreases in electricity cost, recent infrastructure investments, port efficiency, relative proximity to Europe and green energy potential have made it attractive for greenfield investment.

Western buyers are also re-evaluating their sourcing strategies in light of ethical concerns such as the unsafe working conditions in many low-cost production centres. For example, although wages in Bangladesh are quite low at US$67 per month, growing concerns over CSR have left Western buyers looking elsewhere for new suppliers.

8.– Katrina Manson (2014). Investing in Kenya: textiles sector in Kenya gears up to take a larger share of world market. Financial Times, 2 December. Available from http://www.ft.com/cms/s/0/75b7273e-6040-11e4-88d1-00144feabdc0.html#axzz3ZBq7tNDC.

9.– African Cotton and Textile Industries Federation (2013). *Policy Research on the Kenyan Textile Industry: Findings and Recommendations*, p. vi. Nairobi: ACTIF.

10.– Kenya National Bureau of Statistics (2015). *Economic Survey 2015*. Nairobi: KNBS.

11.– Katrina Manson (2014). Investing in Kenya: textiles sector in Kenya gears up to take a larger share of world market. Financial Times, 2 December. Available from http://www.ft.com/cms/s/0/75b7273e-6040-11e4-88d1-00144feabdc0.html#axzz3ZBq7tNDC.

Table 3: Comparison of costs and competitive factors between Kenya and major T&C competitors

Estimated values	Kenya	Ethiopia	United Republic of Tanzania	India	China	Viet Nam
T&C export value (US$ millions, 2013)	377	94	248	40 192	273 959	21 534
Cotton production (thousands of 480 lb. bales)	32	175	375	30 000	30 000	17
Cost of labour (US$ per month)	110-150	50-60	70	175	550	180-200
Labour skills	Low–medium	Low	Low	High	Very high	High
Cost of electricity (US¢/kilowatt-hour [kWh]), estimated average	16-18	2-5	12	7-12	9–15	8
Percentage of annual sales lost to electrical outages	5.6	2.6	5.5	2.0	0.1	1.1
Cost of construction (US$ per ft2)	21	40	34	18-20	15-20	20-25
Lending rates (Annual Percentage Rates, estimated)	14-18	8.5	19	7-13	7	6-7
Time to clear Customs, inputs+exports (days)	31	37	44	12	17	15

Box 5: Growing concerns over CSR

In April 2013, an eight-storey building collapsed in Dhaka, Bangladesh, resulting in the deaths of 1,129 people and the injury of an additional 2,500. As the building was being used for the manufacture of ready-made garments, the tragedy brought new focus onto the dangerous working conditions in the T&C sector. In the years following the collapse, the sector has been subject to increasing consumer pressures for social responsibility and both the Government and international retailers have pledged to improve working conditions. Other multinational buyers have stopped dealing with factories in Bangladesh due to the lack of CSR standards, while some countries are paying off the damaged reputation of Bangladesh in their efforts to attract socially aware buyers.

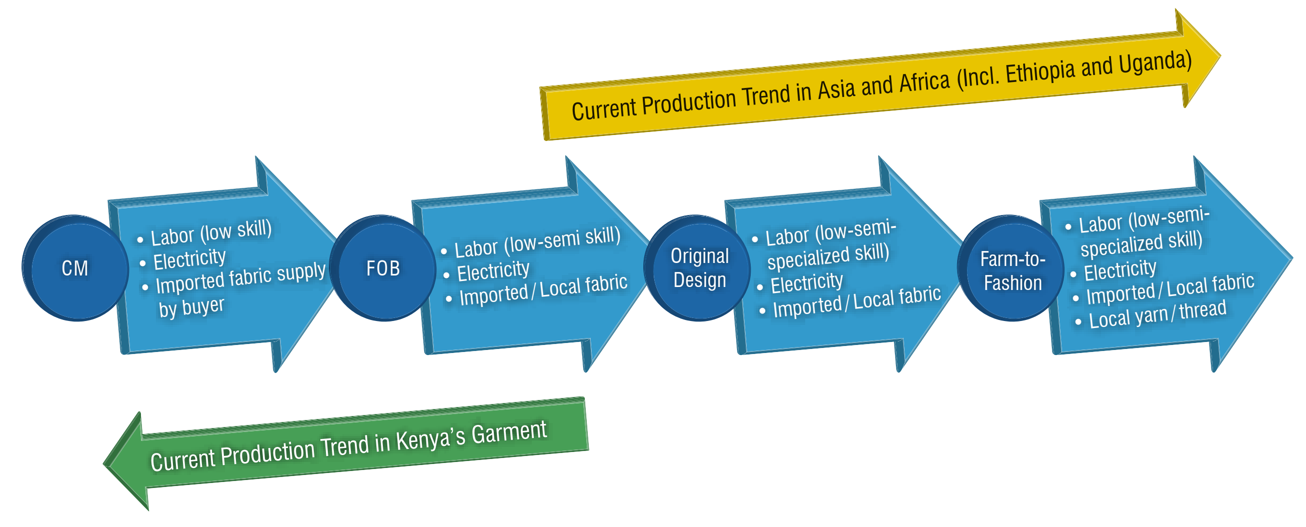
Despite the significant potential offered by Kenya's comparative advantages, there are signs that these factors may not be enough to ensure long-term success unless the sector takes a more strategic approach to its development.

A major concern is the worrisome trend in Kenya towards lesser value addition.[12] Many competitors in Asia and Africa are increasing their efforts to integrate local inputs through farm-to-fashion production models. While Kenya made similar efforts to increase the availability of local materials, they were relatively unsuccessful and the sector was forced to continue relying on imported materials. Not only this but many factories in Kenya, particularly subsidiaries of foreign companies, are moving away from value addition: they have stopped sourcing their own materials and are moving towards a CMT model, serving as simple contractors for buyers who supply all necessary designs and materials. This reduces the value created within the country and diminishes pressures for input production.

Recent trends indicate that Kenya's T&C sector has not achieved a level of competitiveness and value addition that can stand the tests of time. While competitors are moving up the value chain, integrating and providing a greater breadth of services to buyers, Kenyan producers have been reducing the value content of their services. This not only reduces the income and employment generated but it also diminishes spillover effects. In addition, although leveraging a CMT niche has worked so far, it is unlikely to be a sustainable business model given the global trends in production and buyer requirements. Another concern is the sector's concentrated reliance on AGOA. While market access under AGOA has been a key driver for Kenya's T&C export success, many producers have come to believe that their goods are more competitive than they truly are. Indeed there are signs that, in the absence of AGOA, the garment sector might not be able to survive regional and global competition.

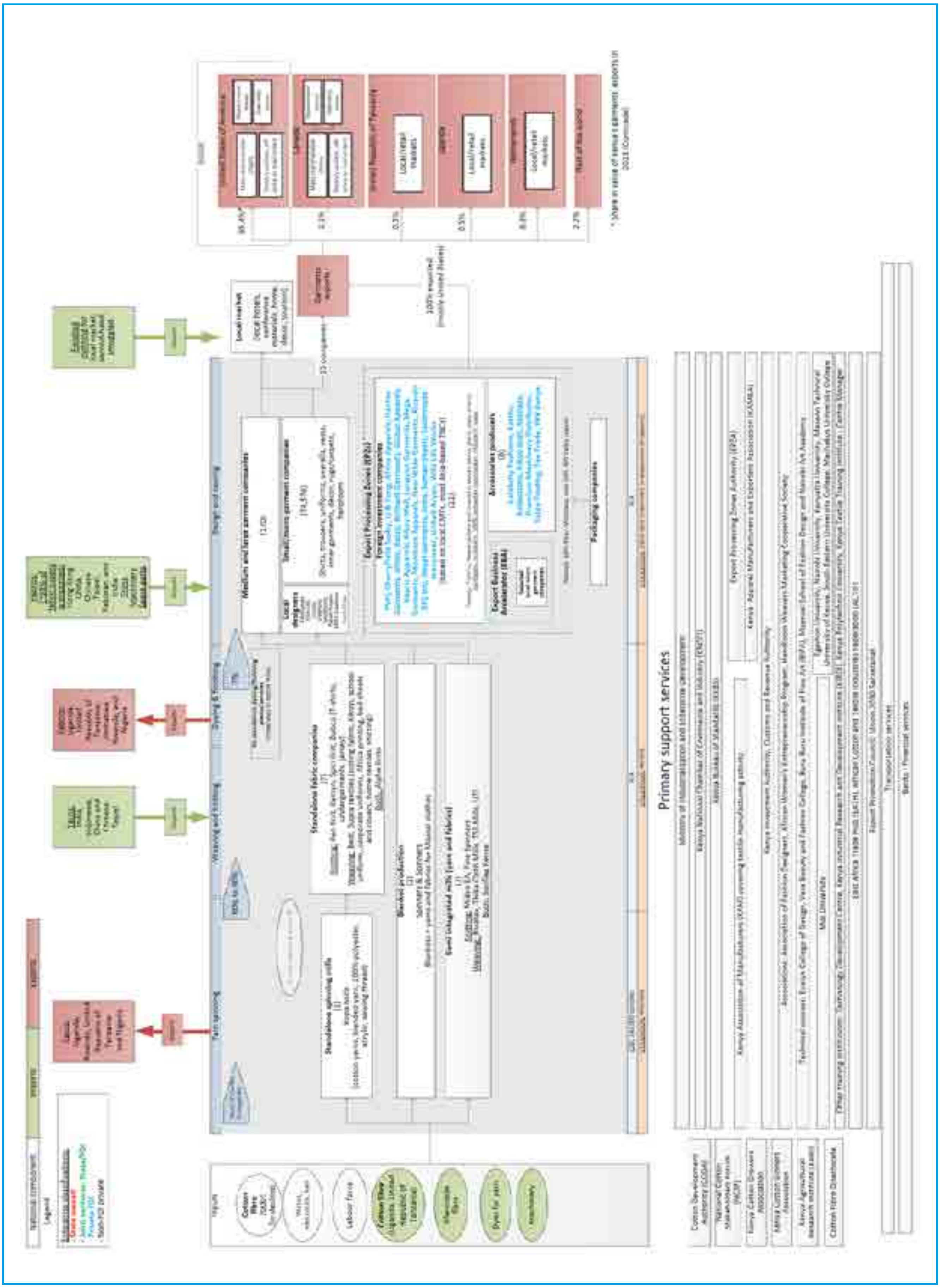
12.– Global Development Solutions (2014). *Value Chain Analysis of Priority Industrial Sub-Sectors in Kenya, Part I: Textiles and Garments*, p 6.

Figure 2: Production trends in the garment sector



Source: Global Development Solutions (2014), p. 6.

Figure 3: Kenya's T&C value chain



THE VALUE CHAIN IS STUNTED BY LIMITED INTEGRATION AND SUBOPTIMAL VALUE ADDITION

Enterprises in Kenya cover the entire T&C value chain, from input production to textile manufacturing and clothing assembly. In general, the garment section is the most advanced part of the value chain and limited investment downstream has led to capacity imbalances and relatively weak performance in the cotton, ginning, spinning, weaving and fabric finishing segments.[13]

The sector is characterized by a general lack of coordination between segments, which leads to inefficiencies and gaps in quality. In addition, international buyers and procurement agents control the value chain. They dictate factors such as price, quality and delivery time. This has put pressure on the sector to shift towards high volume, low margin production.

Inputs

One of the T&C sector's main inputs is cotton. It should be noted that despite domestic cultivation, Kenya is a net importer of cotton; only 7,000 tons of domestically produced cotton fibre is used in the T&C value chain and this figure is in decline. These levels are not enough to meet the demand from spinning mills. Most of Kenya's imported cotton is purchased from Uganda. Cotton is currently cultivated in every province of the country with the exception of Nairobi.

Production is dominated by between 30,000 and 45,000 smallholder farmers who grow under rain-fed conditions on areas averaging below one hectare and with minimal use of inputs. All of the cotton, of which two varieties are grown (HART 89 M and KSA 81 M[14]), is handpicked and roller-ginned. Most farmers have remained unorganized following the sector's liberalization. As such, access to extension services, inputs and credit is difficult. In addition, there is little collective bargaining or marketing. In total, Kenya contains 385,000 hectares of land that is suitable for cotton (350,000 rain-fed and 35,000 irrigated). Total production potential exceeds 300,000 tons of cotton seed. Nevertheless, only 40,000 hectares are currently being used for cotton.

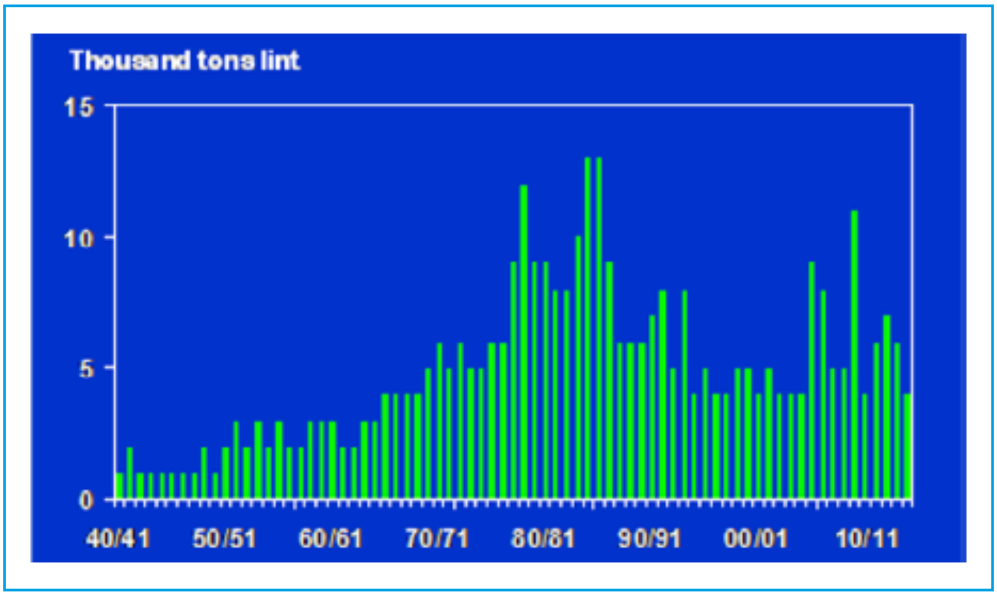
Production has been volatile, reaching a peak of 39,300 tons of lint in 1984/85. Most recently, the International Cotton Advisory Committee (ICAC) estimates that production was 6,000 tons of lint in 2013/14. As such, Kenya ranks 21 among cotton-producing countries in Africa.

Yields are 185 kg/hectare (2013/14, ICAC), making them among the lowest in both Africa and the world. This is due to a variety of factors including limited farming skills, inadequate extension services, limited access to credit, variable rainfall, limited uptake of fertilizers, inadequate pest control and crop management techniques, and unstable market prices for cotton seed.

13.– Regional Agricultural Trade Expansion Support Programme (2003). *Cotton-Textile and Apparel Value Chain Report for Kenya*. Nairobi.

14.– African Cotton & Textile Industries Federation (2011). *Competitive Supply-Side Analysis of Cotton, Textile & Apparel Sectors in East Africa: Kenya, Sudan, United Republic of Tanzania and Uganda*.

Figure 4: Kenyan cotton production 1940/41-2010/11



Source: ICAC.

The ginning segment operates significantly below its capacity, which is estimated to be roughly 200,000 bales (~37,000 tons) of lint. In comparison, the maximum historic output was only a third of this amount. Only eight of the 20 ginneries in Kenya are operational and most are using outdated equipment. Kenya's ginning outturn of 33.3% is the lowest in Africa (21% lower than the levels achieved in West and Central African countries of the franc zone). The low utilization rate leads to significantly reduced productivity, thereby inflating processing costs. Ginning overcapacity also harms the quality of Kenyan lint by fostering competition for inputs between ginners: although Kenyan cotton seeds are of good quality, the dearth of supply when compared to ginning capacity leads buyers to purchase any seed they can, without giving due consideration to quality. This results in high levels of contamination and limited value addition. Increasing profitability in the cotton segment will therefore require increased productivity at both the production and ginning levels.

Other inputs, including agrichemicals, man-made fibres, machinery, dyes for yarn and a large portion of fabrics, are imported from abroad. Although labour is sourced domestically, the sector suffers from a lack of appropriately qualified human resources including managers, operators and designers. Expensive electricity is another detriment to profitability, particularly in the more capital-intensive textiles segment.

Yarn spinning

Kenya's spinning mills tend to be large and characterized by low levels of productivity, and they all operate well below capacity. Production costs vary significantly, depending on such factors as the quality and origin of cotton. It should be noted that, despite limited production in the spinning segment, the cotton sector does not produce enough lint to meet mill demand. Kenya continues to import cotton lint in order to meet this deficit. It should also be noted that export-oriented enterprises tend to use imported materials.

Enterprises in Kenya's yarn spinning segment have a capacity of roughly 140,000 spindles, of which they utilize 40%–50%. The main product for domestic and regional markets is acrylic yarn, whereas exports are dominated by organic cotton yarn, blended yarns and sewing thread.[15]

There is just one stand-alone spinning mill (Rupa Mills) in Kenya's T&C value chain. This mill produces cotton yarns, blended yarn and 100% polyester and acrylic sewing threads. The remainder of spinning activity is undertaken by integrated and semi-integrated mills with the following specialties:

- One blanket production company: Spinners & Spinners. This company produces blankets, and yarn and fabrics for Maasai clothing.
- Two semi-integrated mills oriented towards knitting: Midco EA and Fine Spinners.
- Four semi-integrated mills oriented towards weaving: Rivatex, Thika Cloth Mils, TSS Mills, UTI.
- One semi-integrated mill with no orientation: Sunflag Kenya.

Of the yarn produced, 10%–20% is exported, mainly to Uganda, Rwanda, the United Republic of Tanzania and Nigeria. The remaining 80%–90% continues along the domestic value chain to the weaving and knitting segment.

Weaving, knitting, dyeing and finishing

As with the spinning segment, enterprises in this segment of the value chain tend to be quite large and operate well below capacity. They suffer from poor levels of productivity, high input costs (both labour and electricity), outdated technology, limited transport, limited access to finance, low quality, limited market outlets, and price unpredictability. Enterprises producing fabrics for export tend to rely on imported materials. The main product for the domestic and regional markets is woven fabric, while organic cotton knit fabric and fabric of cotton/man-made-fibre blends are exported.

The segment is operating at roughly 40%–50% of total capacity and it relies on imported yarns from India, Indonesia, China and Chinese Taipei. In total there are 15 enterprises engaged in the weaving, knitting, dyeing and finishing space. In addition to the eight semi-integrated mills detailed under the yarn overview, there is one stand-alone textile company (Alpha Knits). Kenya also has four stand-alone knitting companies (Ken Knit, Kayn, Spin Knit and Bubco) that produce T-shirts, undergarments and jersey. The sector's two stand-alone weaving companies (Bedi and Supra Textiles) produce suiting fabric, kikoyi, school uniforms, corporate uniforms, African printing, bed sheets and covers, home textiles and shirting. It should be noted that there are no stand-alone dyeing/finishing plants and that all such activities, to the extent that they are present in Kenya, are performed in textile mills.

Fabrics are then exported to Uganda, the United Republic of Tanzania, Zimbabwe, Rwanda and Nigeria. While a portion is purchased by local garment producers, it is only 7% of the fabric demanded by the sector.

Design and sewing

With the opening up of the American market through AGOA, Kenyan apparel firms have shifted production away from the manufacture of African print garments meant for the

15.– *Ibid.*: p. 32.

domestic and regional markets.[16] Instead, enterprises are now producing a wide range of apparel for export including jeans, trousers, shorts, shirts, nightwear, blouses and dresses. However, they do continue to produce trousers, uniforms, overalls, vests and inner garments for local and regional markets.[17]

Enterprises are currently operating at 100% of capacity, and capacity is continuously being expanded through investment. Kenya imports roughly 93% of its fabric supply, mainly from China, Hong Kong, Chinese Taipei, Pakistan and India. The necessary trims, machinery and spare parts are also imported. It should also be noted that despite the existence of some accessories producers in EPZs, the majority of accessories are imported.

The design and sewing segment includes 170 medium and large garment companies as well as nearly 75,000 small and micro enterprises. These companies produce a wide range of goods for both the domestic and foreign markets. Products include shirts, trousers, uniforms, overalls, vests, inner garments, décor, rugs/carpets and handloom goods. Many of these companies (including KikoRomeo, Loulou Creations, Sandstorm, Panah Project, Mefa Creations and Kimila Afrika) add significant value by designing their own products.

The sector also includes roughly 22 foreign-owned companies in the EPZs. Owned mainly by Asian TNCs, they engage largely in CMT activities, producing towels, T-shirts, fleece jackets and trousers, woven pants, jeans, tops, shorts, cardigans, pullovers, 100% polyester sportswear, and children's' wear. Nine foreign-owned accessories producers also operate out of the EPZs. Lastly, a small number of locally-owned micro garment companies are being incubated through Kenya's Export Business Accelerator Programme (EBAP) within the Athi River EPZ in order to facilitate transfer of capacities from lead firms. The initiative has yielded good results, improving local ownership of EPZ companies, and is in the process of being replicated in other EPZs. Kenya's garment enterprises are supported by domestic packaging companies.

16.– Mangierie, Tina (2006). *African Cloth, Export Production, and Secondhand Clothing in Kenya,* p. 10. Chapel Hill, N.C.: University of North Carolina at Chapel Hill.

17.– African Cotton & Textile Industries Federation (2011). *Competitive Supply-Side Analysis of Cotton, Textile & Apparel Sectors in East Africa: Kenya, Sudan, United Republic of Tanzania and Uganda,* p. 32.

Box 6: Kenya's EBAP

The majority of companies benefiting from EPZs tend to be both large and foreign-owned. A feasibility study performed in 2003 noted that the following challenges have historically hindered greater micro, small and medium-sized enterprise (MSME) participation in EPZs: lack of export market information, lack of suitable business premises, high rental costs of EPZ facilities, lack of credit facilitation, lack of suitable export facilitation for SME exporters and lack of provision of business development services.[1]

EBAP was launched in an attempt to help MSMEs overcome these constraints and benefit from Kenya's EPZ initiative. To this end, EBAP serves as an incubator that helps to accelerate growth of MSMEs wishing to operate within EPZs so that they can grow into medium- and large-scale exporters.

Source: Export Processing Zones Authority (2013).

1.– Kenya Export Processing Zones Authority (2013). The Export Business Accelerator Programme. Available from http://www.epzakenya.com/index.php/investment-information/epz-business-incubator.html.

Distribution

Most local garment manufacturers sell their products on the domestic market to consumers, tourists and hotels. Domestic sales include home textiles, conference materials and various types of clothing, including trousers, uniforms, overalls, vests and inner garments.

About 15 local companies engage in export. The companies operating out of EPZs meanwhile export 100% of their products. Almost all (95.4% (2013)) goods are exported to the United States under AGOA, where they are sold through mass merchandizing chains, department stores, specialty stores, factory outlets, and off-price or mail order outlets. Canada is the second-largest market, receiving 1.1% of Kenya's garment exports. Other important markets include the United Republic of Tanzania (0.5%), Uganda (0.5%) and the Netherlands (0.3%), where Kenyan goods are sold through local retail markets.

Primary support services

Overall policy support is provided by the MoIED, which is tasked with leading Kenya's economic development efforts. In addition, it oversees the Export Processing Zones Authority (EPZA), whose role is to promote export-oriented investment through its management of the EPZs. Various services are provided by both governmental and private sector organizations including the Kenya National Chamber of Commerce and Industry (KNCCI), the Kenya Bureau of Standards (KEBS), EPZA, the Kenya Investment Authority (KenInvest) and the Kenya Revenue Authority (KRA). The Export Promotion Council (EPC) is Kenya's trade promotion organization and it provides trade information services, technical assistance, policy advice, and marketing and sales services. The T&C sector meanwhile is represented by a number of associations: the Kenya Association of Manufacturers (KAM), covering textile manufacturing activity; the Kenya Apparel Manufacturers and Exporters Association (KAMEA); the Association of Fashion Designers; and the Handloom Weavers' Marketing Cooperative Society (WEAMACO). The East Africa Trade Hub and African Cotton and Textiles Industries Federation (ACTIF) also provide support to the sector.

Education and training is provided by a range of universities and technical and vocational education and training (TVET) institutions (such as the Evelyn College of Design or, Vera Beauty and Fashion College) and are complemented by the various training institutions (such as the Technology Development Centre or Kenya Textile Training Institute).

Box 7: Salient issues of the current value chain

Given the state of the cotton and textile segment, it is unlikely that the value chain will achieve full integration in the short-to-medium term. Indeed, the quantity of cotton produced is so low that it is unrealistic to expect a significant revival in the provision of domestic raw materials. Similarly, there are only a few yarn and fabric producers, and none of them are located in EPZs. The goods that these enterprises do produce are of low quality and only a small portion is used by the garment segment. Improvements in the textile segment will require significant investment in both equipment and skills upgrading. Furthermore, foreign investors are discouraged by the very high electricity costs that make textile production uncompetitive. As such, the Government must make concerted efforts to lower these costs.

The garment segment has experienced greater success, as evidenced by the proliferation of local enterprises. Nevertheless, foreign investment has been targeted towards CMT activities. Increasing value addition will require the targeted attraction of more 'productive' investment. As a prerequisite, technical, design and management skills must be enhanced so that investors are confident in Kenya's ability to provide a wider range of services to modern buyers, including lean retailers.

BUSINESS-ORIENTED POLICIES HAVE BEEN WELCOMED BY THE PRIVATE SECTOR

Industrial policy

Kenya has been implementing strategies to promote private sector-led growth since the early 2000s. In this framework, it has been actively reviewing and amending its industrial policies to reflect the fast-changing landscape of international competition. The country's overall economic strategy has been formulated in the Government's Vision 2030, a 'long-term development blueprint to create a globally competitive and prosperous nation with a high quality of life by 2030'.[18] The economic pillar of the vision seeks to foster a 10% annual growth rate by focusing on intermediate objectives. The current intermediate objectives include improvements in the areas of tourism, agriculture, wholesale and retail trade, manufacturing, information technology, financial services, and infrastructure.

Twenty-five flagship projects are currently being implemented to address constraints in these focus areas, some of which may impact the T&C sector, directly or indirectly. These include projects that seek to establish small and medium-sized enterprise (SME) parks and Special Economic Zones; improve infrastructure through the construction of the Dongo Kundu port; stimulate the creation of producer business groups; and develop wholesale market hubs. The Government has also extended a number of incentives to investors in its efforts to stimulate export growth (detailed further in the following section).

The Government will soon be launching the Industrial Transformation Programme in support of Vision 2030's economic pillar. With the overall goal of making Kenya an industrial hub, it seeks to increase manufacturing to more than 15% of gross domestic product, create 1 million jobs, increase FDI by a factor of five, improve the ease of doing business and support the development of Kenyan SMEs. The T&C sector has been identified as a priority industry and it will be the focus of the following sector-specific flagship projects:[19]

18.– Kenya Vision 2030 (2015). Website. Available from: http://www.vision2030.go.ke/.

19.– Kenya Ministry of Industrialization and Enterprise Development (2015). *Kenya's Industrial Transformation Programme,* pp. 44–45.

1. Construction of a green industrial park and textile city in Naivasha
2. Attract one to two large, integrated anchor deals
3. Encourage textile manufacturers to create fabric distribution hubs
4. Increase support to existing textile and apparel players through performance contracts
5. Attract three to five sourcing companies to establish a local presence
6. Increase local cotton growth through attracting an anchor investor.

Trade policy

A member of the WTO since 1995, Kenya has participated in all major WTO trade talks and it maintains a negotiating team in Geneva. The country is an active member of the organization and it has presented position papers on a number of issues. Kenya does, however, continue to face a number of challenges with regards to its participation.[20] The goal of Kenya's current trade policy is to enhance regional integration, notably through the EAC, as a step towards becoming a more globally competitive country. Kenya is a founding member of the EAC and it is implementing the EAC Development Strategy, which aims to consolidate the Customs union, move towards a common market, establish a monetary union and lay the foundations for a political federation. The strategy also promotes the development of economic infrastructure (including energy) that would support and spur economic growth in the member states, while it calls for the monitoring and elimination of non-tariff barriers that hamper intra-EAC trade.[21]

Kenya is also a member of COMESA. As such, it receives and applies preferential tariffs to 19 countries, 14 of which (including Kenya) have entered into a Free Trade Area. The country is currently undertaking negotiations to conclude the tripartite agreement between COMESA–EAC–Southern African Development Community (SADC) (which will grant Kenya preferential access to the fast-growing South African market) and finalize the Economic Partnership Agreement with the EU as part of the EAC region.

It should be noted that India recently offered free market access for African least developed countries. However, Kenya was recently reclassified as a developing country so it will not benefit from this duty-free, quota-free agreement. Nevertheless, EAC countries are preparing a white paper to advocate for the agreement to be extended to the entire EAC region. The white paper also seeks to expand the scope of the agreement so that it includes non-accumulated products: at the moment, the agreement only applies to products that are 100% made within the beneficiary country, from fibre to garment.

While not a trade policy per se, particular mention should be made of Kenya's trade relations with the United States. AGOA was recently extended for 10 years, to 30 September 2025. As this extension includes the continuation of the third-country fabric programme for the same period, it will ensure that Kenyan apparel products continue to have duty-free access to the American market. The renewal is of great importance, as the previous series of short-term extensions had deterred investors by compounding the risks already inherent in investing in Africa. Indeed, most investors require at least a 10 year horizon to amortize a major investment, such as those necessary to build a new textile factory. The fact that Congress had never extended AGOA for 10 years or more is one of the main reasons that the upstream textile production originally envisioned by the creators of AGOA has yet to materialize.

Kenya has also taken a number of unilateral steps towards improving its trade environment. The Tax Remission for Export Office, for example, remits duty and value added tax (VAT) on raw materials used in the manufacture of goods for export. This is applicable as long as the commodity is transformed in some way through assembling, packaging, bottling, repacking, mixing, blending, grinding, cutting, bending, twisting, joining or any other similar activity. However, the remission is not granted for the importation of plant, machinery, equipment, fuels or lubricants. Various modernization projects and reforms are also being implemented in an effort to facilitate trade through enhancement of Customs, Road Transportation, Business Automation and other relevant services.

The Government has made great strides in improving the business environment through its industrial and policy reforms. The sector now enjoys enviable market access and a supportive policy framework. Nevertheless, the capacities of Government officials to formulate effective trade policies must be improved and mechanisms for stakeholder coordination and consultation when pursuing trade objectives need reinforcing. This will allow for trade policies to be modified in line with the dynamic needs of the T&C sector.

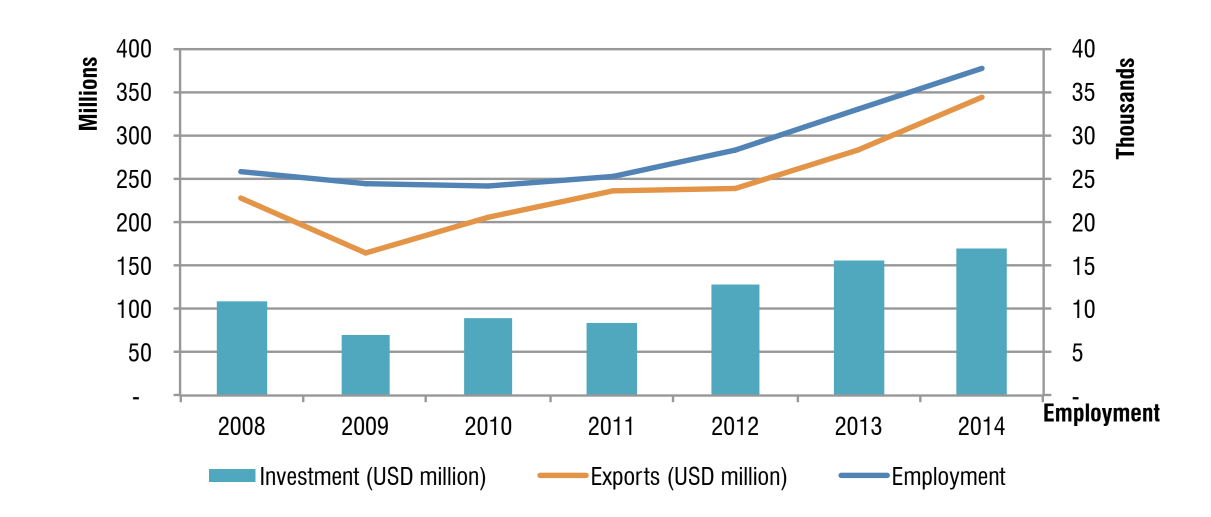
20.– Odhiambo, W., Kamau, P. and McCormick, D. (2015). Managing the challenges of WTO participation: case study 20: Kenya's participation in the WTO: lessons learned. Available from https://www.wto.org/english/res_e/booksp_e/casestudies_e/case20_e.htm.

21.– World Trade Organization (2012). *Trade Policy Review Report by the Secretariat, East African Community*, WT/TPR/S/271.

Box 8: Non-reciprocal preferential market access

In addition to the United States (through AGOA), Kenya receives non-reciprocal preferential tariffs from most other developed markets, including: Australia, Canada, the EU, Japan, New Zealand, Norway and Switzerland. It receives similar concessions from some emerging and frontier markets such as Turkey and some Commonwealth of Independent States countries (namely Belarus, Kazakhstan and the Russian Federation). It would be important that such information is disseminated in a more efficient manner in order to stimulate T&C market diversification. Indeed, several studies on non-reciprocal preferential arrangements find that limited awareness among the private sector, and sometimes even among the public sector, is one of the main reasons that preferential duties are not leveraged to their full extent.

Figure 5: Investment and exports in the EPZ garment sector (2008-2014) (US$ millions)[22]



Source: Kenya Export Processing Zones Authority (2012).

22.–Kenya National Bureau of Statistics (2015). *Economic Survey 2015*, p. 202. Nairobi: KNBS. Direct data (reported by Kenya) and mirror data (reported by trading partners, in this case the United States) differ significantly between 2001 and 2004; mirror data shows that garment exports increased from 2001 onwards, whereas the increase is evidenced from 2005 onward in direct data. In this graph, the data reported by the United States provides greater clarity on the impact of AGOA.

FDI HAS CARRIED THE GARMENT SEGMENT BUT LEFT THE TEXTILE SEGMENT BEHIND

Kenya is a promising investment destination for garment manufacturing in East Africa. It is one of the few countries that have successfully capitalized on the United States market access advantage provided by AGOA. In 2014, Kenya replaced Lesotho as the largest garment exporter to the United States under AGOA. Indeed, AGOA has been an important driver of growth for Kenya's garment manufacturing industry. Prior to 2000, the year that AGOA came into force, Kenya's T&C exports were negligible. However, exports started to grow steadily following the initiation of preferential market access.

Kenya FDI attractiveness

Kenya fares well in various international business rankings compared with regional competitors (see Appendice section A). Its rankings, however, are significantly lower than those of large Asian T&C producing nations. Despite having a low-cost manufacturing country (Ethiopia) and a large cotton-fibre-producing nation (United Republic of Tanzania) as neighbours, Kenya has been able to continuously attract FDI in the garment sector. In 2013, the Government licensed 46 new garment factories, a historic high. Over the years, Kenya has developed a garment manufacturing industry which is far more evolved than that of its neighbours, having fostered effective market linkages and raw material and garment trade networks. Large buyers have established footholds that they use to capitalize on Kenya's advantages. Meanwhile in competing countries the sector is at the beginning of its growth cycle.

It should be noted that input costs (power, wages, etc.) in Kenya are high when compared with other global T&C producing nations. While the Government is taking steps to make them more competitive, Kenya's strategy is not to make itself the cheapest manufacturing destination. In one of the SITA consultations, Jas Bedi, Chair of KAM said, 'We do not want to be the Bangladesh of Africa', referencing that country's low-cost manufacturing model. 'We want to be the Sri Lanka of Africa', implying the need to produce value added garments and improve productivity in order to compensate for higher costs.

Government support

The Kenyan Government is keen to promote the T&C sector's development, having recognized that it has the potential to contribute substantially to employment and income generation. It has thus begun a series of initiatives aimed at attracting foreign investors. Kenya's EPZ and Manufacturing under Bond frameworks are well-established (see Appendice section A). More than 80% of T&C goods produced in Kenya come from enterprises located in EPZs and the sector represents a third of all economic activity within these zones, employing over 37,000 people. Much of the investment in EPZs is coming from Asia. In 2012, half of all EPZ enterprises were foreign-owned, one-fourth were joint ventures and the rest were wholly Kenyan.

Kenya meets the fundamental needs of FDI projects in that FDI is given national treatment. There are standard guarantees against expropriation, no foreign exchange controls and profits may be remitted freely. Although foreigners and foreign-controlled companies may not own land, 99-year leases are available. Bilateral investment treaties with 14 countries (five in force with EU countries; nine ratified but not yet in force, such as with China) and Kenya's membership in the International Centre for the Settlement of Investment Disputes provide investors with additional confidence that they will be treated fairly by the Kenyan Government.

FDI concentrated in CMT activities located in EPZ

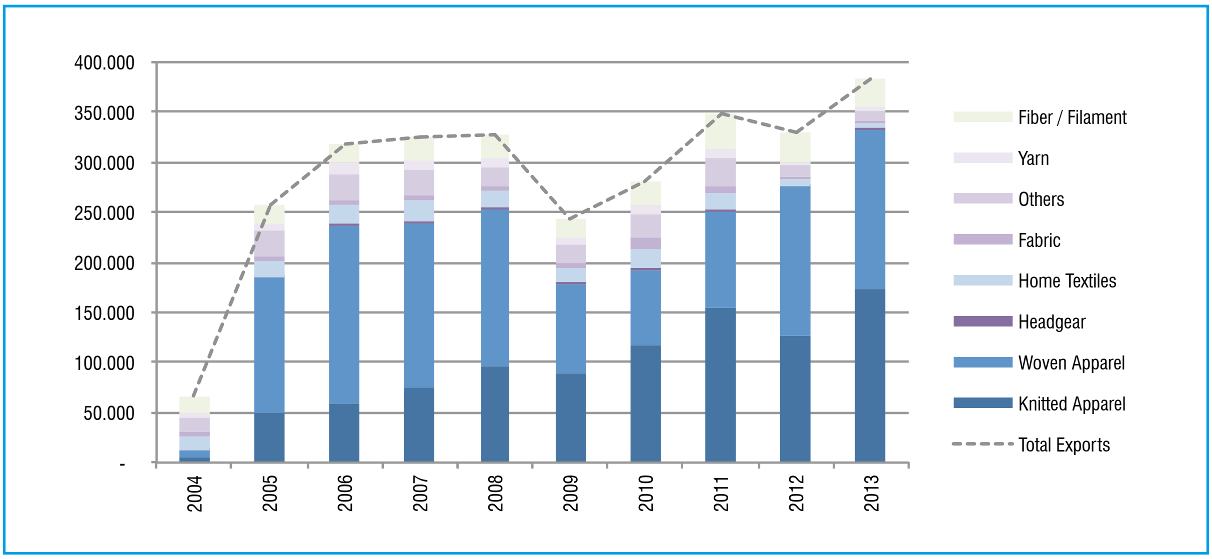
A major challenge that remains, however, is the lack of upstream capacities in the garment manufacturing portion of the value chain. The garment industry works mostly with imported fabrics and other inputs. Foreign investors in Kenya take a hands-off approach to investing in the country. They generally perform simple and stand-alone CMT activities and their interaction with the wider sector (and economy) is negligible. This limits spillover effects and has diminished the stimulation of value added production. This might also be due to the fact that investment promotion intermediaries (IPIs) relationships with investors have tended to be developed very little beyond the provision of EPZ space and services; or the issuance of permits, certificates and licences; or the provision of industrial park space and services. A priority in the future will be to ensure more integrated involvement of existing domestic and foreign investors. The construction of 'textile cities', such as the Naivasha project in Athi River, could contribute to solving this problem and attracting investment in the textile segment, thereby ensuring constant input supply to local garment manufacturers.

Moving forward, the Government must make efforts to direct investment towards areas of the value chain where it is most needed. To this end, investment should be targeted at non-CMT garment activities as well as the textile segment. One of the key reasons for the lack of FDI in textiles is the high cost of electricity, which makes the segment uncompetitive. Given the current state of the textile segment, this need is urgent: if the Government does not act now to make the necessary reforms and improve the business environment, the segment may perish for good.

Box 9: Textile cities as a solution to spur vertical integration

Textile cities are industrial zones dedicated to textile processing and related input supply, ensuring common water treatment, Effluent Treatment Plants (ETPs), dormitories, sheds, uninterrupted power and water supply, expressway connectivity to ports and main cities, etc. Various leading countries in the sector have used such industrial arrangements to facilitate vertical integration of the T&C value chain.

Figure 6: Kenya's T&C export trends, by segment, 2004-2013 (US$ thousands)



Source: International Trade Centre (2015).

STAGNATING TRADE REFLECTS DIMINISHED COMPETITIVENESS[23]

Following sustained growth since the turn of the century, Kenyan exports of T&C goods levelled off from 2006 to 2008 in the face of increasing competition from Asia, only to fall by 25% in 2009 in the aftermath of the 2008 financial crisis. Exports began to rebound in 2010 in line with the global economy, reaching US$384 million in 2013. The best-performing segment over the past decade was woven bottoms and knitted apparel. Its share in the country's sectoral exports rose from 30% in 2009 to 48% in 2013, and its CAGR over the past five years was 8%. Despite the quick rebound from the lows of 2009, it should be noted that annual growth of Kenyan T&C exports since 2006 has been a meagre 2.7%. This is well below the 5% global growth in T&C exports during the same period.

Data suggests that growth over the past 10 years has been driven by the continued penetration of existing products to old markets (116% of growth). This is in stark contrast to regional competition. In Ethiopia, for example, 53% of growth was due to market expansion, in which Ethiopia introduced existing products to new markets.[24]

23.– Note on data sources: There is a divergence between trade statistics reported by Kenya (direct data) and the statistics reported by trade partners (mirror data) from 2001 through 2004. Mirror data shows that the biggest gains in clothing exports occurred between 2001 and 2004, whereas direct data show that such gains were realized between 2004 and 2005. Despite these temporal differences, the overall trends within the sector are evidenced in both sets of data. Where possible, the analysis in this Roadmap uses direct data as reported by Kenya. Kenya has not yet reported its trade statistics for the full period under review and trade figures for 2012 and 2013 are based on mirror statistics.

24.– As illustrated in Appendice section B, such expansion has been non-existent in the case of Kenya.

Clothing

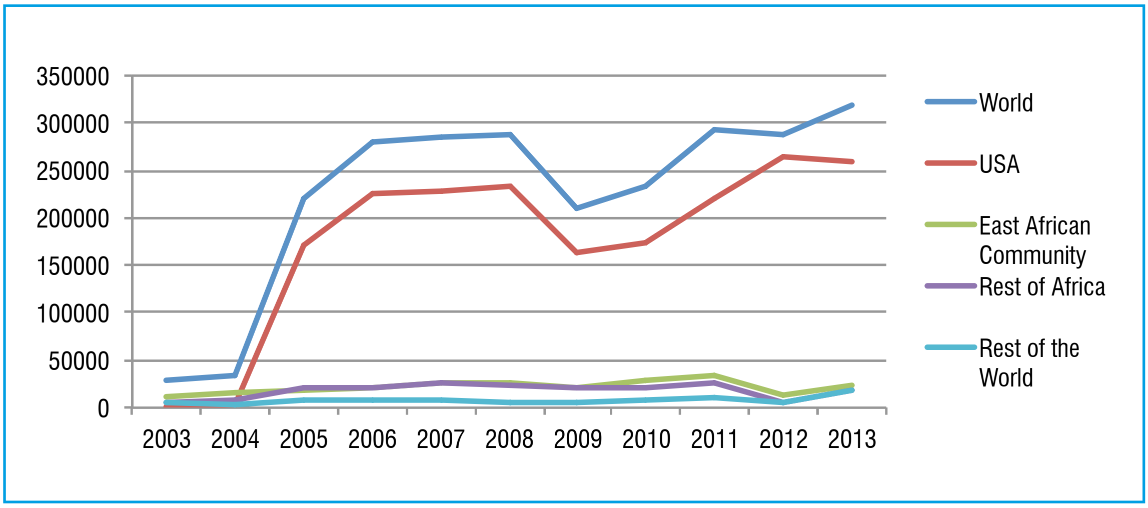
Clothing exports (including Harmonized System (HS) categories 61, 62, and 63) reached a record high of US$318 million in 2013 following annual growth of 10.9% between 2009 and 2013. The subsector has become an increasingly important source of foreign currency and a number of key segments, notably woven apparel and knitted apparel, are escalating their share in world exports. The share of Kenyan garment exports as a proportion of total world garment exports rose to 0.07% in 2013, after remaining flat at 0.06% from 2006 to 2012.

Clothing exports as a share of Kenya's total exports have been increasing as well, growing from 4.7% in 2009 to reach 5.7% in 2013. However, it should be noted that the trade balance over the past two years is negative; the most imported product is 'worn clothing and other worn articles – HS 630900', which in 2013 accounted for 50% of total garment imports. Indeed, imports of used clothing have been a persistent challenge that the Government has battled for many years. The data make clear that both international and domestic demand is adequate. Kenya's challenges lie on the supply side. Addressing the trade deficit through developing local segments and capacities of the value chain will help the sector reach the necessary scale and capacities to meet international requirements.

While Kenya exports clothing (valued at over US$100,000) to 22 countries, 81% of exports are destined for the United States. Whereas exports to the United States accounted for only 11% of the sector's exports in 2004, they surged in 2005 (the United States market received 70% of total garment exports between 2005 and 2008). This uptick was largely the result of preferential access granted under AGOA, and in particular the third-country fabric provision, as well as the investment incentives provided by the Kenyan Government, notably in EPZs.

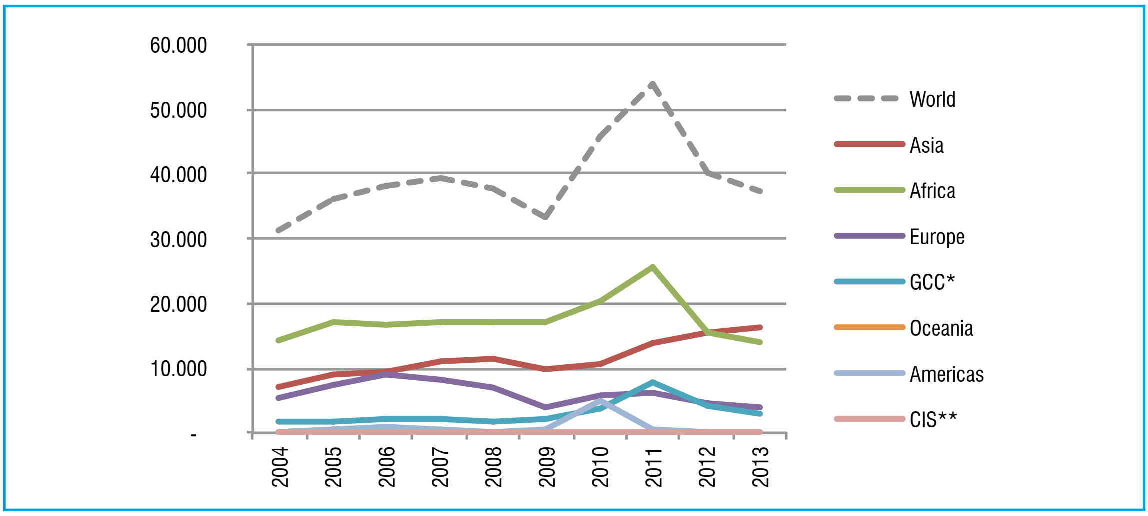
Stakeholders must not lose sight of the dangers associated with such heavy market concentrations: when garment exports to the United States fell by 31% in 2009, foreign sales dropped by 27% because firms were unable to find new markets for their products. Even though sales to the United States reached record highs in 2013, the continued reliance upon a single market may prove to be unsustainable. Despite the fact that Kenya receives preferential market access in the neighbouring countries of the EAC, exports to these countries represented only 7.2% of total export in value in 2013. The United Republic of Tanzania is the second export destination with 3.5% in 2013.

Figure 7: Kenyan exports of clothing to selected markets, 2003-2013 (US$ thousands)[25]



Source: International Trade Centre (2015).

Figure 8: Kenyan textiles exports by region 2004-2013 (US$ thousands)



Source: International Trade Centre (2015).

Note: For clarity purpose Turkey was excluded from the graphic presenting partner countries. Turkey was included in the region Asia.

** Gulf Cooperation Council members are Saudi Arabia, Kuwait, the UAE, Qatar, Bahrain and Oman.*

*** The Commonwealth of Independent States are Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Uzbekistan and Ukraine.*

25.– Note on data sources: There is a divergence between trade statistics reported by Kenya (direct data) and the statistics reported by trade partners (mirror data) from 2001 through 2004. Mirror data shows that the biggest gains in clothing exports occurred between 2001 and 2004, whereas direct data show that such gains were realized between 2004 and 2005. Despite these temporal differences, the overall trends within the sector are evidenced in both sets of data. Where possible, the analysis in this Roadmap uses direct data as reported by Kenya. Kenya has not yet reported its trade statistics for the full period under review and trade figures for 2012 and 2013 are based on mirror statistics.

Textiles

Photo: MIMCO x EFI 2nd collection © Louis Nderi & ITC Ethical Fashion Initiative (35).jpg

The needs in textile supplies for the expanding apparel sector have been met by growing imports. The textile sector's trade deficit has been worsening since 2009, doubling to a record high of US$181 million in 2014. The deficit is most notable vis-à-vis China (the average deficit for the period from 2011 to 2013 was US$254 million) and India (US$57 million), Kenya's two most important trade partners in the textile space. The sector reached its peak export value of US$54 million in 2011 following two years of significant gains (37% in 2010 and 18% in 2011). Even so, exports declined by an average of -17% between 2011 and 2013. One of the chief reasons behind these mixed results is the limited export survival rate and the inability of firms to maintain market share.

A worrisome trend over recent years has been the increased concentration of exports. Between 2009 and 2011 there were 40 markets to which Kenyan firms exported at least US$100,000 of textile products. By 2013, it had dropped to just 28 markets. The past five years saw a significant shift in concentration towards China and India, which accounted for 21% and 13% of Kenyan textile exports respectively in 2012-2013. The shift towards China and India has been stimulated by the rise of FDI originating from these countries. Several Chinese and Indian firms have relocated their plants or invested in Kenyan textiles as they look to reduce production costs by benefiting from the preferential tariffs granted to least developed countries. While concentrations have shifted towards Asia, exports to Gulf Cooperation Council members and Africa have been volatile, falling dramatically from their peaks over the past few years.

Though there has been a reshuffling of dominant products, the sector continues to be characterized by significant product concentration and signs of diversification are slim. Between 2009 and 2013 three product groups accounted, respectively, for 78.2% (in 2009) and 64% (in 2013) of the country's textiles exports. The best-performing product group between 2009 and 2013 has been 'Coconut fibres, abacá, Manila hemp and other vegetable textile fibre (HS 530500), accounting for 43.9% of sectoral exports. Its exports grew by a CAGR of 412% between 2009 and 2013, reaching US$22.1 million. This highlights the fact that the sector finds it difficult to export fabrics (Appendice section B).

Trade data sheds light on a number of worrisome trends. The gap between the textile and clothing segments of the value chain continues to widen as the garment segment pushes forward with imported materials. Textile exports have fallen significantly and the segment's limited competitiveness raises concerns for its continued survival. The overwhelming concentration of clothing exports to the United States is also cause for concern, as the reliance on a single market is likely to prove unsustainable over the long run. The limited level of market diversification, indicating that enterprises have been unable to capitalize on the preferential market access provided to Kenya by many of the world's major markets, is evidence that the sector requires increases in productivity, quality and service provision in order to be truly competitive.

STRATEGIC ISSUES AND COMPETITIVE CONSTRAINTS

The sectoral analysis sheds light on a number of issues that seem to be inhibiting greater competitiveness and stronger growth. Skills are often unaligned to the demands of the industry, value addition and integration are lacking, and institutional support is limited. With regards to policy, the Government has made positive strides. Even so, a number of issues, particularly related to electricity provision, continue to constrain the business environment. It is necessary to analyse these competitive issues in more depth, using evidence from the field. A greater analysis of these challenges will allow stakeholders to develop an effective roadmap that can adequately tackle the key constraints.

Traditionally, the scope of export strategies has been defined in terms of market entry, such as market access, trade promotion and export development. This ignores several important factors in a country's competitiveness. For a roadmap to be effective it must address a wider set of constraints, including any factor that limits the ability of firms to supply export goods and services, the quality of the business environment, and the development impact of the country's trade, which is important to its sustainability. This integrated approach is illustrated by the four gears framework schematic above.

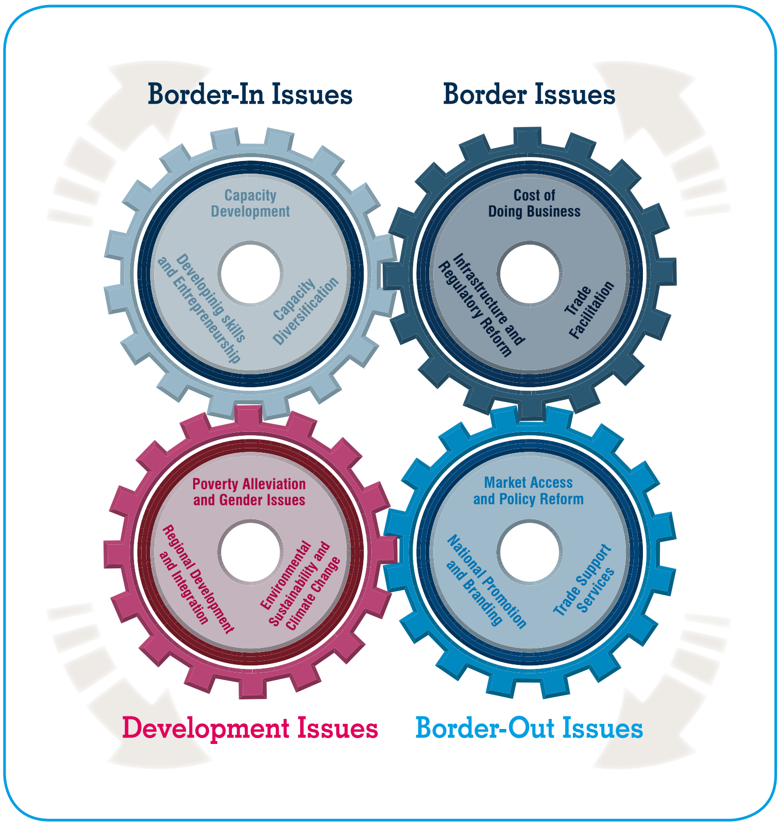
To increase the specificity of constraint analysis for the T&C sector, a detailed constraint overview is provided for each subsector of the industry, namely: textiles and clothing. In cases where constraints are shared, they will be detailed under the subheading 'across the value chain'.

Supply-side issues affect production capacity and include challenges in areas such as availability of appropriate skills and competencies, diversification capacity, technology and low value addition in the sector's products.

Business environment constraints are those that influence transaction costs, such as regulatory environment, administrative procedures and documentation, infrastructure bottlenecks, certification costs, Internet access and cost of support services.

Market entry constraints are essentially external to the country (but may also be manifested internally), such as market access, market development, market diversification and export promotion.

Social and economic concerns include poverty reduction, gender equity, youth development, environmental sustainability and regional integration.



Box 10: Competitive constraints affecting Kenya's T&C sector

Border-in (supply-side) 	**Across the value chain**	**Skill gap:** • Limited availability of skilled specialists hinders productivity, quality and value addition • Inadequate TVET system affects the development of a qualified labour supply • Insufficient in-company training hinders the development of a qualified labour supply • Inadequate human resource management leads to higher turnover and lower productivity • Limited availability of competent managers limits operational, systems and process efficiency • Inadequate educational networks for management training • Limited exposure to best practices and open mindset • Limited ability to register intellectual property hinders value addition • SMEs find it difficult to adapt to quickly evolving market demands • Difficulties adhering to quality standards reduce competitiveness on international markets
		Machinery: Outdated equipment limits productivity and quality
	Textiles	**Input supply:** • Limited availability of local cotton increases procurement costs • Poor quality yarn reduces competiveness along the value chain
		Lack of economies of scale: Low capacity utilization prevents economies of scale
	Clothing	**Input supply:** Lack of backward linkages hinders opportunities for value addition and speed to market
Border (business environment) 	**Across the value chain**	**Trade facilitation issues:** • There is room to improve Customs services to match international benchmarks • Porous borders create unfair competition in the local market
		Organization: • Limited communication and coordination within the sector hinders growth • There are difficulties engaging enterprises in the informal sector • Weak quality management infrastructure hinders compliance with international requirements • An inadequate regulatory environment hinders overall business development and discourages investment in the sector • Mitumba imports limit the potential for domestic market expansion
		Infrastructure: • The high cost of power diminishes profitability • Limited access to ICT services hinders business development
		Cost of doing business: • A burdensome tax and duty system diminishes profitability and reduces access to working capital • Expensive and unreliable transportation reduces price competitiveness and hinders the ability of enterprises to deliver goods in a timely fashion • Unpredictable wage increases make it difficult for enterprises to budget expenditures
	Textiles	**Access to finance:** Limited access to finance hinders investment
Border-out (market access) 	**Across the value chain**	**Trade information:** Lack of trade intelligence diminishes capacities for market expansion and hinders the development of products that are aligned with target market requirements
		Trade promotion: • Lack of an effective national branding strategy and coordinated promotion hinders market development • There is limited assistance to handloom firms and designers on trade promotion
		Market access policies: The export quota reduces profitability
Development issues 	**Across the value chain**	**CSR:** Environmentally and socially responsible practices are not an integral part of doing business in the sector, threatening negative social impacts and ineligibility to supply socially concerned buyers
	Textiles	**Water pollution:** Outdated dyeing methods pollute waterways

SUPPLY SIDE ISSUES

Box 11: Supply-side constraints in Kenya's T&C sector

Border-in (supply-side)

Across the value chain	**Skill gap:** • Limited availability of skilled specialists hinders productivity, quality and value addition • Inadequate TVET system affects the development of a qualified labour supply • Insufficient in-company training hinders the development of a qualified labour supply • Inadequate human resource management leads to higher turnover and lower productivity • Limited availability of competent managers limits operational, systems and process efficiency • Inadequate educational networks for management training • Limited exposure to best practices and open mindset • Limited ability to register intellectual property hinders value addition • SMEs find it difficult to adapt to quickly evolving market demands • Difficulties adhering to quality standards reduce competitiveness on international markets
	Machinery: Outdated equipment limits productivity and quality
Textiles	**Input supply:** • Limited availability of local cotton increases procurement costs • Poor quality yarn reduces competiveness along the value chain
	Lack of economies of scale: Low capacity utilization prevents economies of scale
Clothing	**Input supply:** Lack of backward linkages hinders opportunities for value addition and speed to market

Across the value chain

Skill gap

Limited availability of skilled specialists hinders productivity, quality and value addition

Kenya's T&C sector lacks an adequate supply of sufficiently trained workers, leading directly to lower productivity and quality. One of the key deficits is the lack of workers specialized in operating and maintaining machinery. Although some companies within the sector have modernized their plants and invested in new machinery, workers are not able to adequately operate and maintain the new equipment. As a result, productivity suffers and the new, expensive machinery is not being used to its full capacity. Employees are also unable to operate multiple types of machinery. Other deficits include a lack of floor supervisors and administrative workers.

The lack of adequate skill sets is particularly concerning given that wages for Kenyan workers are relatively high compared with neighbouring countries. The average wage for a sewing operator in Kenya (US$ 165 per month, although three structures exist – urban, municipal and rural) is 3.7 times higher than it is in Ethiopia (US$ 48 per month). While in general higher wages would be disbursed to compensate for higher productivity, this is not the case in Kenya (although Kenya's production is higher by 45%-50% compared with Ethiopia, this doesn't justify the wage difference). Unless skill sets can be improved, enterprises are at risk of spending more money to hire less qualified workers vis-à-vis their competition. This results in lower productivity and reduced competitiveness.

Inadequate TVET system affects the development of a qualified labour supply

Kenya's TVET system is constrained by a lack of quality staff, inadequate access to training equipment and materials, the misalignment of curricula with industry needs, and inadequate funding for both programmes and students.[26] It should also be noted that few TNCs and foreign investors collaborate with local training institutions to enhance skills at SMEs.

> *'As I hire new workers for my textile firm, I know that they have some basic knowledge regarding machinery usage as they most likely were trained at Rivatex. However, I already know that I will need to retrain them, because Rivatex does not provide an overview of the latest machinery.'*
>
> Industry opinion

The sector relies on a number of technical training institutions under the Government's technical training programme, as well as a number of middle-level colleges. However, the programmes offered do not provide a sufficient level of technical specialization. Most graduates have to be retrained by the factories in order to achieve the necessary level of

26.– Global Development Solutions (2014). *Value Chain Analysis of Priority Industrial Sub-Sectors in Kenya, Part I: Textiles and Garments*, p. 23.

productivity, adding to the cost of production. Even where courses may have been adequate, the fast pace of change within the industry means that once trainees graduate, their skills may soon be obsolete. This highlights the need for better post-graduation follow-up. Short, targeted courses and continuing education classes might help alleviate this problem.

First and foremost, training staff must be better prepared and given greater exposure to international best practices and industry needs. Universities and TVET institutions are not synchronized with the needs of the industry. The private sector is not involved in the definition of curricula (which are outdated) and there are no mechanisms to monitor the alignment of curricula to industry needs. Most universities and TVET institutions place a particular emphasis on fashion and design within their curricula due to the popularity of the subject among students. The industry, however, requires skills associated with production technology and processes, equipment maintenance and multi-skilling. This is particularly so considering that buyers, not Kenyan garment producers, are responsible for providing the designs.

The situation is such that many companies do not acknowledge universities as a relevant source of skills. Research efforts, like curricula, are also misaligned with the industry. A lack of interaction between students and industry, through internships for example, also contributes to the lack of preparedness among graduates; there are some internships but they remain largely academic. Other problems include the lack of a handloom weaving school in Kenya.

It should also be noted that training institutions lack access to adequate machinery on which to train their students.[27] Asian institutions, by comparison, replace training equipment at most every four years. Adequate upgrading is constrained largely by a lack of financing.

In the PoA, activities 1.5.3, 1.5.5 and 1.5.6 respond to this issue.

Insufficient in-company training hinders the development of a qualified labour supply

In the absence of an adequate TVET system, it is essential that enterprises are able to adequately train their own employees. Nevertheless, only a few mills (the largest) have an internal training school/human resource development facilities, due mainly to the high cost of providing such technical training. Moreover, enterprises lack appropriate facilities to train workers. Most companies are simply trying to survive and training is not a priority in terms of investment. Increasing awareness of the costs and benefits of providing adequate training could go a long way towards improving skill sets within the sector.

In the PoA, activities 1.2.1 to 1.2.3 respond to this issue.

27.– *Ibid.*: p. 21.

Inadequate human resource management leads to higher turnover and lower productivity

> *'People are being trained at our factories when they start to work, but there is a high turnover rate because of seasonal contracts and other reasons. Nobody can guarantee that the employee will stay after training and contribute to the productivity of the enterprise'.*
>
> Industry opinion

Poor management of human resources also contributes to the lack of adequately skilled workers. First and foremost, the use of seasonal contracts leads to high levels of labour turnover. This constant brain drain makes it difficult for firms to capitalize on acquired skill sets after providing the necessary in-house training. Productivity is also constrained by weak incentives systems that do little to stimulate and reward performance. Lastly, some companies hire foreigners to work as machinery specialists in the absence of qualified locals. However, the expense of this is extravagant. Processing an expat work permit costs roughly US$2,200 in Kenya (while it is only US$68 in Ethiopia). A longer-term approach that incorporates better in-house training for locals would likely prove to be more cost-effective.

In the PoA, activity 1.2.6 responds to this issue.

Limited availability of competent managers limits operational, systems and process efficiency

> *'The best way to bridge the management knowledge gap in my company is to use international expertise. I cannot wait for the educational system to be improved to hire the required line managers. But I struggle to get the appropriate work permits for employees from abroad. The system should be facilitated and streamlined.'*
>
> Industry opinion

Middle and high-level management lack appropriate managerial skills with regards to various areas of sourcing and production, including supply chain management, planning, cost optimization and floor management. As a result, managers are unable to organize their production processes in the most cost-efficient and productive manner, hindering overall productivity and profitability.

Another area of concern is human resource management; managers may not appreciate the qualifications that are required for different positions. Indeed, they frequently hire people with the wrong set of qualifications to operate machinery or manage various aspects of the business. In addition, they do little to provide adequate incentives to their workers: replacing flat wages with piecemeal rates to reward fast adaptability, for example, would help workers to become more efficient and productive.

The decision not to expand in-company training often leaves companies needing to import skilled labour at quite a high cost. The reliance on foreign workers results in both higher wages and high-cost visas. A better human resource and skills development policy overall would go a long way, not only to improving access to adequately skilled labour but also to reducing employment costs in the long term.

> *'Our manager at the factory is a very kind person but he lacks some managerial competencies and has little experience with new technology. When new equipment was installed, he didn't know how to use it. So when we have a technical problem, he cannot advise us on it.'*
>
> Industry opinion

Furthermore, there is a lack of familiarity with the newest technology. As managers are generally unaware of the latest machinery due to a lack of exposure, they are slow to make technical upgrades that would improve productivity and quality in line with international best practices. In a similar vein, management generally lacks competencies with regards to information technology. This hinders the development of more integrated systems that would allow Kenyan SMEs to provide integrated services, as required by modern lean retailer and fast fashion TNCs.

As a result of inadequate skills among local managers, manufacturers have come to rely on high-cost foreign workers to fill their managerial positions. Not only are salaries well above what would be demanded by local managers, the necessary work permits are also very expensive.

Inadequate educational networks for management training

One of the key factors behind the lack of adequate management capacities is the limited sector-specific management training provided by universities and other educational institutions. Even where such training does exist, disconnects between academic curricula and the needs of the industry result in suboptimal skill development. Greater collaboration between academia and industry, as well as the development of short, targeted training courses, could go a long way to improving management skill sets.

In the PoA, activities 1.5.3, 1.5.7 and 1.5.8 respond to this issue.

Limited exposure to best management practices and latest modern production processes and technologies

The lack of adequate exposure to international markets results in limited awareness of best management practices and trends in modern technology. Participation in foreign events, including trade fairs (both T&C and machinery), sourcing missions and visits to successful companies abroad, would help managers stay abreast of the latest developments and gain a better understanding of the factors that result in a successfully managed company. Furthermore, companies that hire foreign managers could make efforts to ensure knowledge transfer between the manager and his or her subordinates. In some cases, a strong resistance to change among managers reinforces the status quo in production and technology levels.

In the PoA, activities 1.2.4 to 1.2.6, 1.2.8, 1.3.2 to 1.3.4, 1.4.5 to 1.4.7, 1.5.2, 3.3.2 to 3.3.5 and 4.3.2 respond to this issue.

Limited ability to register intellectual property hinders value addition

> *'I am a designer from Kenya. I have some original designs that my workshop produces. But I have seen a number of times copies of my products in the mitumba markets. This is very harmful for my small business since I do not have an intention to export in the short term and my main focus is to sell locally. I would like to learn more about intellectual property and how to protect my original designs.'*
>
> Industry opinion

Although many exporters have been shifting towards lower value added CMT activities, the ability of the sector to add value through design may lie at the core of its long-term success. Students take great interest in design and there are already a number of very capable designers adding value within the sector. Fashion designers must be able to register the intellectual property of their designs in order to protect themselves. Even so, most designers do not know how to do so, nor are they aware of the costs involved. Efforts will be required to promote awareness of the intellectual property registration process.

In the PoA, activity 1.4.8 responds to this issue.

SMEs find it difficult to adapt to quickly evolving market demands

The global T&C sector is characterized by fast-paced changes with regards to market demand, buyers' needs, design and quality requirements. Enterprises that wish to partake in the global value chain successfully must be able to understand and respond to these changes in a timely manner but Kenyan SMEs find such adaptations difficult. One of the key constraints is weak linkages with the value chain, which make it difficult for the sector's stakeholders to work together in order to respond to evolving market demands. The prevalence of outdated machinery also makes it difficult for companies to adjust production according to the latest trends, while expansion is hindered by difficult access to industrial land and limited access to finance.

Of particular concern is the lack of strategies for SMEs to reduce costs so as to meet foreign market demands. The disconnect between SME capacities (and knowledge) and market demands contributes greatly to the inability of companies to adequately adapt to the market.

In the PoA, activities 1.1.1, 4.3.2 and 4.3.3 respond to this issue.

Difficulties adhering to quality standards reduce competitiveness in international markets

Firms find it difficult to meet the certification requirements of international buyers. This is due to both a lack of knowledge and a lack of capacities. In general, firms are unfamiliar with international quality standards and are unaware of the benefits of compliance for exports. There is poor understanding among businesses of the importance of establishing control systems within their production structures. This is particularly problematic in the spinning and weaving subsegments of the chain.

Due to the experience gained in exporting under AGOA, medium-sized and large firms have developed a better understanding of standardization issues. However, a very large number of MSMEs evolve in the informal sector. As such, they have not been sensitized to quality management systems as they mostly trade at the national and regional level, generally selling through informal channels. The lack of understanding about international standards and certification prevents them from reaching larger players in the industry and creates a disconnect between them and faster-growing, FDI-backed garment companies operating out of EPZs.

In the PoA, activities 1.3.1 to 1.3.5 respond to this issue.

Machinery

Outdated equipment limits productivity and quality

The T&C sector, and in particular the textile segment, relies on complex machinery that can provide a significant cost advantage. Such equipment should be retooled every 10 to 15 years given the rapid pace of technological advancements. Nevertheless, many companies do not regularly retool their facilities. In addition, the purchasing practices of companies within the sector are driven mainly by price, as opposed to long-term strategic considerations. As such, companies often buy models one or two generations old because of the large discounts. This results in equipment that is less productive than that of international competitors.

Moreover, the older equipment may not be able to produce the product varieties or quality demanded by modern markets. Upgrading is hindered by the difficult procurement procedures for importing equipment, the high cost of modern equipment and credit. With rates reaching 18%, it can be difficult for enterprises to purchase new machinery. Replacing spare parts of old equipment is also expensive and sometimes unfeasible. It should also be noted that the purchase of new equipment is not accompanied by the appropriate training of staff. Thus the new equipment often operates under capacity.

In the PoA, activities 3.4.1 to 3.4.3 respond to this issue.

Textiles

Input supply

Limited availability of local cotton increases procurement costs

Cotton production in Kenya has been declining and is constrained by a number of factors. Yields have been suffering because of a lack of extension services, which hinders the uptake of best practices and new technologies. In addition, irrigation facilities are inadequate. High input costs that discourage best practices, the limited availability of quality seeds and the presence of substandard agrichemicals have also contributed to lower output. Lower yields, in turn, have encouraged farmers to switch to more profitable food crops. The sector also lacks an updated quality assurance protocol and adequate testing equipment. As a result, cotton that is produced is often of questionable quality. Lastly, the internal market is disorganized and lacks an efficient mechanism for price definition. As a result of declining output, Kenya's textile sector has come to rely on Uganda and the United Republic of Tanzania for almost all of its cotton fibre requirements. The reliance on imports leads directly to higher costs and lower competitiveness.

In the PoA, activities 1.2.3 and 1.2.5 respond to this issue.

Poor quality yarn reduces competiveness along the value chain

The spinning segment of Kenya's T&C value chain generally produces low-quality yarn. The reasons for this are numerous and include inadequate machinery, weak skills and know-how, poor materials and limited awareness of quality requirements and international quality standards. In

Photo: Make it Kenya, *2015*

addition, some spinning companies do not have the laboratory instruments needed to measure their yarn quality.

The prevalence of lower quality yarn makes it difficult for fabric producers to produce higher value-added products with local inputs. Downstream manufacturers are required to either produce lower quality goods with less value addition or import better materials at a higher cost, thereby reducing profitability and/or price competitiveness. Reliance on imported materials can also reduce the flexibility with which producers can respond, significantly hindering their ability to engage with modern value chains where the ability to fill orders with a quick turnaround is a key component for success.

In the PoA, activities 1.2.3, 1.2.5 and 3.3.1 respond to this issue.

Lack of economies of scale

Low capacity utilization prevents economies of scale

Kenya's textile sector is characterized by a level of capacity utilization that hovers between 40% and 50%. Underutilization of capacity perpetuates production of goods at non-competitive prices. The inability of textile producers to lower their prices is particularly worrisome given that the segment produces goods for the low end of the market. It also makes it difficult for enterprises to realize the benefits of machinery upgrades and it may even threaten the financial viability of loans taken out to acquire such equipment. Higher rates of utilization, therefore, could go a long way towards ensuring that producers can afford capital upgrades.

While problems such as the lack of qualified specialists, outdated equipment and poor management practices all play a part in keeping capacity utilization low, the lack of sufficient orders also plays a role. Kenya's electricity costs and wages are high and its lead times are long. These issues reduce competitiveness and prevent Kenya from attracting a greater amount of orders. In addition, power outages are common, leading to frequent interruptions. It should be noted that companies located within EPZs have fewer problems with electricity provision because EPZs are equipped with their own generators.

In the PoA, activities 1.2.1 to 1.2.5, 1.4.6, 3.4.1, 4.3.2 and 4.3.3 respond to this issue.

Clothing

Input supply

Lack of backward linkages hinders opportunities for value addition and speed to market

> 'Almost all large competing countries have local yarn and fabric production, sometimes integrated in apparel firms. They are able to minimize their costs that way, since they are not required to import as we do. We are hoping that the upcoming reforms will attract investment in this segment so that we are able to source domestically.'
>
> Industry opinion

There are few backward linkages in the T&C sector and it is estimated that Kenya's garment segment imports 93% of its fabric and yarn requirements. This is one of the reasons why the textile segment has not shared in the overall success of the sector over the last few years.

As the cost of production for local materials is very high, it is often cheaper to import inputs.The quality of yarn is generally not adequate for companies looking to produce clothing for export. Even so, importing materials comes with its own set of disadvantages: taking delivery of inputs from Asia is time-consuming and the reliance on imports puts Kenyan garments at a price disadvantage compared with most Asian competitors.

Increasing integration throughout the value chain was one of the priorities of Kenya's T&C sector, as it is for many of its competitors in the region. Nevertheless, these efforts have met with little success. In fact, many producers are moving back towards a CMT model with very little value addition. Efforts must be made not only to improve the quality and price competitiveness of domestic textiles, but also to ensure that the textile segment is producing goods in accordance with the demands of the clothing segment. To this end, greater collaboration, networking and knowledge-sharing between textile companies and clothing companies could go a long way towards setting the sector back on a path towards integration and value addition.

In the PoA, activities 1.2.3 and 1.2.5 respond to this issue.

BUSINESS ENVIRONMENT ISSUES

Box 12: Business environment constraints in Kenya's T&C sector

Border (business environment)

Across the value chain	**Trade facilitation issues:** • There is room to improve Customs services to match international benchmarks • Porous borders create unfair competition in the local market
	Organization: • Limited communication and coordination within the sector hinders growth • There are difficulties engaging enterprises in the informal sector • Weak quality management infrastructure hinders compliance with international requirements • An inadequate regulatory environment hinders overall business development and discourages investment in the sector • Mitumba imports limit the potential for domestic market expansion
	Infrastructure: • The high cost of power diminishes profitability • Limited access to ICT services hinders business development
	Cost of doing business: • A burdensome tax and duty system diminishes profitability and reduces access to working capital • Expensive and unreliable transportation reduces price competitiveness and hinders the ability of enterprises to deliver goods in a timely fashion • Unpredictable wage increases make it difficult for enterprises to budget expenditures
Textiles	**Access to finance:** Limited access to finance hinders investment

Across the value chain

Trade facilitation issues

There is room to improve Customs services to match international benchmarks

Although much progress has been achieved over recent years, the Customs system continues to operate at suboptimal efficiency.

While administrative reforms are being implemented, including the creation of the National Single Window Community-Based Project, trading across borders is still a time-consuming process (see Appendice section C). Of particular concern to the T&C sector is the fact that Less Container Load containers (which are shared by several owners) take much more time to clear through Customs. As a result, these containers can take up to 10 days to clear, as opposed to three days for normal containers. While Customs must clear each owner, this does not fully explain the difference in clearance times. This is a particular problem for the T&C sector because companies are often too small to justify using their own containers.

A key problem is also the limited capacities of Customs agents; although efforts have been made lately to improve the situation, they are still not sufficiently trained on textile products and classifications, leading to frequent delays at the point of verification. In addition, there is limited interaction between firms and Customs for handling common complaints. There is also no streamlined process (fast track for reputable exporters with long track records).

The introduction of improved information technology systems would greatly enhance Customs efficiency, as barcodes could contain all information about a product and significantly cut down on verification and clearing times. While the Tradex system is currently used to process import and export documentation online, the capacities of the system are limited in scope and it frequently breaks down. It is noteworthy that Kenya is taking an active role in integrating the upcoming Trade Facilitation Agreement, as it has submitted a Category A notification, which states that provisions of the Agreement will be implemented by the time it enters into force.

Moreover, Kenyan Customs works with four-digit Harmonized System (HS) codes. The industry would be better-served if six-digit HS codes were used instead, as it would ensure a more appropriate classification for imported products that compete with local goods in the domestic market.

In the PoA, activities 2.2.1, 2.2.2, 2.3.1 and 2.3.2 respond to this issue.

Porous borders create unfair competition in the local market

Kenyan clothing producers must compete with both counterfeit products and smuggled goods. Black markets, particularly in Eldoret, are a huge problem due to the importation of counterfeit goods. After being produced in China and Turkey, counterfeits are outfitted with Kenyan labels and sold at discounts of 20%–30% of the price of the real product. In addition, second-hand clothing is often imported disguised as new clothing. It is another source of unfair competition for local producers because it reaches the market without being subject to the regular duties applied to second-hand clothing (Most Favoured Nation tariff is 35% or US$200/ton, whichever is greater). Similarly, undervalued goods are imported into the country without paying the appropriate duties, as Customs agents do not set floor prices for containers.

Improvements will require enhancing the capacities of Customs officials to recognize counterfeit clothing and distinguish between new and used clothing. They must also be trained to identify a floor price for containers so that minimum duties can be applied. Lastly, efforts must be made to minimize corruption with the border agencies so as to minimize smuggling activity.

In the PoA, activities 2.2.1, 2.2.2 and 2.3.1 respond to this issue.

Organization

Limited coordination and communication within the sector hinders growth

The sector is characterized by a lack of communication and coordination throughout the entire value chain. While today all subsegments of the industry are working mainly in isolation, value-chain-wide cooperation could play a role in helping stakeholders be better organized. Such a system would ensure adequate linkages throughout the value chain, though it would require an association of associations that could coordinate the cooperation. A common fund that could engage in simplified bulk input purchases would also be a welcome development.

Another issue is dispute resolution: while the industry is self-regulated, there are currently no dispute resolution mechanisms. Stakeholders have no other option than to take their disputes to the courts of law, which are much more time-consuming and expensive. The delays caused by relying on the courts are especially troublesome during periods of high price fluctuation.

The lack of better coordination has a number of effects on the sector. First and foremost, the disconnect between different segments of the value chain leads to the failure of textile companies to produce inputs in accordance with garment producers' demands. As a result, the clothing segment largely relies on imported materials. In addition, limited coordination makes it difficult for stakeholders to purchase inputs in bulk or coordinate production in order to fill larger orders.

In the PoA, activities 1.1.1 to 1.1.4 respond to this issue.

There are difficulties engaging enterprises in the informal sector

An important part of Kenya's T&C sector is composed of micro enterprises (nearly 75,000) that are comprised of two to three people. As these enterprises tend to operate in the informal economy, they do not benefit from various Government services and capacity-building initiatives. There is no association that represents these enterprises. The Micro and Small Enterprise Authority (MSEA) was recently formed to provide trainings but its capacity to reach the large population of T&C micro and small enterprises is limited. Given the role that micro and small enterprises can play in poverty reduction, it is essential that greater efforts are made to extend appropriate opportunities to the micro and small enterprises working in the T&C sector.

In the PoA, activities 3.5.1 to 3.5.3 respond to this issue.

Weak quality management infrastructure hinders compliance with international requirements

Kenya's laboratories lack the necessary capacity to test inputs (fabrics, accessories) to ensure their compliance with the quality requirements of international markets. In addition, more laboratories must be created as the textile sector develops. It should also be noted that there is a lack of consulting services for quality issues.

In the PoA, activities 1.6.1 to 1.6.3 respond to this issue.

An inadequate regulatory environment hinders overall business development and discourages investment in the sector

Kenya's regulatory framework is complex and burdensome. Regulations often overlap and business owners find themselves governed by competing sets of rules. This leads to cases where, for example, multiple and redundant business-related licences are required. This affects both the ease and cost of doing business, thereby reducing profitability for business owners, creating headaches and discouraging investment. The complex operating environment is one reason that investment has been predominately targeting low-risk projects such as CMT operations.

Another challenge is the weak enforcement of standards and tax laws. This has led to the dumping of substandard imports and counterfeit goods into the domestic market, creating unfair competition for local manufacturers. While many countries use the domestic market as a springboard from which industry can build capacities until it is ready to enter foreign markets, Kenyan firms have thus far been deprived of such opportunities.

In the PoA, activities 2.1.1 to 2.1.10, 2.3.1 and 2.3.2 respond to this issue.

Mitumba imports limit the potential for domestic market expansion

The decline of the T&C sector in the 1980s and 1990s was due in part to the influx of mitumba, which undercut domestically produced clothing in retail markets. Today, the import of mitumba is a huge business and it is growing: second-hand clothes are distributed throughout the region, entering the country mainly through Nairobi. In addition, many major industries dump their rejects on the local market and call them second-hand. Kenya has no regulations in place that seek to control imports of second-hand clothing and duties on such clothing are very low. More recently, there have even been instances of second-hand fabric imports, a development that could threaten textile producers. As a result, mitumba continues to limit the size of the internal market for SMEs in the garment segment. This not only makes it difficult for firms to achieve financial viability, it also deprives them of a market that they can use as a springboard for export.

It should be noted that despite the threats posed to the T&C sector, the mitumba sector is a major source of income in the country. Some stakeholders argue that the problem is not so much the unfair competition from mitumba but the lack of competition from unproductive domestic producers.[28]

In the PoA, activity 2.3.1 (1) responds to this issue.

Infrastructure

The high cost of power diminishes profitability

> *'A very big part of input costs is due to energy. If we compare ourselves to our neighbours, they probably have lower prices; but we have to spend much more for electricity.'*
>
> Industry opinion

Although power supply in Kenya is relatively reliable, energy costs are quite high: power costs US$0.15/kWh in Kenya, as opposed to US$0.07/kWh in China, US$0.04/kWh in South Africa, and US$0.04/kWh in Ethiopia. These costs significantly reduce the price competitiveness of Kenya's T&C products, particularly in the capital-intensive spinning and textiles segments of the value chain. It is estimated that energy accounts for 40% of the total production cost when manufacturing textiles in Kenya.

However, the Government is making efforts to relieve these price pressures through an incentive programme that began in 2014: firms that increase their production capacity by 20% will see their energy costs drop to US$0.09/kWh through a subsidy.[29] Generation capacity is also being upgraded; the Government hopes that capacity will be expanded by 5,000 megawatts by 2016. While an ambitious goal, progress is being made, as illustrated by the recent addition of 500 megawatts in geothermal energy capacity.[30]

Photo: Pashminu.

28.– Portia Crowe (2014). The global business of second-hand clothes thrives in Kenya. Reuters, 15 October. Available from http://www.reuters.com/article/2014/10/15/us-kenya-textiles-idUSKCN0I41DS20141015.

29.– Yarns and Fibres News Bureau (2014). Kenyan textiles industry set to grab bigger share of global market. Available from http://www.yarnsandfibers.com/news/textile-news/kenyan-textiles-industry-set-grab-bigger-share-global-market#.VXe-KPlViko.

30.– CNBC Africa (2015). KENGEN to boost Kenya's power output. Available from http://www.cnbcafrica.com/news/east-africa/2014/10/15/kengen-increase-power/.

In addition, authorities hope to spend US$2 billion in the coming years to upgrade power distribution systems.

In the PoA, activities 2.5.1 to 2.5.3 will contribute to responding to this issue.

Limited access to ICT services hinders business development

Access to high speed Internet and mobile communications networks is poor in some of the regions where textile mills are located. Effective ICT infrastructure is needed for T&C companies to cater to the demands of modern TNC buyers. Suppliers must be able to seamlessly integrate their production chain with a variety of other services, necessitating adequate connectivity, and enterprises wishing to engage in fast fashion must be connected so that they can partake in the rapid information exchange and analysis that lies at the root of the new fashion cycle.

In the PoA, activities 2.6.1 and 4.3.2 will contribute to responding to this issue.

Cost of doing business

A burdensome tax and duty system diminishes profitability and reduces access to working capital[31]

Heavy taxes are levied on imports, including excise taxes, general sales taxes, and taxes and charges for sensitive product categories. This reduces the profitability and price competitiveness of the majority of exporters, who rely upon imported materials. In addition, exporting firms are required to pay VAT upfront. It can take up to a year for companies to receive these VAT refunds. In the meantime, enterprises suffering from cash shortages may be unable to access adequate working capital to fund their operations. It should also be noted that the KRA often disputes the value of goods declared by importers. As such, it often demands the payment of higher tariffs. In addition to increasing costs, this also causes significant delays as firms attempt to negotiate with the KRA.

In the PoA, activity 2.2.3 will contribute to responding to this issue.

Expensive and unreliable transportation reduces price competitiveness and hinders the ability of enterprises to deliver goods in a timely fashion

Kenya's logistics are characterized by both long delays and high prices. The tariff for transport along Kenyan roads is KES 4/kg/km, well above the KES 1/kg/km rate that is considered to be competitive throughout the world. One of the factors behind high trucking costs is the frequency with which trucks return empty. In order to alleviate this problem, a campaign called GS1 is currently being designed. The project will help to coordinate truck loads so that trucks do not return empty. As they will be able to charge for both the outgoing and return legs of a journey, this project should help to reduce costs by up to 20%. The project will also work to improve traceability of goods throughout the transport network.

In the PoA, activity 2.6.1 responds to this issue.

Unpredictable wage increases make it difficult for enterprises to budget expenditures

The Government increases the minimum wage during its yearly Labour Day celebrations. While beneficial for workers, the value of these increases is unpredictable. In 2015, the minimum wage was increased by 12%, while in 2014 no increase was announced. In 2013, the minimum wage was increased by 14%. Not knowing the expected increase, firms are forced to make guesses when estimating their expenses for the year. It is essential that the sector is able to accurately estimate its cost structure throughout the year in order to engage in effective planning and pursue responsible business development.

In the PoA, activities 2.1.1 to 2.1.10 will contribute to responding to this issue.

Textiles

Limited access to finance hinders investment

> *'It is extremely expensive and also very difficult to get credit from a bank to buy new equipment. Banks do not trust us and we do not trust them. It is hard to do business in such conditions.'*
>
> Industry opinion

Improvements in productivity are currently being hampered by continued reliance on outdated or poorly maintained machinery. Limited access to finance is one of the key challenges for SMEs wishing to purchase spare parts or upgrade their equipment. Credit is very expensive and lending conditions can be onerous. Interest rates can range from 16% to 18%. In addition, banks require collateral that firms often cannot provide. Compounding these problems, commercial banks are generally not interested in engaging with the spinning and textile subsectors. Having remembered the losses that were incurred by lending to the sector during the downturn of the 1990s, banks are reluctant to extend credit. When finance is provided, borrowing costs tend to be set even higher.

In the PoA, activities 2.4.1 and 2.4.2 respond to this issue.

31.– International Trade Centre (2011). *Non-Tariff Measures Business Survey in Kenya*.

MARKET ENTRY ISSUES

Box 13: Market entry constraints in Kenya's T&C sector

Border-out (market access)

Across the value chain

Trade information: Lack of trade intelligence diminishes capacities for market expansion and hinders the development of products that are aligned with target market requirements

Trade promotion:

- Lack of an effective national branding strategy and coordinated promotion hinders market development
- There is limited assistance to handloom firms and designers on trade promotion

Market access policies: The export quota reduces profitability

Across the value chain

Trade information

Lack of trade intelligence diminishes capacities for market expansion and hinders the development of products that are aligned with target market requirements

Kenyan firms lack access to reliable and timely sources of trade intelligence on market characteristics and buyer requirements on preferred distribution channels, etc. Of particular concern, exporters lack information about compulsory market access requirements in new markets (such as technical regulations, product standards and conformity assessment). Furthermore, some trade agreements remain underexploited due to the lack of understanding of rules of origin and the necessary verification of value added inputs in order to determine preferential treatment. Building awareness of the opportunities offered by such agreements, together with specific trade intelligence on market requirements, would go a long way towards increasing export opportunities, especially as CMT firms progressively build their service base and move up the value added ladder.

The primary source of market intelligence for non-CMT T&C companies is personal contacts. Specific trade information and market intelligence is unavailable, outdated or too general. While some good information exists, it is very costly. The lack of market intelligence is compounded by poor research capacities within firms as well as limited exposure to target markets. Companies have little interaction in their target markets, while trade representatives do little to assist enterprises in understanding market dynamics. Greater exposure to events such as trade fairs and buyer–seller meetings would help firms gain a better understanding of market requirements.

The lack of trade intelligence is a key factor behind the continued reliance on AGOA and third-country fabric provision. Without a better understanding of market dynamics, firms are unable to produce goods that meet market requirements. As noted by a representative of the Handloom Weavers Association, 'we can produce, but we do not know the market'.

In the PoA, activities 4.1.1 to 4.1.5, and 4.2.1 respond to this issue.

Trade promotion

> *'We must capitalize on the renewal of AGOA and the upcoming Tripartite Agreement. In order to do this, reinforcing the image of Kenyan products will be key! We must work on a common brand to make ourselves visible and attractive to foreign markets.'*
>
> Industry opinion

Lack of an effective national branding strategy and coordinated promotion hinders market development

Kenya suffers from limited name recognition. Although the Government has tasked the Brand Kenya Board with creating and promoting an integrated national brand, its capacities are weak and it has been relatively ineffective in achieving its mandate. Indeed, T&C stakeholders seem to be unaware of its existence. Moreover, there is no national brand for T&C products. In the absence of an effective national branding strategy, both generic and sector-specific, the country's reputation is sometimes overshadowed by its historical challenges. If Kenya is to overcome its constraints and become a chief competitor among its regional peers, it must develop a unique country image. This is especially true considering the lack of capacities for branding among individual enterprises.

Furthermore, the sector must engage in more persistent trade promotion efforts through regular participation in international trade fairs and buyer–seller events. In addition to helping enterprises gain exposure to international markets and offering them opportunities to pursue new commercial opportunities, consistent participation will provide a venue through which stakeholders can reinforce the new national brand.

In the PoA, activities 4.2.1 to 4.2.7 respond to this issue.

There is limited assistance to handloom firms and designers on trade promotion

The needs of handloom firms and designers are often different from those of the sector's larger companies. This segment of the value chain finds it difficult to access trade support services that are targeted to their specific needs. This is a concern because internal human and financial resources are often insufficient to undertake the necessary trade promotion activities. Trade promotion assistance must be extended to these enterprises in order to ensure that they participate in the sector's export growth and value chain integration.

In the PoA, activities 1.4.1, 4.3.1, 4.4.1, 4.4.1 and 4.4.2 respond to this issue.

Market access policies

The export quota reduces profitability

The Kenyan Government places an export quota of 80% of production on clothing companies. This rule was created in order to ensure that the local market had access to an adequate supply of clothing. However, there is insufficient demand for new, Kenyan clothing in the local market. As such, it cannot absorb 20% of the sector's production. As they are not able to export the excess supply, enterprises therefore end up losing out on significant revenues.

In the PoA, activities 2.3.1 and 2.3.2 respond to this issue.

SOCIO-ECONOMIC AND ENVIRONMENT ISSUES

Box 14: Social and economic constraints in Kenya's T&C sector

Development issues

Across the value chain	**CSR:** Environmentally and socially responsible practices are not an integral part of doing business in the sector, threatening negative social impacts and ineligibility to supply socially concerned buyers
Textiles	**Water pollution:** Outdated dyeing methods pollute waterways

Across the value chain

CSR

Environmentally and socially responsible practices are not an integral part of doing business in the sector, threatening negative social impacts and ineligibility to supply socially concerned buyers

Few Kenyan factories are certified under (or aware of) the EU's Business Social Compliance Initiative or the United States' Worldwide Responsible Accredited Production. Factory workers frequently exceed the maximum number of working hours allowed per week and are sometimes subjected to unhealthy breathing environments. Machinery used is often technologically outmoded and environmentally dirty. Obtaining Business Social Compliance Initiative and Worldwide Responsible Accredited Production certifications can be useful in accessing European and North American markets, which are increasingly conscious of the negative environmental and social spillovers of textile and garment production. Certification would also help ensure a healthy and happy workforce. Moreover, as garments represent one of the country's most important industries, the sector's environmental and social practices will set important precedents for the country as its economy grows.

In the PoA, activities 2.1.1 to 2.1.10 respond to this issue.

Textiles

Water pollution

Outdated dyeing methods pollute waterways

As a water-scarce country, Kenya's demand for water surpasses its reserves of renewable fresh water.[32] It is therefore important that its water resources are neither polluted nor wasted. The textile industry consumes a considerable amount of water in dyeing and finishing processes. In addition, outdated dyeing methods release chemical waste, including persistent organic pollutants, into the water.

New methods exist that would allow textile companies to use less water and minimize pollution. Such methods include optimization of the dyeing process itself (i.e. using air dyeing techniques) and improved wastewater treatment. However, stakeholders do not consider the issue to be a major concern and they lack awareness of the benefits that might result from transitioning to a more sustainable process. Not only would improvements lead to environmental preservation, they could also be leveraged as marketing tools in order to add value to final products. As an example, the EU market restricts the use of azo dyes for any imported T&C product. In order to penetrate this market, Kenyan firms must gradually replace these dyes with alternatives.

In the PoA, activity 2.3.1 (4) responds to this issue.

32.– Encyclopaedia of the Earth (2008). Water profile of Kenya. Available from http:/ /www.eoearth.org/view/article/156956.

The need for coordinated action

The analysis of the competitive constraints makes it clear that the sector's sustainable development will require an integrated set of interventions that holistically address challenges across the entire value chain. Roadblocks are not limited simply to enterprise capacities or government policy, and many challenges are the result of a combination of factors that require wide-ranging remediation. It is for this reason that a comprehensive roadmap becomes all the more necessary; individual stakeholders, and even small groups of stakeholders, will not be able to deal with the constraints on their own. It is only through strategic cooperation that the most effective results will be achieved.

STRATEGIC IMPLICATIONS FOR THE VALUE CHAIN ROADMAP

Having been granted preferential access to the world's major markets, Kenya's T&C sector has grown considerably since the turn of the century. Its comparative advantages, including an affordable labour supply and proximity to important markets, allowed the sector to thrive with the support of a conducive policy environment. Nevertheless, the sector's expansion has stagnated in recent years and a divergence has been noted between the growing clothing segment and the struggling textile segment.

In addition, and unlike its global competitors, Kenyan clothing companies have been moving away from value added activities and returning to a simple CMT model. These worrisome trends are compounded by significant market concentrations that are characterized by a near-total reliance on the American market and AGOA. Not only do these concentrations make the sector quite vulnerable to shifts in demand as well as black swan events, but the fact that Kenya has found it difficult to sustain its growth and enter other markets is evidence that it lacks competitiveness. Failure to maintain market share and penetrate new markets is especially worrisome given the relative age of the sector in Kenya when compared to its regional competitors.

THE WAY FORWARD

The sector's current model has performed well, yielding strong economic and social returns. Despite signs of low productivity and an excessive concentration on a narrow set of products and markets, the overall approach remains relevant. Even so, a new strategic model driven by competitiveness is needed: the industry must unite and evolve in order to leapfrog into higher growth and value addition. Kenya cannot compete with other low-cost manufacturers.

The sector's strategic orientation should follow a two-pronged approach. Firstly, Kenya can foster its current position and build on its assembly and CMT offerings through improved process efficiency, workforce development and the formation of conducive policies. This will lead to enhanced productivity and quality, which will serve to balance out higher lead costs. In the meantime, efforts can be made to increase exports through AGOA while looking to target new markets.

In order to remain truly competitive, however – particularly given the rise of low-cost centres of production such as Ethiopia and Myanmar – Kenya must shift from contract manufacturing and begin to provide fully integrated services including input sourcing, product development and design. By moving up the global value chain and shifting from basic items to superior products, this second strategic orientation will allow Kenya to capture greater value and penetrate premium market segments.

To realize these goals, structural deficiencies along the four gears (supply side, business environment, market entry and development) will be addressed and identified opportunities will be leveraged. The following is a delineation of the proposed vision and strategic approach.

THE STRATEGIC OBJECTIVES

This value chain road map's PoA will respond to these two key visions as both scenarios will require workforce development, skills acquisition, increased FDI attraction, an enhanced policy and business environment, and strong business associations.

Strategic objective 1: Maximize productivity and uphold quality requirements through skills development.

Based on the constraints analysis, the remaining skill gap is an essential break for sector development, limiting productivity and quality increase, preventing the integration of service provision beyond CMT and preventing further value addition throughout the value chain. The issue is therefore of utmost priority and will require immediate action on a variety of fronts, including the Government, institutions and enterprises themselves. The first strategic objective is therefore: maximize productivity and uphold quality requirements through skills development.

Skills development will be a priority, particularly for increasing productivity, quality, service provision and the capacity for value addition throughout the value chain. At the institutional level, efforts must be made to improve trade and investment support institution (TISI) coordination and align training and educational offerings with the industry's needs. At the enterprise level, improvements are required in key technical, supervisory and quality assurance skills, as well as MSME-specific skills related to weaving and design.

The following operational objectives have been defined to achieve the first strategic objective:

1.1. Strengthen sector coordination to support skills development.
1.2. Improve technical and supervisory skills as well as supply chain performance.
1.3. Enhance quality management skills in line with international standards.
1.4. Develop specific skills for the handloom subsector, for designers as well as for MSMEs.
1.5. Improve existing training and educational offerings in line with industry needs.
1.6. Ensure that national quality management infrastructure responds to the industry's needs and international ambitions.

Strategic objective 2: Improve the business environment to further support the development of the T&C industry.

The current lack of sector coordination is another aspect currently preventing integrated development of the value chain. Advocacy and policy support for the sector are uncoordinated. The remaining constraints in the business environment, such as trade facilitation issues, the cost of doing business, lack of access to finance, and infrastructure, prevent the leap towards greater competitiveness (particularly in the textile segment). These issues constitute the second strategic objective which is to improve the business environment to further support the development of the T&C industry.

Policy support will also constitute an important pillar of reform, particularly with regards to CSR issues, as modern buyers will require that the sector complies with ethical practices. Similarly, the Government must work to remove the remaining constraints in the business environment in order to allow for greater competitiveness and attract foreign capital (particularly in the textile segment). This includes increasing the capacities of Customs officers to clear T&C products in a more efficient and effective manner, modernizing financial services, improving the overall legal framework, decreasing electricity pricing and fostering change within the transportation system.

The following operational objectives have been defined to achieve the second strategic objective:

- 2.1. Improve compliance as a way to increase productivity and competitiveness.
- 2.2. Increase the capacity of port communities to enforce T&C-related regulations.
- 2.3. Improve the legal and regulatory framework relevant to the T&C industry.
- 2.4. Expand and modernize the financial services available to the industry.
- 2.5. Support competitiveness through improved electricity pricing and quality.
- 2.6. Improve the efficiency and cost competitiveness of transportation and logistics.

Strategic objective 3: Expand the benefits of investment throughout the T&C value chain.

The benefits of FDI and south–south cooperation have not yet reached the most capital-intensive segments of the value chain, namely spinning and textiles. Also, Kenyan firms' integration in global value chains remains very limited due to the lack of a coordinated and targeted approach by the Government. To ensure capital, technology and know-how inflows in the sector, while also helping to open up new markets for Kenyan producers, a better approach towards investment is required for the sector. Thus the third strategic objective of the road map is to expand the benefits of investment throughout the T&C value chain.

FDI and south–south cooperation will serve as enablers, directing capital, technology and know-how to the underserved sections of the value chain, while also helping to open up new markets for Kenyan producers. For this to be achieved, the Government needs to continue improving the conditions for investment. TISI capacities will also need to be strengthened in order to identify and attract investors. In parallel, the investment promotion strategy needs to be updated and aligned with the goals of the country, with a particular view towards consolidating the missing links in the T&C value chain. In this regard, targeted investment into equipment upgrades will be of foremost importance. Finally, to ensure that investment creates synergies in the sector and fills its role as an enabler for smaller firms, collaboration schemes need to be systematically enforced within EPZs and the upcoming industrial zones.

The following operational objectives have been defined to achieve the third strategic objective.

- 3.1. Pursue efforts to establish ideal conditions for investors.
- 3.2. Increase capacity of TISIs to target and attract appropriate investments.
- 3.3. Further promote Kenya as the main FDI destination for T&C.
- 3.4. Enable equipment upgrading through investment.
- 3.5. Increase collaboration between local SMEs and foreign direct investors to ensure synergies.

Strategic objective 4: Enable market penetration and product development through trade intelligence.

Large Kenyan exporting firms focus primarily on production and do not manage export-related matters or promotional activities themselves. They mostly rely on information and a branding strategy provided directly by their business partners and parent companies. Another important part of the Kenyan T&C sector is MSMEs, including handloom and small designers, which may not be export-ready yet and focus mainly on the local and informal markets. As the sector evolves and Kenyan firms build in additional services beyond CMT, they will increasingly need to receive and use relevant trade intelligence. Trade intelligence will also contribute to filling the gap of knowledge about preferential trade agreements, particularly among institutions that are as yet unable to initiate a proactive approach to promoting Kenyan T&C products within markets where Kenya has preferential access. The fourth strategic objective of this road map is therefore to enable market penetration and product development through trade intelligence.

All of these efforts must be market-led, taken with a view towards leveraging commercial opportunities through increased competitiveness. As such, the utilization of effective

Photo: Jai79@pixabay.

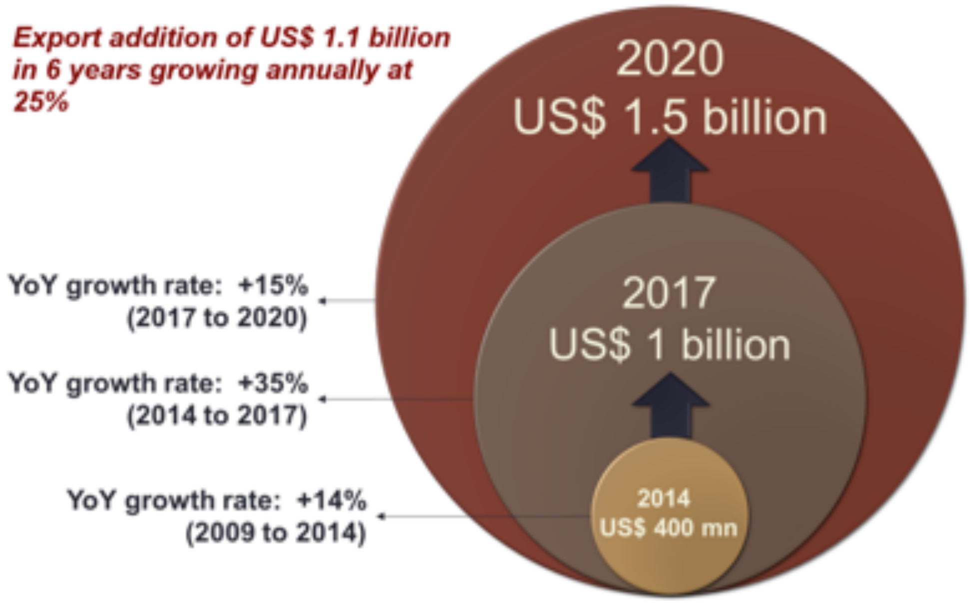
trade intelligence will play a vital role in the sector's transformation. The first step is to ensure that information is properly generated and available to key stakeholders. A second aspect is to reinforce the capacity of Kenyan firms to use it in order to expand their market access beyond AGOA and to promote their products and savoir faire. In addition, product development must be in line with target markets' needs. To this end, firms must build the capacity to identify these requirements and update their product designs according to the latest techniques and trends. Lastly, since MSMEs in Kenya do not target the same markets as larger firms, specific capacity reinforcement needs to be undertaken at their scale of operation to ensure that they are competitive in national and regional markets.

The following operational objectives have been defined to achieve the fourth strategic objective.

- 4.1. Improve access to strategic trade intelligence for T&C firms.
- 4.2. Expand market access and promote Kenya's T&C products.
- 4.3. Increase firms' capacity to align product development with key markets' requirements.
- 4.4. Provide targeted assistance to handloom firms and designers on trade promotion.

Sector development targets

Figure 9: Kenya's apparel export growth ambitions



One of the main focus areas of this roadmap will be to build on the current conjuncture and benefit from the growing interest of international investors in T&C in the East Africa region. This potential investment in the region is estimated to reach US$1 billion according to MoIED.

The investment could come from multiple sources, such as the expansion of existing entrepreneurs, the entry of new local entrepreneurs, or FDI. However, of these options, FDI represents the most attractive source of investment capital. FDI not only brings capital, it also brings technical know-how, spreads good human resource management practices, and introduces new systems and procedures. In addition, foreign investors bring access to new markets while also facilitating moves into higher value added activities.

If all strategic steps outlined by this roadmap are taken and the conditions required for attracting investment are put in place, the country's objective of reaching US$1 billion in exports of T&C by 2017, up from the current US$400 million, appears to be in reach. By continuing on this path over the next three years, the sector could reach export values up to US$1.5 billion by 2020.

An addition of US$1.1 billion export value through 2020 will have an impact on the entire value chain.

- Clothing: It will call for the production and export of another 220 to 250 million pieces of clothing. This will require an investment of US$300 million in garment production facilities alone: 50,000 sewing machines, 5 million square feet of built-up area and 100,000 workers.
- Textiles: On the textile front, it will mean an additional demand of approximately 500 million metres of fabric and 80 million to 90 million kg of yarn.

Based on this logic, the roadmap will aim to deliver the following production, export-related and developmental targets by 2020:

- More than 100 firms have acquired new equipment and related technical capacities
- Four hundred and fifty new production lines developed by Kenyan firms in yarn, textile and apparel production
- Exports of textiles and garments to increase by 25% annually over the next five years to US$1.5 billion
- More than 100,000 new jobs in the T&C sector
- All companies comply with international standards related to working conditions, quality management and sustainability.

LEVERAGING MARKET OPPORTUNITIES

Kenya's T&C exports are highly concentrated in one importing market, the United States. Continued reliance on a single destination market may prove to be unsustainable. Kenya's T&C export growth can be based initially on market penetration, focusing its efforts on expanding apparel exports, and at the same time in market development, reaching new markets by leveraging preferential market access conditions. At the same time enterprises can build capacities for more value added clothing products. At a later stage, upstream capacities should be developed in order to reduce import dependency.

Gaining market share in traditional markets

Kenya should focus its initial efforts on expanding apparel exports to its main importer and biggest world importer, the United States. Kenya has constantly gained market share in the American market over the last decade and could build on its success to increase its exports even further by broadening its product portfolio.

Leverage existing market linkages to build capacities for more value added garments

When looking to sell new products, enterprises can leverage existing market linkages and enter product categories that can be distributed either to existing buyers or along the same distribution network. At the same time, enterprises can build capacities for more value added clothing products. However, Kenya should take steps to develop upstream capacities in order to reduce import dependency, generate more employment and drive domestic value addition.

Taking advantage of preferential market access to penetrate new large markets

The sector can leverage the duty-free advantage that Kenya has been granted for garments in many larger markets, in particular EU markets such as the United Kingdom, where Kenya is already exporting, or Spain. Stakeholders should focus on market segments that value cost competitiveness across the markets. To do this, enterprises must be able to provide larger orders. The recent signature of the tripartite agreement between COMESA–EAC–SADC is also an opportunity to enter the largest African importer of garments, South Africa.

Diversifying in intermediate products in regional markets and local supply of accessories and embellishments

With regards to its product basket, the sector could develop its exports of intermediate products (yarn and fabrics) in the regional market. The development of the textile industry in the region will increasingly require the provision of inputs. However, the main focus of developing intermediate products should be indigenizing the entire value chain. These new fibre bases could be exported to new markets, in particular EU markets.

As the Kenya T&C sector moves gradually from CMT to original design and manufacturing with its current buyers, valued added garments will integrate locally produced accessories and embellishments. The following matrix summarizes the product and market opportunities available to Kenya's T&C sector based on consultations with experts and feedback from leaders of the industry in the country.

Box 15: Product and market opportunities

	Existing products	New products
Existing markets	**Market penetration** • Garments in the United States • For textile mills, garment factories in Kenya and Ethiopia	**Product development** • United States – Fibre diversity and value added garments requiring higher skill • Categories where United States imports exceed \$1 billion, while Kenya's exports to the United States are < US\$1 million • HS 621210 – intimate wear • HS 620443 – dresses of synthetic fibres • HS 620193 – men's synthetic outerwear • HS 611596 – specialty hosiery of synthetics
New markets	**Market development** • Major EU markets e.g. United Kingdom or Spain • COMESA markets, especially South Africa • India	**Diversification** • Yarn and fabrics (shirting, bottom weight and denim) – regional markets • Value added garments, diverse fibre base – other EU markets • Manufacturing of accessories and embellishments for garment factories in Kenya and regional markets • Manufacturing of home textiles • Green markets for brand apparel companies in EU

FDI IS THE KEY TO USHERING IN A NEW ERA OF GROWTH

FDI has long been a driver of growth in the T&C sector as investors look to capture the comparative advantages offered by new destinations. Global greenfield FDI in the T&C sector reached US$24 billion in 2013, an all-time high and more than double the level achieved in 2012. Moreover, Africa is receiving a greater share of this investment as rising wages in China, compliance issues in Bangladesh and labour unrest in Cambodia, together with other factors, have accelerated a shift to new locations. Total FDI inflow to Africa in 2013 was valued at US$57 billion, of which US$1.75 billion was in the T&C sector.

Government measures to strengthen the garment and textile sectors and the infrastructure on which they rely (including the standard gauge railway to Mombasa), if completed on schedule in the next one to two years, will significantly boost Kenya's investment attractiveness. Kenya's manufacturers will be able to reduce inland transportation costs by about 80%, making them cost competitive in a wider range of additional products.

As the Government nears completion of the Naivasha Textile City and electricity projects, attractive opportunities to mass produce fabrics for the regional garment industry will also emerge. With the ability to capitalize on low power and steam costs as well as the availability of well-planned infrastructure, Kenyan mass production of textiles should become internationally cost competitive for the first time in recent history. In the interim, companies experienced in selling smaller, premium lots of 'green' or sustainable textiles may still be interested in investing in Kenya.

TARGET FDI SOURCE COUNTRIES

FDI in Kenya's T&C sector has historically arrived from investors in China, India, the UAE and South-East Asia. These countries and regions will continue to be future sources of FDI. In addition, FDI could be attracted from Germany, France, the Republic of Korea, the United States, Italy, Bangladesh and Israel. While attracting FDI from Japan may also be possible, it will require more time given the stringent quality, technical and product development orientation of Japanese companies. It should therefore be only a medium-to-long-term objective.

Special attention needs to be paid to attracting FDI from India. India is not only one of the largest T&C producing and exporting nations, it is also a large market that is growing in double digits. Right now, India's T&C exports stand at approximately US$40 billion, whereas its domestic consumption is estimated to be US$75 billion (including apparel, home textiles and technical textiles). Continuous growth of consumers' disposable income has ensured high demand growth.

For Indian T&C investors, existing market linkages, duty-free access status and Kenya's well-developed infrastructure will be the biggest attractions. There are several large T&C companies in India willing to invest overseas in order to cater to their traditional buyer base while benefiting from duty advantages. It will be important and fruitful for Kenya's investment promotion authorities to invest time and effort to identify and reach out to potential Indian investors and showcase the advantages of investing in Kenya. In addition, the Government must continue its negotiations as part of the EAC with India in order to ensure that Kenyan exporters are granted adequate market access.

Box 16: Trade as a precursor to investment

Trade initiation is the first step towards investment. Consider an example of an Indian company buying certain inputs from East Africa for its production in India. If imports remain profitable, then with growth of its business, the company will weigh imports (using trade intermediaries such as agents) vis-à-vis establishing an East African affiliate to procure the material. Having its own office can reduce the bulk sourcing cost and give better supply chain control to the company. Over time, successful procurement operations in East Africa might evolve into a manufacturing facility and continue to add other higher value functions over time, such as design, research and development, or regional sales and distribution.

In short, trade and FDI are very often part of the same continuum. As more and more Indian businesses evolve farther down that continuum, trade and investment linkages between India and East Africa will strengthen and there will be greater spillovers of technology and skill in East Africa. This will help East African businesses become more efficient, improve the marketability of their products and services, and deepen their participation in global value chains.

Target part of T&C value chain	Target products	Target investors
Garment manufacturing – Free on Board (FOB) (and, in the medium term, original design manufacturers)	Basic products with little design variation and/or demonstrated success in the United States market (T-shirts, shirts, cardigans, trousers, skirts and blouses) and slightly more complex garments (suits, denims, women's underwear)	Companies that are qualified suppliers to low- and mid-range retailers and brand apparel companies from the United States, EU, UAE and Japan
Textile mills and integrated textile/clothing factories (once the Naivasha Textile City and electricity projects are completed)	Yarn and fabrics to feed into export-oriented garment production	Pool of existing investors, India, China, domestic firms, government (public–private joint ventures)
T&C production branded for niche markets such as green, ethical or sustainable	Garments, including ethnic ones	Pool of existing investors and domestic firms
Manufacturing of accessories	Thread, labels, hangtags, buttons, zippers and elastics	Domestic entrepreneurs, Chinese companies
Manufacturing of home textiles	Bed and bath linen	Mainly domestic textile firms

POTENTIAL VALUE CHAIN SEGMENTS

Kenya has already positioned itself as one of the leading garment exporters in Africa. Not only is Kenya in a position to increase its market penetration, it can also work towards gradually shifting to more value added garments. There is also an urgent need to indigenize the textile part of value chain – yarn and fabrics. While power cost has thus far been a major deterrent, investment will become viable as a result of new initiatives on the horizon that will address this challenge. A similar scenario will play out for investment in the manufacturing of accessories and embellishments, such as thread, labels, hangtags, buttons, zippers and elastics. Export-quality set-ups to manufacture such items will find a ready market by offering the benefits of lower cost and shorter delivery time.

The most promising short- and medium-term opportunities for private investment are listed below and are directly linked to T&C's export growth strategy for products and markets. They are promising because cost data and the experiences of existing investors suggest that investment projects with similar products could operate not only profitably and securely, but more so than if the project were in a competing location.

ATTRACTING INVESTORS

Beyond creating a favourable business environment for the T&C sector, the Government of Kenya must broadcast the advantages of doing business in Kenya to those companies considering international expansion. Some companies will invest without any government information or assistance; some will not invest under any circumstances; and some are in between those two extremes, where they might be persuaded to choose Kenya over other locations if the right information and assistance is provided to them at the right time.

Identifying investors in this last group, securing meetings with them and persuasively making the case for one's country over others is known as investor targeting, and it is arguably the most difficult function for the typical investment promoter to perform. One of the main reasons for this is the difficulty in identifying high-potential investors. Before each investor is approached, the investment promoter should take the time to 'qualify' the investor. This means researching the company to see that its products and markets correspond to Kenya's strengths and that it is at a strategic and financial point where international expansion is likely.

Existing investors

In developed economies, reinvestment from existing investors is recognized as the largest source of new FDI. Moreover, significant reinvestment is the only path to large-scale sectoral development and economic diversification. Reinvestments represent growing commitments from foreign investors to doing business in a country, often increasing production volume or moving the company into new value chain segments. This can bring levels of local sourcing, exports, technology, worker skills and general value added, which first-time investors might not. Also, from the perspective of an investment-promoting body, it is much less expensive to court the community of existing investors than to find new investors among the scattered global pool of companies with no demonstrated interest in the promoter's country.

In Kenya, Government relationships with investors have tended to be developed very little beyond the provision of EPZ space and the issuance of permits and certificates. The Kenyan Government, KenInvest and EPZA should commit themselves to implementing a coordinated programme of investor aftercare to maximize benefits from existing investors. This programme of investor aftercare could involve a range of investor services and business environment advocacy.

Kenya's long-established base of existing investors will be at the core of any growth. Many of these investors are from India, China, Chinese Taipei and the UAE, which will be good candidate countries from which to seek additional investors. It should also be noted that, while they are not

Photo: *Make it Kenya,* 2015

exactly existing investors, T&C companies in Ethiopia and the United Republic of Tanzania have demonstrated both the willingness and the ability to invest in the region. In addition, they are cheaper to approach than others. Kenyan officials could therefore consider approaching them as they approach other existing investors.

Investors having expressed interest in the sector

This category of investor is the low-hanging fruit; companies that have been in contact with the Kenyan Government or business associations at their own initiative. KenInvest, EPZA, KAM, ACTIF and KNCCI are among the stakeholders that have likely received many inquiries from interested investors. These should be consolidated by this strategy's implementing team for direct follow-up or for tracking the stakeholder's follow-up, as appropriate.

Potential investors

Before potential investors can be 'qualified,' investment promoters need a 'long list' of investors in each of the countries where they think they might have success in targeting investors. The following is an example from India (see Appendice Section D).

Similar lists can be obtained for each target country from their respective sector associations or independent sector research. As an example, the following list offers the names of three of the top clothing brands and retailers in some of Kenya's most likely sources for T&C FDI. Investment promoters would investigate the top garment factories supplying such firms and target them for investment in Kenya.

ENHANCING THE BUSINESS ENVIRONMENT FOR INVESTMENT

Investment opportunities vary in the immediacy of their feasibility. New projects in ready-made garment manufacturing, for example, continue to register with the Kenyan Government almost weekly, with little official intervention, while large-scale textile manufacturing will not occur without the Government effecting significant enhancements to the business environment. The following activities and reforms will help Kenya optimize the country's competitiveness for sector-strengthening FDI and empower domestic investors to participate in global value chains at a high level of value added.

1. Kenya has some advantage over its regional T&C competitors in terms of established market channels, labour productivity and the skills to produce slightly more advanced

products (e.g. skirts and denim products) than, say, Ethiopia (e.g. uniforms, polo shirts). Kenya should seek to widen this technical gap, considering its existing technical advantage, its relatively high labour costs and the growth trajectory of Ethiopia as a competitor. This requires:

a. Upgrading machinery, much of which is 30-40 years old;
b. Making medium- and higher-skilled garment manufacturing a Government priority (garments are now relatively low on its long list of manufacturing sector priorities);
c. Moving from industry-led workforce development to Government-led workforce development and tailoring TVET programmes to produce managers and workers for higher-skilled products, such as ladies fashion, sportswear and intimate apparel.

2. Ensure timely completion, in the next one to two years, of four key Government initiatives targeted at finally linking Kenya's domestic textile producers with its foreign garment producers and fundamentally altering their collective competitiveness:
   a. The broad-gauge railway to Mombasa
   b. The Naivasha electricity project
   c. A textile city with the same infrastructure and incentives enjoyed by EPZs
   d. The low-interest industrialization fund.
3. With an established production base for export-oriented garments, KenInvest and EPZA should encourage maximum reinvestment through a well-coordinated programme of investor aftercare that supports smooth operations for the life of an investment project and that collaborates with existing garment manufacturers to identify and handle obstacles and opportunities for growth, linkages and sector development.
4. With a 10-year extension of AGOA, Kenya's garment exports are likely to continue flowing overwhelmingly to the United States. However, this is being discussed as the last AGOA extension. If Kenya's export markets are not diversified in the next 10 years the sector could wither. As part of a renewed Government commitment to higher-skilled garment production, KenInvest, KNCCI and EPZA should be given sector diversification targets and explicitly tasked by their boards to collaborate on investor-targeting campaigns in Asia.
5. If the Government and sector stakeholders are successful at growing the volume of textiles feeding into Kenya's export-oriented garment production, domestic production of export-quality cotton lint and yarn may be able to replace some of the cotton supply, most of which would presumably come from the United Republic of Tanzania and Ethiopia. Filling out this part of the value chain will require:
   a. Greater allocation of Government land to cotton production
   b. Deeper penetration of extension services
   c. A fund similar to the industrialization fund above but dedicated to providing favourable financing terms for farm modernization, including machinery, irrigation, quality seeds, etc.

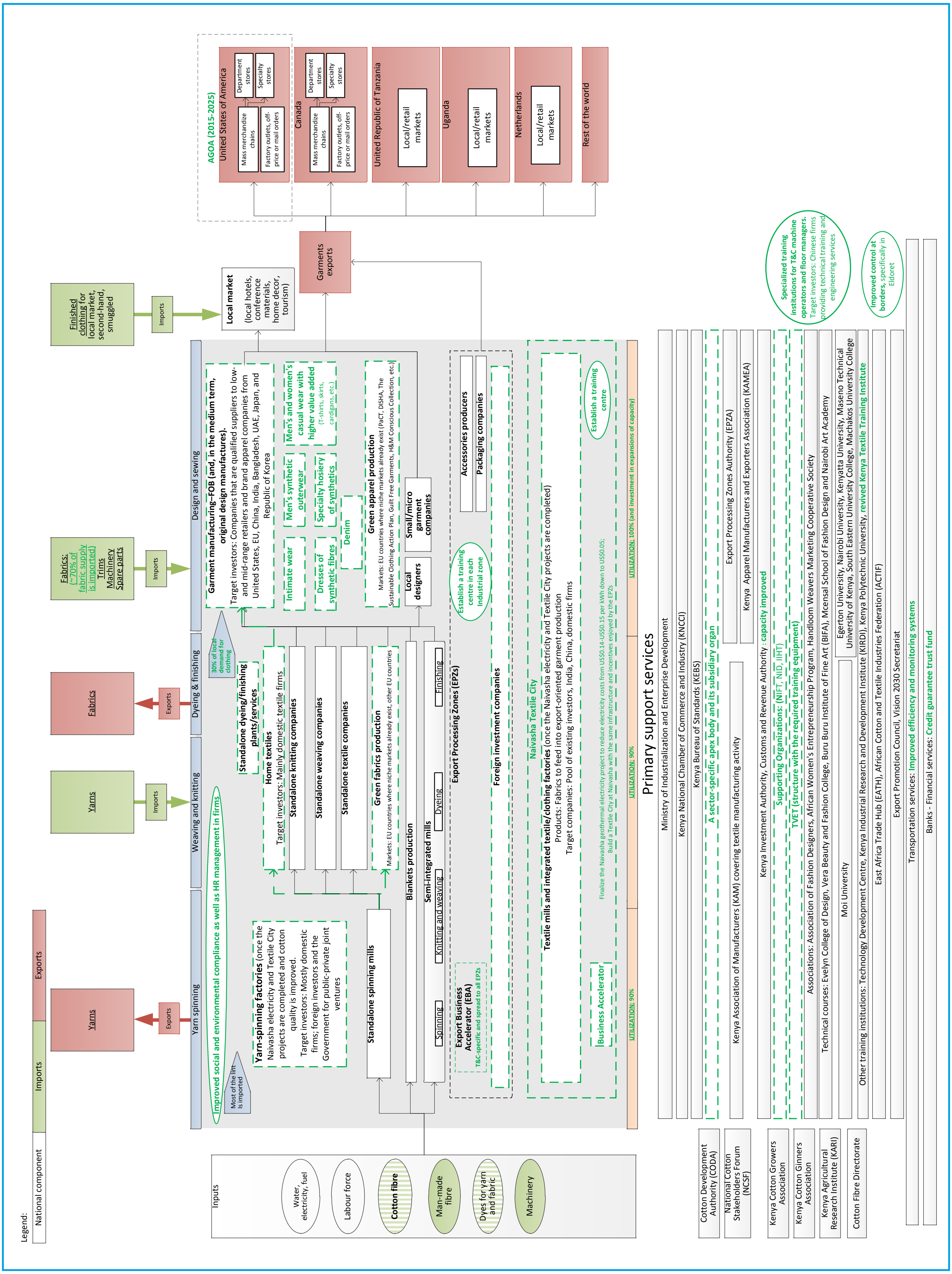
FUTURE VALUE CHAIN

Unlocking the potential of the T&C sector will require transformations throughout the value chain. These adjustments, as reflected in the future value chain schematic, are the result of targeted efforts to address the competitive constraints identified and capitalize on opportunities to add value. The future value chain will be characterized by:

I. Development of the textile production segment
II. Further development of EPZs and establishment of textile cities to facilitate access to utilities
III. Development of the garment production segment and integration with the textile production segment
IV. Enhanced support services, particularly in the areas of TVET, sector coordination, finance, Customs and logistics.

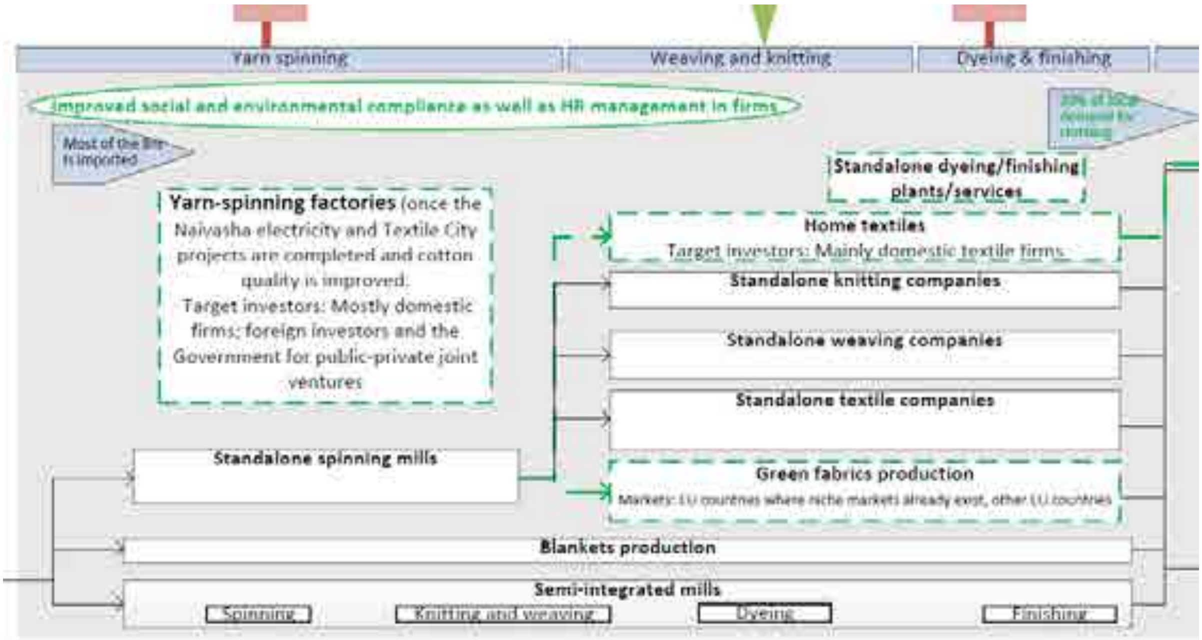
Photo: Make it Kenya, 2015/09/22 MIK Nairobi Launch

Figure 10: Kenya's T&C future value chain diagram



I. DEVELOPMENT OF THE TEXTILE PRODUCTION SEGMENT

1. Development of yarn spinning activities through domestic investment.
2. Overall compliance to CSR through, inter alia, improved human resource management practices and implementation of environmental standards.
3. Creation of stand-alone dyeing and finishing plants, acting as service providers to fabric producers.
4. Development of the home textile segment through local investment.
5. Development of a ‘green production line’, starting with green fabrics production and handing over to green national garment producers.
6. Thirty per cent of domestic fabric demand for the clothing industry is provided by local textile firms.

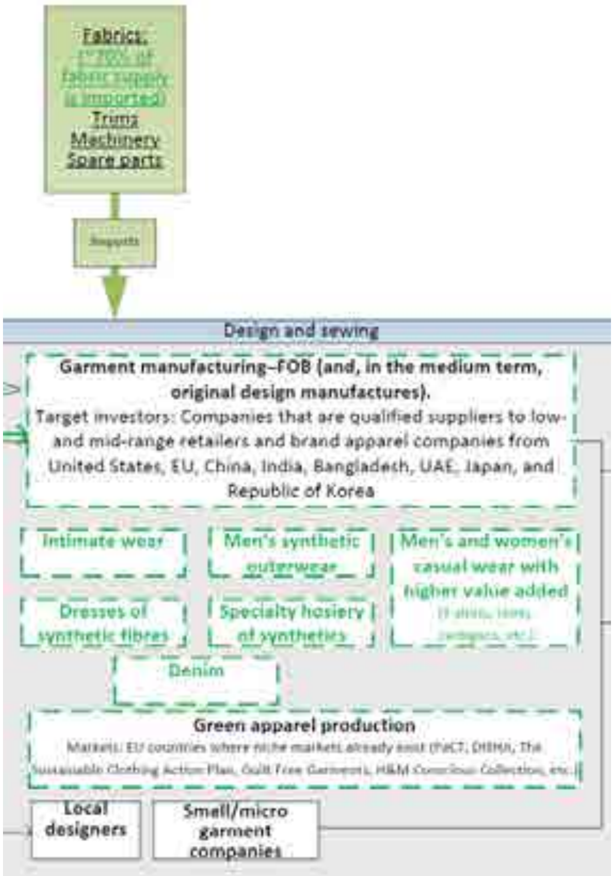


II. FURTHER DEVELOPMENT OF EPZS AND ESTABLISHMENT OF TEXTILE CITIES TO FACILITATE ACCESS TO UTILITIES

1. EPZ foreign investors to enter the textile segment and spur development of integrated companies in EPZs.
2. Each EPZ to be complemented by an EBAP specific to the T&C sector.
3. A training centre of excellence is established in each EPZ and in each new textile city.
4. After the finalization of the Naivasha Textile City (and in other textile cities that will be established), attract local and foreign investors in the textile subsector, in line with local garment exporters’ yarn/fabric needs.
5. A scheme similar to EBAP, bringing in SMEs but not necessarily export-oriented, established in each textile city.

III. DEVELOPMENT OF THE GARMENT PRODUCTION SEGMENT AND INTEGRATION WITH THE TEXTILE SEGMENT

1. Reduction of imported fabrics to a proportion of 70% instead of the current figure of almost 90%.
2. Development of FOB garment manufacturers and original design manufacturers.
3. Product diversification to new products such as intimate wear, men's synthetic outerwear, men's/women's casual wear of higher quality, synthetic dresses, hosiery and denim.
4. Continuation of the 'green production line' with the development of green garment producers consuming national green fabrics production. Potential markets could be existing lead firms' initiatives such as the H&M Conscious Collection.



IV. ENHANCED SUPPORT SERVICES, PARTICULARLY IN THE AREAS OF TVET, SECTOR COORDINATION, FINANCE, CUSTOMS AND LOGISTICS

1. Creation of a sector-specific apex body to represent the interests of all industry stakeholders with the following key responsibilities:
   - Strengthen the interaction between the industry, academia, research institutions and public institutions
   - Conduct a skills gap assessment
   - Conduct an assessment of education offerings in Kenya and assess their quality
   - Carry out the role of a think tank – produce sector-specific publications and white papers
   - Improve the cost of doing business
   - Increase the ease of doing business
   - Promotion of Kenyan T&C products
   - Review of sector-specific governmental budgets
   - Dissemination and promotion of competitive intelligence.
2. Capacities of KenInvest and the Customs Services Department are improved.
3. TVET institutions are equipped with the required training machinery, second-hand and miniature models (through agreements with major machinery providers).
4. KTTI revived.
5. Industrialization fund set up to support the T&C sector.

MOVING TO ACTION

The development of the future value chain for the T&C sector is a 5 year project defined through a consultative process between public and private sector stakeholders in Kenya.

Achieving the strategic objectives and realizing the future value chain of the T&C sector in Kenya depends heavily on the ability of sector stakeholders to start implementing and coordinating the activities defined in the Value Chain Roadmap's Plan of Action. For this reason, a list of key priority activities has been identified in order to kick-start the implementation of T&C Value Chain Roadmap.

The plan of priority actions to kick start implementation

Activity	Target measures	Leading national institution and possible implementing partners
Strategic objective 1: Maximise productivity and uphold quality requirements through skills development		
1.1. Strengthen the sector coordination to support skills development		
1.1.1. Set up a sector-specific Apex body to represent the interest of all industry's stakeholders.	Apex body is created - Governance, rules of procedure and ToRs defined	KAM/IFAD, EITH, support from MoIED, Regional Support from ACTIF
1.1.2. The Apex body coordinates the development of a prioritized capacity-building programme curriculum based on the primary needs of the entire value chain, from workers up to managers, and define the training standards and infrastructure requirements. The capacity building programmes must be done in line with international standards and through benchmarking.	- Prioritized capacity-building programme curriculum is developed - 1 Course curriculum for each area, assessment standards for certification agency and identification of ways to train (on-job, theory, mix)	Apex body
1.4. Develop specific skills for the Handloom sub-sector, designers as well as for MSMEs		
1.4.1. Strengthen Handloom Weavers' Marketing Cooperative Society (WEAMACO) capacities to provide adequate support to its members and develop partnership agreements with MoIED, ACTIF and KAM. Provide guidance to improve the effectiveness and efficiency of the internal processes and results measurement of the support services provided by WEAMACO.	- 1 Handloom association strengthened and registered. - Governance, rules of procedure and ToRs defined	APEX body, MoIED, WEAMACO, Regional Support from ACTIF
1.4.7. Establish and equip a pilot shared production facility regrouping small designers for them to share costs and benefit from common equipment. Connect with local partners and foreign clothing manufacturers where possible (e.g. Rivatex and others).	- At least 1 production facility established over the 5 year period, grouping 100 designers. - At least 100 designers trained per year - At least 3 exchange programmes carried out.	New Handloom Association ,AFAD-K, MSEA , Regional Support from ACTIF, Equity Bank
1.6. Ensure that national quality management infrastructure responds to industry's needs and international ambitions		
1.6.1. Support KEBS to bring up to date existing standards, establish which others are required, and publish national quality standards for garments and promote the use of those standards to members through circulars and seminars.	- Advisory service to KEBS on code of practices for the development of standards; 5 standards adopted; 2 sensitisation seminars conducted	KEBS, Regional Support from ACTIF
Strategic Objective 2: Improve the business environment to further support the development of the T&C industry		
2.1 Improve compliance as a way to increase productivity and competitiveness		
2.1.1 Develop a reference book on existing social and environmental guidelines applied to the T&C sector in Kenya and their industry-wide applications, including the monitoring and reporting mechanisms in place.	- Reference book on existing social and environmental guidelines created	NEMA (National Environmental Management Authority), KEBS, Ministry of Labour, KIRDI
2.3. Improve the legal and regulatory framework relevant to the T&C industry to target export markets.		
2.3.2. Kenya Revenue Authority to adjust (review) their regulations to improve ease of business especially in the T&C sector.	- 3 new regulations designed and submitted for approval	MoEID, Trade Mark East Africa EPZA Mombasa KAM, KNCCI
Strategic objective 3: Expand the benefits of investment throughout the T&C value chain		
3.3. Further promote Kenya as the main FDI destination for T&C		
3.3.4. Carry out investment promotion activities in target countries (particularly in India) - roadshows, facilitating direct interactions between Kenyan firms and targeted investors, helping foreign representatives to promote the sector.	- 1 roadshow each in 6 major textile cities - Ludhiana, Delhi, Ahmedabad, Mumbai, Bangalore and Tirupur - Meeting with 8-10 investors in each location. - Visits of interested investors (total 8 to 10) to Kenya	MOIED, KENIVEST, EPZA, KAM, Apex body Regional Support from ACTIF Indian Embassy
3.4. Enable equipment upgrading through investment		
3.4.1. Conduct audits and diagnostics of individual textile units and provide support first to a list of identified companies and then to a wider group of beneficiaries with the strategic technology plan.	- At least 10 firms advised per year and technology plans developed	KAM, Apex body, Regional Support from ACTIF, Moi University
Strategic Objective 4: Enable market penetration and product development through trade intelligence		
4.1. Improve access to strategic trade intelligence for T&C firms		
4.1.2. Improve the website of the Chamber of Commerce/KAM through web-based solutions for effective trade intelligence gathering and dissemination, and insure constant supply in timely market intelligence. Convert websites into mobile friendly formats. Keep track of the usage of websites with Google analytics.	- 2 websites revamped	Chamber of Commerce, KAM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VALUE CHAIN ROADMAP PLAN OF ACTION

Photo: Carmina Campus Production Kenya (c) Louis Nderi & ITC Ethical Fashion Initiative (4).jpg

Strategic objective 1: Maximize productivity and uphold quality requirements through skills development.										
Operational objective	Activities	Priority 1=high 3=low	Implementation period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes+international partners
1.1 Strengthen sector coordination to support skills development.	1.1.1 Set up a sector-specific apex body to represent the interests of all industry stakeholders. The body should comprise representatives from: • MoIED and Ministry of Education, Science and Technology (MoEST) • EPC, KenInvest,EPZA,Fibre Crops Directorate (Agriculture, Fisheries and Food Authority) • KAM, KAMEA, KNCCI, Association of Fashion Designers – Kenya (AFAD (K), WEAMACO,Kenyan National Farmers' Federation • Representatives of lead firms / foreign buyers • KTTI, National Industrial Training Authority (NITA), Technical and Vocational Education and Training Authority (TVETA), Technical schools, Universities (relevant technical sections)Kenya Industrial Estates Ltd • Logistics companies • Financial institutions • Trade & private sector donor groups The following Government bodies can be clubbed together: EPZA, EPC, Fibre Crops Directorate, MoEST, KTT, NITA, Keninves, MoIED, Kenya Industrial Estates Ltd, TVETA. A committee formed for implementation of the Centre of Excellence is a similar body which can be used as a Implementation point for the apex body. The apex body will be a public–private partnership chaired by MoIED and co-chaired by the private sector, and it will work with the project implementation team under the Chair. The apex body will be started as a public-private partnership, with the secretariat under the private sector (KAM) and the chair public/co-chair private. There will be two people from each industry level/sub-sector – not more than 11-13 members.	1	X Q4					• Apex body is created • Governance, rules of procedure and terms of reference defined	KAM/International Fund for Agricultural Development, with support from MoIED, regional support from ACTIF	

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			15	16	17	18	19			
1.1 Strengthen sector coordination to support skills development.	The institutions from which the participants originate must be willing to share the costs. Funding required for meeting facilities, supported by members. Responsibilities of the apex body will the following: 1. Strengthen interaction between the industry, academia, research institutions and public institutions. 2. Facilitate the identification of skills gap using Training Needs Analysis (TNA) 3. 3Support the restructuring and alignment of all the training institutes / university curricula and reporting to a single ministry: a. Restructuring and alignment of all the training institutes/university curricula for them to report to a single ministry should then be advocated based on the results of the study. 4. Establish a sector think tank whose role will include sector-specific publications and production of white papers. 5. Cost of doing business: a. Training levy b. Work permits c. Electricity pricing d. Creation of a sector-specific fund. 6. Ease of doing business: a. Influencing policies that affect the sector b. Transportation services c. Restructuring of training institutions. 7. Promotion of Kenyan T&C products: a. Public procurement b. 'Buy Kenya, Build Kenya'. 8. Review of sector-specific governmental budgets. 9. Dissemination and promotion of competitive intelligence. Build the apex body's capacities: • To ensure effective set up and operation • To acquire the required convening and advocacy power to influence sector-related policies • To raise and mobilize direct public and donor assistance towards the sector's priorities.									

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1.1 Strengthen sector coordination to support skills development.	1.1.2 The apex body coordinates a skill gap and needs assessment study covering the entire value chain, from workers up to managers, and develops course curricula, assessment standards and infrastructure requirements for training programmes, coordinated by MoIED. The skill gap assessment must be conducted with consideration of international standards and through benchmarking.	1	X Q4					• Skill gap assessment study reports indicating specific numbers to be trained for various activities • One course curriculum for each area, assessment standards for certification agency and identification of ways to train (on-job, theory, mixed)	Apex body	International training agencies such as Wazir and Infrastructure Leasing and Financial Services (IL&FS) from India, regional support from ACTIF, additional support from local training institutions, e.g. universities
	1.1.3 With the help of results under 1.1.2, the apex body plays a leadership role in the design of a factory-based productivity and quality enhancement programme to improve productivity within the existing manufacturing system. The programme will help companies to implement lean manufacturing and other techniques for productivity and quality improvement. Under the leadership of MoIED, the apex body mobilizes and secures resources for programme implementation and puts in place the proper mechanism to monitor and audit its execution.	1	X Q4					• Productivity and quality enhancement programme reviewed and validated • Resources mobilized for the programme • Implementation management mechanism in place	Apex body MoIED supports the initiative, regional support from ACTIF	
	1.1.4 The apex body builds a common position on key issues affecting the sector and builds the necessary advocacy to support required policy or regulation changes, e.g.: • On the training levy: Develop a proposal/white paper on how to improve efficiency of the training levy, particularly to redefine conditions for approval and timing of rebates; define a range of specific training to be covered by the training levy; and prepare recommendations to NITA through MoIED. • On work permits: The apex body: (1) identifies a range of specific skills not available through the Kenya labour market and provides evidence of the lack or absence of the skill base in Kenya; (2) prepares a recommended list of labour skills that require recruitment of expatriates for the sectors; (3) through MoIED negotiates with the Department of Immigration Services to reduce the cost and time required to issue work permits for the identified skills categories. • On public procurement: The apex body, together with MoIED and the Treasury, drafts a position paper on the modalities of a possible 'Buy Kenyan' programme. • On electricity pricing: The apex body contributes to the development of a suitable exit strategy for the temporary electricity subsidy programme.	1	X Q4					• One white paper on the training levy • Common position on work permit issue presented to the Department of Immigration Services • One position paper on a 'Buy Kenyan' programme • Exit strategy for the temporary electricity subsidy programme drafted	Apex body, MoIED	World Bank/Global Development Solutions (GDS) TradeMark East Africa (TMEA), East Africa Trade Hub

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1.2 Improve technical and supervisory skills as well as supply chain performance.	1.2.1 Carry out factory-based trainings across the value chain to increase technical and supervisory skills of: • Shift workers/machine operators, from spinning up to garmenting • Line leaders and production flow supervisors • Middle managers • Pattern makers and computer-aided design operators • Quality inspectors • Lab technicians • Fashion designers • Merchandizers • Industrial engineers. In addition, for each of these fields, train trainers at company and training institution level.	1		X Q2				• Five thousand workers trained per year • At least 300 employees trained per year under other categories (to be refined based on the skill gap assessment under activity 1.1.2) • Eighty to one hundred managers trained per year • At least two trainers trained per category	KAM, apex body in the long term with support from NITA & EPZA	International training agencies such as Wazir and IL&FS from India, regional support from ACTIF, UNIDO, The Productivity Centre
	1.2.2 Support firms to provide a systematic training/induction process for new operators and develop training manuals on manufacturing operations – production, quality, maintenance and housekeeping – for operators.	1		X Q2				• Train 20 companies per year to develop process and training manuals • Training of trainers under an exchange programme in one year	Apex body in the long term, support from ACTIF	Supporting Indian Trade and Investment in Africa (SITA) (tbc), local institutions, including BCaD Consulting (Kenya Modular Learning System – Supply Chain Management (MLS–SCM) partner)
	1.2.3 Provide overall training to firms on sourcing, financial management and supply chain optimization.	1		X Q2				• Eighty to one hundred company managers trained per year • At least 20 SMEs advised per year	Apex body in the long term, regional support from ACTIF	SITA (tbc), Local institutions, including BCaD Consulting (Kenya MLS–SCM partner)
	1.2.4 Coach companies on how to put into practice the most suitable systems and processes for managing operations and inventory (e.g. sourcing and planning for constant availability of inputs used in production such as raw materials, spare parts, dyes and chemicals).	1		X Q3				• At least 30 companies and 20 SMEs trained on inventory management per year: • Four months per company, 10% reduction in rejections/reworks and compliance with buyer's requirements	KAM, apex body in the long term	SITA (tbc), Wazir Consultants, local institutions including BCaD Consulting (Kenya MLS–SCM partner)
	1.2.5 Coach companies to implement cost-efficient and buyer-oriented sourcing strategies and techniques (also ensuring that responsible staff have financial skills related to purchasing inputs and coordinating production schedules).	1		X Q4				• At least 30 companies and 20 SMEs trained in sourcing strategy implementation per year	KAM, apex body in the long term, regional support from ACTIF	SITA
	1.2.6 Train managers on the development of a company subculture in their firms to retain workers' interest in career development and improve working conditions. Training to mid-level managers will also focus on proper floor management techniques and required soft skills. Develop a training audit module to help sector stakeholders identify specific training needs. Introduce a voluntary training audit scheme to help managers of textile and garment companies identify and develop in-house training programmes.	1		X Q3				• Eighty to one hundred company managers trained per year • At least 20 SMEs advised per year	KAM, apex body in the long term, regional support from ACTIF, Moi University (up to dyeing stage)	

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Strategic objective 1: Maximize productivity and uphold quality requirements through skills development.										
1.2 Improve technical and supervisory skills as well as supply chain performance.	1.2.7 Support SMEs/local firms' integration through lead firm engagements: MoIED and EPZA work with foreign investors to establish small-scale training/mentoring programmes for selected local firms to enter EPZs through their CSR budgets (at both the operator and mid-management levels).	2		X Q4				• At least four mentoring programmes per year (related to 1.5.1) • At least 20 SMEs advised per year	KAM, EPZA, apex body in the long term, regional support from ACTIF	
	1.2.8 The apex body, in collaboration with EPZA, works with lead firms/foreign buyers to establish policies and procedures for selected local firms to follow. Lead firms directly engage with local firms in their implementation through the exchange of personnel between firms and through the development of network activities. Linked to activity 1.5.2 related to EBAP.	2		X Q4				• At least five exchanges between local firms and lead firms per year	Apex body, in collaboration with EPZA	
1.3 Enhance quality management skills in line with international standards.	1.3.1 Organise workshops and disseminate guide books to promote the adoption of instruments related to quality management systems and standards (such as ECOTEC, Kaizen, International Organization for Standardization (ISO), and social responsibility and environmental / energy standards) and services in support of enterprises. • Guide: 'Exporting clothing and textiles to target markets' • Guide: 'Managing quality in Kenya: a directory of services'	2		X Q4				• Guide: 'Exporting clothing and textiles to target markets' made available • Guide: 'Managing quality in Kenya: a directory of services' made available	KEBS Kenya Accreditation Service, Inscap Consulting, Veritas, China Certification and Inspection Group Africa Regional support from ACTIF	SITA (tbc)
	1.3.2 Conduct sensitization workshops on mandatory and voluntary requirements in targeted markets (India, region, EU) for SMEs and TISIs. This would cover international and other requirements, buyers' requirements, labelling, packaging, clothing size, and the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation: • Breakout sessions to identify the quality-related needs of participating SMEs (and TISIs); • Identification of a way forward for a pool of enterprises (ISO 9001, ISO 14001, ISO 50001, productivity improvement, 5S, basic quality tools, lean manufacturing, packaging, labelling); • Identification of a way forward for TISIs (labs, certification bodies, inspection bodies, consultancy companies).	2		X Q2				• Twenty SMEs sensitized on mandatory and voluntary requirements in targeted markets • Ten TISIs sensitized on mandatory and voluntary requirements in targeted markets	KEBS, regional support from ACTIF, EPZA	SITA
	1.3.3 Conduct capacity-building for a pool of selected SMEs to comply with mandatory and voluntary requirements and implement required certification schemes (ISO 9001, ISO 14001, ISO 50001, productivity improvement, 5S, basic quality tools, lean manufacturing, packaging, labelling).	2		X Q2				• Twenty SMEs coached to implement appropriate certification schemes and management tools • Training materials available	KEBS, KAM	
	1.3.4 Training on understanding, and guidance on implementation of, the REACH regulation.	2		X Q2				• Eighty to one hundred company managers trained per year • At least 20 SMEs advised per year and 10 relevant regulatory bodies • Roadmap to implement REACH regulation	EPZA, UNIDO, KEBS	

Strategic objective 1: Maximize productivity and uphold quality requirements through skills development.

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1.3 Enhance quality management skills in line with international standards.	1.3.5 Promote and facilitate the creation of local consulting firms and business services of international consulting firms to provide assistance and effective business support to T&C companies. This can be done through the following: • Reach out to the key players in the consulting industry to bring them into Kenya • Build capacity of identified relevant existing consulting firms in Kenya • Help KEBS to extend their reach of certification among Kenyan firms and promote the advantages of certification.	2		X Q4				• Business services and a pool of local advisers in the area of quality (ISO 9001, ISO 14001, ISO 50001, 5S, quality tools) • Support provided to two consulting firms	KAM	
1.4 Develop specific skills for the handloom subsector, for designers as well as for MSMEs.	1.4.1 Strengthen selected Handloom Weavers' Marketing Cooperative Society (WEAMACO) capacities to provide adequate support to its members and tie the association to MoIED, ACTIF and KAM. Carry out an institutional assessment to improve WEAMACO performance by measuring the effectiveness and efficiency of their business practices. The assessment should survey all activity areas including strategy and governance, resources and processes, products and services, and results measurement. Support WEAMACO and the newly created handloom association to demonstrate the potential of the handloom sector for job creation and income generation: • Organize a study tour to India for WEAMACO and the newly created handloom association to understand the vast potential of handloom weaving and the possibility to operate as a large manufacturing unit; • Link MSMEs in WEAMACO and the handloom association with educational institutions and TISIs, etc. to allow them to benefit from similar opportunities and access as the T&C sectors in areas such as research, market intelligence, financial support, training etc.; • Facilitate information exchange between key actors in the T&C sector and WEAMACO and the newly created handloom association to share skills and know-how beneficial to both; • Strengthen WEAMACO and the newly created handloom association in sourcing practices, market identification and market access; • Advocate for policy support/incentives, e.g. support in sourcing of inputs. Ensure the needs of the handloom sector are duly considered and reflected in T&C development strategies.	2		X Q3				• Members surveyed and report on improvement in quality of support provided • Benchmarking report produced and validated by TISIs • Institution report on performance improvement through survey questionnaires • A 20% improvement in benchmarking score by the end of the project • One study tour to India of both TISIs' key representatives • Both TISIs collaborate closely with training institutions • At least two trainings to both TISIs' personnel on sourcing	Apex body WEAMACO, newly created handloom association, regional support from ACTIF	SITA+an Indian consulting firm such as Wazir (coordination with Indian partners), NIFT, NID, IIHT

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1.4 Develop specific skills for the handloom subsector, for designers as well as for MSMEs.	1.4.2 Organize skills upgrading training in India for selected Kenyan weavers: • Establish a link between handloom producers and Indian training institutions (possibly with the National Institute of Fashion Technology (NIFT), National Institute of Design (NID), Indian Institute of Hardware Technology (IIHT), etc.) for weavers to learn various weaving techniques, printing (screen/block printing), jacquard/dobby weaving, preparation and use of natural dyes etc.; • Replicate/adopt the Indian internship programme, bearing in mind the local scenario. Conduct training in the following additional areas: • Sales and marketing; • Trend research – colours, shapes, etc.; • Train the trainers programme: training producers from the community level on spinning, weaving and dyeing techniques; • Translate trends into unique/marketable product items.	2		X Q4				• At least 20 handloom firms advised per year • At least three linkages established with Indian partner training institutions • Internship system put in place and functioning	Apex body, newly formed handloom association, WEAMACO, regional support from ACTIF	India based consultants, SC–Wazir (coordination with Indian partners), NIFT, NID, IIHT
	1.4.3 Develop cooperation with the Office of the Development Commissioner for Handlooms at the Indian Ministry of Textiles to develop a national handloom development programme for Kenya. Similarly to the Indian National Handloom Programme, the Kenyan scheme should merge all major components, namely: the Integrated Handlooms Development Scheme, Marketing and Export Promotion Scheme and Diversified Handloom Development Scheme.	1		X Q4				• National handloom development programme developed	Apex body WEAMACO, newly created handloom association	India based consultants, SC–Wazir (coordination with Indian partners), regional support from ACTIF
	1.4.4 Develop tailor-made on-site trainings to increase the capacity and productivity of the MSMEs in the handloom sector. Trainings will include enterprises in the informal sector to drive the transition to the formal economy.	1		X Q2				• In line with activity 1.1.2, MSME skill gap assessment carried out • At least 20 SMEs advised per year	AFAD (K) MSEA, regional support from ACTIF	India based consultants, SC–Wazir (coordination with Indian partners)
	1.4.5 Train MSMEs owners and managers on management skills that can be of immediate use and are relevant to their scale of operations.	1		X Q2				• At least 20 SMEs advised per year	MSEA, regional support from ACTIF	
	1.4.6 Upgrade production technology and equipment for selected MSMEs through the adoption of specific technology strategic plans, considering the specificities of the production units and their respective product range and product diversification potential. Provide support to these selected enterprises to get quality and management certifications (ISO).	1		X Q4				• At least seven SMEs advised per year and technology plans developed • At least seven SMEs supported through certification process	New handloom association, MSEA, regional support from ACTIF	

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1.4 Develop specific skills for the handloom subsector, for designers as well as for MSMEs.	1.4.7 Establish and equip a pilot shared production facility grouping small designers for them to share costs and benefit from common equipment. Connect and partner with local and foreign clothing manufacturers where possible (e.g. Rivatex and others). Establish connections with the local and regional markets. Provide capacity-building to designers related to clothing design, tailoring and cutting, identification of inputs, and product marketing. Establish linkages, exchange programmes and exposure studies between Kenyan and Indian designers. On successful roll out of the pilot, spread to regions where there is a concentration of small designers' workshops.	1		X Q1				• At least one production facility established over the five-year period, grouping 100 designers • At least 100 designers trained per year • At least three exchange programmes carried out	New handloom association, AFAD (K), MSEA, regional support from ACTIF, Equity Bank	
	1.4.8 Lead a sensitization campaign and training to handloom producers and designers on intellectual property. Public sector officers are also to attend these trainings.	1		X Q4				• At least 20 handloom firms and 100 designers advised per year	New handloom association, AFAD (K) MSEA, regional support from ACTIF, Kenya Industrial Property Institute, Moi University	
1.5 Improve existing training and educational offerings in line with industry needs.	1.5.1 Set up a regional training centre of excellence for T&C in the EPZs, where local textile producers could train middle & upper level management on new technology, factor pricing, quality control and labour productivity. Include the full chain. Led by and linked with the apex body. Connection with NIFT on the capacitation of the centre of excellence.	1		X Q1				• At least four centres of excellence established • At least two MoUs signed with NIFT	Apex body, EPZA, regional support from ACTIF	EPZA has started on establishing a regional centre (Athi River) of excellence
	1.5.2 Review and enhance EBAP to accelerate the growth of operational SME exporters desiring to set up under the EPZ programme: • Review and clarify the selection of firms to benefit from EBAP • Strengthen communication of EBAP to ensure good outreach and applications by SMEs for the programme.	1		X Q1				• At least four new EBAPs established	EPZA, regional support from ACTIF	
	1.5.3 Reinforce existing TVET (related to study in 1.1.2.) offering and revive the offer of the KTTI as well as other relevant institutions, targeting both textile and clothing companies. Specific technical areas requiring skill reinforcement are: • Spinning operations for ring spinning, open end and airjet • Weaving and weaving preparatory operations for major shuttleless technologies – airjet and rapier • Knitting operations • Fibre/yarn/fabric dyeing, printing and finishing processes • Garment manufacturing operations • 3G Tailor Training System and other modern internal training techniques • Fashion design • List of skills to be completed based on the assessment study.	1	X Q4					• At least one new course created and available in each field within the five-year period • Signed MoU with one Indian institute • Three to four months for coordination with Indian institutes • At least two TVET institutions trained on latest pedagogical techniques per year • At least two TVET institutions trained on latest technical developments in the sector	Apex body, KTTI, EPZA	SITA (tbc) , Indian textile research associations (Northern India Textile Research Association, South India Textile Research Association, Ahmedabad Textile Industry's Research Association, etc.) International training agencies such as Wazir and IL&FS from India

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1.5 Improve existing training and educational offerings in line with industry needs.	(1.5.3) In each of these areas, reinforce training institutions' capacity and create highly specific and short-term courses (one to three weeks), adapted to time constraints of employees. For more specialized training, a higher period of four to six weeks may be required. The timeline should be decided while developing the courses. This activity is linked with activity 1.1.3 as capacity-building and courses will be designed based on the results of the skill gap study and related curricula. Reinforce KTTI's capacities: 1. In the latest international best practice and technology available to the sector to ensure up-to-date capacity-building provisions; 2. In the latest training practices and tools; 3. To establish professional standards, job profiles, qualifications and certifications; 4. To facilitate transfer of know-how from Indian institutions to develop vocational training programmes.	1	X Q4					• At least one new course created and available in each field within the five-year period • Signed MoU with one Indian institute • Three to four months for coordination with Indian institutes • At least two TVET institutions trained on latest pedagogical techniques per year • At least two TVET institutions trained on latest technical developments in the sector	Apex body, KTTI, EPZA	SITA (tbc) , Indian textile research associations (Northern India Textile Research Association, South India Textile Research Association, Ahmedabad Textile Industry's Research Association, etc.) International training agencies such as Wazir and IL&FS from India
	1.5.4 Set-up collaboration between local and Indian training institutions to develop or update a handloom weaving training curriculum including advanced techniques. • Train staff and management to establish and manage quality systematically to meet client needs. • Establish a feedback mechanism between MSMEs and buyers for continuous improvement to satisfy buyers' needs and expectations.	1		X Q3				• Signed MoU with one Indian institute • Getting two experts or an agency on board (can be increased if required) • Develop four exchange programmes	MoEST, handloom association, apex body/KAM, KTTI, EPZA	Indian institutes, agencies and experts
	1.5.5 Systematize the use of TVET by creating a requirement for each new operator in Kenyan companies to undergo a relevant three-week course (based on the specification). For some trainings, a higher period of four to six weeks may be required. The timeline should be decided while developing the courses. Establish a Memorandum of Understanding (MoU) between T&C companies and TVET institutions to share costs for the training.	2		X Q2				• At least 10 firms implement a mandatory training for new operators each year • MoU is signed between TVET and firms	Apex body/KAM, KTTI, EPZA	
	1.5.6 Capacitate the TVET structure with the required equipment to teach trainees the proper handling of new equipment used in the industry. Second-hand/small scale models of machinery can be imported from current industry leaders (India, for instance). Machinery suppliers can also be approached to donate some of the machinery for training purposes.	2		X Q1				• Letter of support obtained from two to three companies or machinery suppliers	Apex body/KAM, KTTI, EPZA, TVETA	Large Indian textile companies - Arvind, Vardhman, Alok, Raymond, machinery suppliers - LMW, Rieter, Dornier, etc.
	1.5.7 Strengthen linkages and collaboration mechanism between Kenyan universities and enterprises. • Based on agreements reached between universities and the T&C apex body, support the updating of curricula and training programmes of universities (including student apprentices and internship programmes).	2		X Q4				• New curricula developed • Signed MoU with three to four experts or institutes • Requirement of one internship programme per diploma established	Apex body/KAM, universities, EPZA, KAMEA	SITA (tbc) (coordination with Indian institutes and experts), Indian Institutes of Technology, DKTE, Technological Institute of Textile and Sciences, Government Central Textile Institute, regional support from ACTIF

Strategic objective 1: Maximize productivity and uphold quality requirements through skills development.

Operational objective	Activities	Priority 1=high 3=low	Implementation period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes+international partners
1.5 Improve existing training and educational offerings in line with industry needs.	• Establish university cooperation with selected leading T&C countries' universities. Link Mcensal School of Fashion Design with Indian training institutions. Link NITA with Indian machinery providers. • Formulate internship programmes between private sector and universities/TVET institutions. This needs to be jointly programmed. • Support selected universities to upgrade the existing industrial training programme: 'Garment Technology & Lean Manufacturing'. • Integrate within universities' courses visits from guest speakers from the industry to deliver special training sessions to Kenyan students. Similarly, invite successful Kenyan T&C companies to give speeches at universities. • Send teachers on national and international industry visits to provide them with first-hand learning experiences and to help build industry linkages. • The apex body will initiate, together with selected universities, research studies covering specific challenges faced by the industry to generate thought leadership and find appropriate solutions (disseminate results through their network and through universities). • Invite international professors in order to share best practices on TVET and improve inter-university partnerships. Creating linkages with industry needs to start in year one of a student's experience (and be systemized throughout) to ensure the knowledge is properly built.							• Development of curriculum for 'Garment Technology & Lean Manufacturing' course • At least one industry representative visits universities per curriculum • Requirement put in place to have a national or international industry visit per year • At least five new studies initiated • At least five professors invited per year	MoEST (committee on internship programme), apex body/KAM, universities, EPZA	International training agencies such as Wazir and IL&FS from India, regional support from ACTIF
	1.5.8 Based on a gap assessment study and course curriculum development in line with industrial requirements and international standards, help institutes to: • Link with international institutes for student and faculty exchange/knowledge exchange programmes; • Develop a strong industry interface – guest lectures, scholarships, sponsorships, training, placements, etc.	2			X Q1			• At least five exchange programmes developed • At least three interfaces developed	MoEST, apex body/KAM, universities, EPZA	
1.6 Ensure that national quality management infrastructure responds to the industry's needs and international ambitions.	1.6.1 Support KEBS to bring existing standards up to date, establish which others are required, and publish national quality standards for garments and promote the use of those standards to members through circulars and seminars.	1	X Q4					• Advisory service to KEBS on codes of practice for the development of standards; five standards adopted; two sensitization seminars conducted	KEBS, regional support from ACTIF	SITA (tbc)
	1.6.2 Build the capacity of testing and certifying bodies for garment quality. Establish collaboration with international leaders in this area and ensure the exchange of best practices.	1		X Q4				• At least two testing and certifying bodies trained	KEBS	SITA (tbc)
	1.6.3 Involve sector institutions in sensitizing and supporting the private sector on quality management and conformity assessment (testing, certification, inspection). KAM to conduct awareness-raising courses for (M)SMEs about international mandatory and voluntary standards related to T&C.	1		X Q2				• KAM and apex body to develop sensitization campaigns for their members	KEBS, regional support from ACTIF	

Strategic objective 2: Improve the business environment to further support the development of the T&C industry.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes+international partners
2.1 Improve compliance as a way to increase productivity and competitive-ness.	2.1.1 Develop a reference book on existing social and environmental guidelines applied in the T&C sector in Kenya, including the monitoring and reporting mechanisms in place.	1	X Q4					• Assessment carried out	National Environmental Management Authority, KEBS, Kenya Industrial Research and Development Institute, Ministry of Labour, Social Security and Services	International Labour Organization, World Bank, regional support from ACTIF on activities 1, 2 and 6. In 2012: ACTIF and Danish International Development Agency, KAM provided training on CSR for textile & apparel members, International Labour Organization
	2.1.2 Establish an advisory committee composed of KAM, buyers, employers, the Tailors and Textiles Workers Union (member of Central Organization of Trade Unions), TISIs and other relevant stakeholders. Agree on implementation of global compliance standards and modalities in the country and for the T&C sectors, including monitoring and reporting.	1	X Q4					• Committee on compliance programme set up	Tailors and Textiles Workers Union	
	2.1.3 Establish modalities for buyer and enterprise engagement in implementation, monitoring, reporting and taking corrective actions related to compliance.	2		X Q2				• Involvement of buyers defined through respective terms of reference (at least two)	KAM, apex body, National Environmental Management Authority, KEBS, Ministry of Labour, Social Security and Services	
	2.1.4 Agree upon and sign a countrywide compliance framework for the T&C industry in Kenya.	2		X Q2				• Countrywide compliance framework signed		
	2.1.5 Work with buyers to build compliance buy-in through building trust and ownership with management and workers. Establish a working team (management and workers) at the enterprise level to promote compliance.	2		X Q2				• At least 20 working teams established in Kenyan companies		
	2.1.6 Train workers, employers and other stakeholders on the agreed-upon compliance framework for the T&C industry in Kenya, including social and environmental standards, and their implications for attracting FDI and global buyers.	2			X Q2			• At least 500 workers trained per year (from participating companies)		
	2.1.7 Train employers and workers on the link between compliance and improved working conditions for quality, productivity, cleaner production and human resource management.	2			X Q2			• At least 500 workers and 50 managers trained per year (from participating companies)		
	2.1.8 Agree with buyers on an appropriate verification system for the country, including the use of accredited Kenyan service providers. Select and train advisory service providers to carry out factory-level assessment, monitoring and reporting (service could be integrated within TISI or established using the International Labour Organization Better Work programme approach).	2		X Q2	X			• Verification system developed		
	2.1.9 Train advisory service providers on how to follow up and work with companies to improve on compliance gaps.	2			X Q2			• At least five consultancy firms trained per year		
	2.1.10 Establish a system to regularly publish highlights about efforts to adhere to global social and environmental principles being undertaken, via various outlets and in collaboration with buyers and investment promotion agencies, to build global transparency about the country's effort.	2		X Q2				• Centralized communication system on compliance established		
2.2 Increase the capacity of the port communities to enforce T&C-related regulation.	2.2.1 Create a dedicated T&C Customs officers division/pool that will specifically be allocated to work with T&C production to increase specialization of staff (currently there is a shift of officers between various sectors of the economy).	1		X Q2				• Specialized T&C Customs' officers' pool established, EPZA	KRA, apex body, textile experts	

Strategic objective 2: Improve the business environment to further support the development of the T&C industry.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes+international partners
2.2 Increase the capacity of the port communities to enforce T&C-related regulation.	2.2.2 Provide training to Customs officers in KRA to: classify (tariffs) import items correctly; recognize product country of origin based on the origin certificate; comply with new import regulation norms; and get them familiarized with textile products, their uniqueness and needed flexibility.							• At least 20 officers of KRA trained	KRA, apex body, textile experts	
	2.2.3 Increase efficiency of clearance procedures, specifically through the following measures. • Checking and approving should be reduced to less than 24 hours. • Goods should be verified once they get to Customs offices to avoid delays. They should consider increasing the inspection staff at exit points. • Companies with good records get a 'green channel'. • Ensure a more careful selection of Internet service providers for Customs offices. • The Commissioner General and Commissioner of Customs should come up with an alternative for when the Simba system is down, to reduce inconveniences caused by the authorities. • KEBS to speed up processing of export documents. • Capacity-building of Customs employees on international standards and cost comparisons. • Improve the Less Container Load cargo system through a transfer to Container Freight Station (extension of the port but privately run). Establish a feedback loop mechanism with the private sector and Customs to constantly ensure that the process runs in an optimal manner.	2		X Q2				• Time taken for clearance procedures reduced to 24 hours	KRA, apex body, textile experts	
2.3 Improve the legal and regulatory framework relevant to the T&C industry.	2.3.1 Introduce T&C-specific regulations and apply recommendations from the recent non-tariff measure survey: • Strongly regulate and control imports of second-hand clothing and new clothing imported under the 'second-hand' category, and increase duty levels on imports (and especially reinforce control on new products being imported as second-hand); • Improve enforcement of the requirement for product origin labelling; • Increase awareness of intellectual property rights for Kenyan designs (kikoyi, etc.), e.g. advertising free World Intellectual Property Organization online awareness-raising courses; • Introduce regulations on wastewater and penalties for failure to comply; • Establish a requirement for an origin certificate/respect of phytosanitary norms.	1		X Q1				• Four new regulations designed and submitted for approval	MoEID, TMEA, regional support from ACTIF Kenya Industrial Property Institute KRA/KAM, KNCCI	

Strategic objective 2: Improve the business environment to further support the development of the T&C industry.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes+international partners
2.3 Improve the legal and regulatory frame-work relevant to the T&C industry.	2.3.2 KRA to adjust (review) their regulations to improve ease of doing business, especially in the T&C sector. • Cancel bonds promptly so as not slow down business. • Cancel import declaration fee. • Streamline KRA's operations at the port to enable more transactions. Clearance of goods should be done immediately on arrival once they comply with the requirements.	1	X Q4					• Three new regulations designed and submitted for approval	MoEID, TMEA EPZA Mombasa KAM, KNCCI	
2.4 Expand and mod-ernize the financial services available to the industry.	2.4.1 Provide capacity-building on modern risk and financial analy-sis to staff at leading financial institutions and raise awareness of modern financial support mechanisms and instruments.	1		X Q4				• At least 50 employees of financial institutions trained per year	MoIED, Ministry of Finance, Kenya Bankers Association	
	2.4.2 Advocate for the creation of a sector-specific industrialization fund and recommend areas for its utilization in line with industry requirements.	1		X Q3				• T&C sector industrialization fund created	MoIED, apex body to advocate	World Bank
2.5 Support com-petitive-ness through improved electricity pricing and quality.	2.5.1 Initiate a viable temporary tariff reduction scheme as soon as possible and extend tariff subsidy to non-EPZ companies.	2	X Q4					• All-Kenya electricity reduction financial scheme developed	Apex body, MoIED, Ministry of Energy, Ministry of Finance Kenya Power and Lighting Com-pany/Kenya Energy Regulatory Commission, KAM	World Bank/GDS
	2.5.2 Load redistribution plan required to ensure continuous supply of electricity to EPZs.	1	X Q4					• Redistribution plan prepared	Apex body, MoIED, Ministry of Energy, KAM, Kenya Power and Lighting Company/Kenya En-ergy Regulatory Commission	World Bank/GDS
	2.5.3 Support firms to modernize equipment and increase training activities on energy saving and optimization.	1		X Q4				• Eighty to one hundred company managers trained per year • At least 20 SMEs advised per year	Apex body, MoIED, Ministry of Energy, Ministry of Finance Kenya National Cleaner Produc-tion Centre, KAM	World Bank/GDS, Centre for Energy Efficiency and Conservation/Sustain-able Use of Natural Resources and Energy Financing/MoIED/French Development Agency/TMEA/ Danish International Development Agency
2.6 Improve the ef-ficiency and cost competitive-ness of transportation and logistics.	2.6.1 Improve coordination and utilization of trucking services by establishing an ICT-based monitoring system allowing for full utilization of trucks during all their transits. Establish cost sharing when the truck is being used by one firm one way and another on the way back. Ensure knowledge transfer from well-performing cases in India (par-ticularly Return Truck India company) on this initiative.	2		X Q4				• Trucking coordination system developed • MoU signed with Return Truck India on knowledge transfer	Apex body, GS1, TMEA, Kenya Transporters Association, KRA	World Bank

Strategic objective 3: Expand the benefits of investment throughout the T&C value chain.

Operational objective	Activities	Priority 1 = high, 3 = low	Starting period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes + international partners
3.1 Pursue efforts to establish ideal conditions for investors.	3.1.1 MoIED seeks to confer top governmental priority and expedite the following ongoing projects in order to enhance conditions for investment in T&C section in Kenya. • Reduce electricity costs: from US$0.21–US$0.23 per kWh down to US$0.09 through implementation of the ongoing project for the additional 5,000 megawatts of electricity to the national grid. • Transportation: implement ongoing standard gauge railway project (including connection between Nairobi and Mombasa). • Build new textile cities at Naivasha and Athi River and new T&C textile parks (near Mombasa or Kisumu) using international expertise to ensure highest production • Establish a low-interest industrialization fund that would provide loans for start-up and machinery upgrades in the yarn and fabric sector, offering internationally competitive interest rates of 5%–6%.	1 1 2 1	X X	X X				• At least 10 major road axes modernized within the five-year period • Reduction of electricity cost to US$0.05 within and outside of EPZs • Naivasha Textile City built • At least two T&C industrial parks built within five years • Sector-specific industrialization fund established	Apex body, MoIED, Ministry of Finance, Ministry of Energy, Ministry of Transport and Infrastructure, EPZA	
	3.1.2 Establish a training centre in the Naivasha Textile City and provide support in the selection and purchase of necessary training equipment to teach trainees (linked with activity 1.5.6).	2			X Q 1			• At least one training centre established in Naivasha Textile City • Letter of support obtained from one to two companies or machinery suppliers	Apex body, consultancy service appointed by MoIED, NITA, KTTI, EPZA	
3.2 Increase capacity of TISIs to target and attract appropriate investments.	3.2.1 Build capacity of investment promotion officers to effectively facilitate and target T&C investment, and improve their investment analysis and targeting capacity/techniques to narrow down and best target potential investors based on investment requirements and specs (this implies investment in data access and management services such Dun and Bradstreet, Financial Times, fDi Markets).	1		XQ 3				• One fabrics project and one garment accessories project come online as a result of KenInvest targeting campaigns	Regional support from ACTIF, EPZA, KenInvest, county governments	
	3.2.2 Establish collaboration between KenInvest/EPZA/the Confederation of Indian Industries (CII)/Exim Bank in order to improve the capacity of the former institutions to promote investments from India in Kenya. Areas of collaboration will include: • Development of up-to-date sector–product competitiveness studies for fibre to clothing, including accessories; • Identification of the subsegment and Indian companies from which to attract FDI; • Development of customized promotional material to attract FDI; • Preparation of investment profiles for Indian investors. Activity 3.3.3 can build and align on the achievements under this activity.	1		X Q2				• Development of investment guide, feasibility studies, brochures and website content (two to three months for promotional material)	Apex body, MoIED KenInvest, EPZA	SITA/international training agencies such as Wazir and IL&FS from India, regional support from ACTIF, Indian High Commission
	3.2.3 Strengthen the ability of KenInvest/EPZA/Kenya Private Sector Alliance/KAM to respond effectively to direct inquiries from investors through a systematic joint approach, relying on shared investor data and materials.	1		X Q2				• Signed MoUs among the four partners and shared adoption of technically consistent and uniformly branded promotional materials for the sector	Regional support from ACTIF Apex body, MoIED, KenInvest, EPZA	
3.3 Further promote Kenya as the main FDI destination for T&C.	3.3.1 KenInvest and EPZA to specifically advertise the following target areas for FDI: • Short term: garment manufacturing–FOB • Medium term: textile mills and integrated textile/clothing factories • Medium term: original design garment manufacturers • Long term: T&C production branded as green or sustainable for niche markets • Long term: yarn spinning factories.	1		X Q1				• KenInvest and EPZA advertise and have prepared a strategic approach towards investors	Apex body, MoIED, KenInvest, EPZA	

Strategic objective 3: Expand the benefits of investment throughout the T&C value chain.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes+international partners
3.3 Further promote Kenya as the main FDI destination for T&C.	3.3.2 TISIs to establish a specific marketing strategy for textile cities (Naivasha and other facilities that will follow) in order to attract and invite worldwide textile manufacturers to set up best practice manufacturing facilities in the country (joint ventures or 100% owned).	2			X Q1			• Marketing strategy for textile cities prepared, based on technically consistent, uniformly branded and regularly updated promotional material	MoIED, KenInvest, EPZA, KAM, apex body	
	3.3.3 Support the development of (existing and new) customized FDI promotional material. Develop well-crafted value propositions for potential investors, comprising feasibility studies on threads, denim mill establishment, open end yarn, processing units, garment units, accessories and packaging, etc. • Develop comprehensive and up-to-date sector profiles. • Develop a centralized database of the critical information & intelligence required by investors. • The promotional material must emphasize the benefits of trade agreements available in Kenya and the recent renewal of AGOA, securing United States market access for the next 10 years (linked with activity 3.2.2).	1			X Q1			• Publication of technically consistent, uniformly branded, and regularly updated promotional materials for the sector, including websites, PowerPoints, sector profiles, start-up roadmaps and supplier databases	MoIED, KenInvest, EPZA, KAM, apex body, regional support from ACTIF	SITA, an Indian consulting firm such as Wazir
	3.3.4 Carry out investment promotion activities in target countries (and particularly India) – roadshows, facilitating direct interactions between Kenyan firms and targeted investors, helping foreign representatives to promote the sector, etc. Use side events to showcase investment profiles developed. Example of side events could be Africa–India Conclave or Origin Africa. Invite potential investors to strategic locations to showcase the infrastructure and business climate.	1		X Q1				• One roadshow each in six major textile cities – Ludhiana, Delhi, Ahmedabad, Mumbai, Bangalore and Tirupur • Meeting with 8–10 investors in each location • Visits of interested investors (total 8–10) to Kenya	MoIED, KenInvest, EPZA, KAM, apex body, regional support from ACTIF Indian Embassy	SITA, international training agencies such as Wazir and IL&FS from India
	3.3.5 Strengthen the investment promotion mandate/responsibility role of diplomats and provide regular training to staff. Revise and enhance the investment promotion programme for embassies to reflect latest trends. Subsequently support and plan enquiry and promotional visits to appropriate and targeted international investors by embassy staff.	1		X Q3				• MoU and standard operating procedures drafted and agreed between KenInvest and the Ministry of Foreign Affairs and International Trade • Conclude investment promotion training for economic/commercial counsellors and secretaries at embassies and consulates in target countries • Finalize investment promotion manual for new diplomats	Ministry of Foreign Affairs and International Trade	SITA (tbc)
3.4 Enable equipment upgrading through investment.	3.4.1 Conduct audits and diagnostics of individual textile units and provide support – first for a list of identified companies, then to a wider group of beneficiaries – with a strategic technology plan (to be linked with gap analysis of activity 1.1.2).	1		X Q1				• At least 10 firms advised per year and technology plans developed	KAM, apex body, regional support from ACTIF, Moi University	
	3.4.2 Advertise and support (through business clinic consultancy services) investment among Kenyan firms in specific machinery required in the fibre–clothing value chain, especially spinning, weaving, knitting and processing.	2		X Q3				• At least 10 firms accompanied through the machinery upgrade process	KAM, apex body, regional support from ACTIF, Moi University	
	3.4.3 Facilitate linkages with India with institutions working on printing, design, and product and market development to spur investment in handloom technology. Support to upgrade to advanced types of handlooms, accessories, and fashion and design technology.	1		X Q 2				• At least three linkages established with Indian partner training institutions	KAM, apex body, regional support from ACTIF, NITA	

Strategic objective 3: Expand the benefits of investment throughout the T&C value chain.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes+international partners
3.5 Increase collaboration between local SMEs and foreign direct investors to ensure synergies.	3.5.1 Replicate the EBAP initiative, specifically targeted to SMEs in the T&C value chain.	2		X Q4				• At least four new EBAPs established	MSEA, EBAP, EPZA, county governments	
	3.5.2 Help establish linkages between new international investors and local suppliers more systematically, taking into account the SMEs' perspective. For example, ensure that foreign-owned firms begin to provide more systematic and organized in-house training, opened to local firms.	1		X Q4				• Exchange mechanism established within four EPZs using the training centres created (1.5.1)	MSEA, regional support from ACTIF, EPZA	
	3.5.3 Foreign buyers to establish small-scale training academies and technical assistance projects financed through their CSR budgets, to offer skill formation programmes offering technical education and vocational training, in order to supply the garment industry with qualified workers at both operator and mid-management levels.	1			X Q1			• At least two training academies created by lead firms • At least four training centres supported by lead firms (linked with 1.5.1)	MSEA, KenInvest, regional support from ACTIF Tertiary institutions, EPZA, TVETA	

Strategic objective 4: Enable market penetration and product development through trade intelligence.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes + international partners
4.1 Improve access to strategic trade intelligence for T&C firms.	4.1.1 Create a strategic monitoring cell, hosted at ACTIF, to gather up-to-date and T&C-specific trade information and to detect early signals on targeted markets and products. This implies supporting KNCCI/KAM/KAMEA to subscribe to important textile journals and websites to be able to update its members with the latest market information. These include: http://www.emergingtextiles.com/ ; www.fibretofashion.com; www.cotlook.com.	1		X Q1				• One monitoring cell set up • Recommendation report on implementation of the competitive intelligence system	ACTIF, EPZA, KAM	SITA
	4.1.2 Improve the website of KNCCI/KAM through web-based solutions for effective trade intelligence gathering and dissemination, and ensure a constant supply of timely market intelligence etc. Convert websites into mobile-friendly formats. Keep track of the usage of websites with Google analytics. Enhancement of the company directory in the T&C sector, including MSMEs, anchored at ACTIF.	1		X Q1				• Two websites revamped	KNCCI, KAM	
	4.1.3 Establish a cooperation framework to promote the exchange and dissemination of T&C trade information among Government agencies, TISIs, media, academia, research organizations and the private sector. Exchange of company information among institutions.	2		X Q3				• One network established	ACTIF, EPC, EPZA, technical institutions, KNCCI	
	4.1.4 Organize trainings of commercial attachés based in key target markets (e.g. United States, South Africa and the EU), as well as trade promotion officials, to best coordinate, collect, compute and disseminate trade information and promotion matters.	2			X Q1			• One training organized and conducted	Ministry of Foreign Affairs and International Trade	SITA (tbc)

Strategic objective 4: Enable market penetration and product development through trade intelligence.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes + international partners
4.1 Improve access to strategic trade intelligence for T&C firms.	4.1.5 Build the capacity of EPC / EPZA / KAMEA / KNCCI / ACTIF to develop market profiles on target markets use market analysis tools and research methodologies (e.g. United States, South Africa and other countries that offer preferential access such as Australia, Canada, EU countries, Japan, New Zealand, Norway, Switzerland, Turkey, Belarus, Kazakhstan and the Russian Federation). These market profiles include production and consumption trends (specific focus on fashion designers), trade analysis, market requirements, price information, distribution channels, logistics (tariff and non-tariff barriers) and key business contacts.	2		X Q2				• Development of two market profiles and training of EPZA/ACTIF/KAMEA staff to capacitate them to prepare two more such profiles • Three trainings on competitive intelligence and market profiles organized and conducted	EPC, EPZA, KAMEA, KNCCI, ACTIF, AFAD (K)	SITA (tbc)), Indian consulting firm such as Wazir
4.2 Expand market access and promote Kenya's T&C products.	4.2.1 Enhance awareness among Kenyan firms on the extension of AGOA and the signature of the tripartite agreement, as well as on the existence and benefits of Kenya's regional and international preferential market access conditions (including preferential access to the following countries: Australia, Canada, EU countries, Japan, New Zealand, Norway, Switzerland, Turkey, Belarus, Kazakhstan and the Russian Federation). EPZA should promote additional products with high potential that T&C companies could export under these schemes.	1		X Q2				• Brochure produced is disseminated to members of the apex body	KAM, apex body, EPC, regional support from ACTIF, EPZA	SITA (tbc)
	4.2.2 Build on the recent extension of AGOA to further penetrate the United States market. • Select appropriate exhibitions in the United States to publicize and promote the Kenyan T&C industry expertise and professionalism, and inform American buyers about Kenya's latest offering and performance in the American market. • Assist selected Kenyan manufacturers to connect with the right buyers and partners in the United States through the promotion of Kenyan know-how to selected apparel retail chain stores and local branded manufacturers to establish and/or strengthen relationships. • Assist selected companies in building relationships with new American buyers (possibly through different distribution channels than the existing ones as multichannel distribution is a necessity) and make their production and distribution process as transparent as possible. • Support current exporters and export-ready firms to ensure compliance with American CSR standards (can be used for marketing e.g. for product storytelling). • Promote and target investment strategically to: – Enable production of garments for FOB business and be able to offer fully integrated services; – Focus on refinement of pre-production services; – Improve inventory control systems, in particular, by better forecasting order demand; – Facilitate data communication with American buyers by implementing electronic data interchange; – Implement web-based product order facilities so American buyers can check the status of their orders.	1		X Q1				• One promotion campaign initiated towards the United States market • At least 10 exporting companies are supported to diversify their buyers' base in the United States • At least 10 companies achieve compliance to CSR and environmental standards relevant to the United States market	KNCCI, KAM, regional support from ACTIF, EPZA	

Strategic objective 4: Enable market penetration and product development through trade intelligence.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period 15	16	17	18	19	Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes + international partners
4.2 Expand market access and promote Kenya's T&C products.	4.2.3 Build on the recent signature of the tripartite agreement to enter the South African market. • Select and assist companies to exhibit their products at the trade show Source Africa 2016 Cape Town and participate in side networking events and business seminars: – Host a fashion show and cocktail party at Source Africa 2016 to promote the Kenyan textiles industry's expertise and professionalism, and to strengthen the Kenyan brand and savoir faire. Prepare and organize business to business meetings with South African buyers. – Organize meetings between key Kenyan public and private stakeholders and influential national counterparts such as Cape Town Chamber of Commerce, Westgro, the Mayor of Cape Town, etc. and carry out media interviews so as to strengthen Kenya's introduction in South Africa. • Select and assist companies to exhibit their products at the Southern African International Trade Exhibition for Retail Products 2016 Johannesburg and repeat the approach taken for Source Africa. • Train and coach the Kenyan trade attaché and embassy staff to carry out the following activities: – Promote Kenyan products to the major textiles retail chain stores and local branded manufacturers to strengthen relationships. This will entail visiting the sourcing directors and discussing how the trade attaché can assist with inward buying for any sourcing gaps. – Preparation and facilitation of an inward buying mission. – Trade attaché Investigation of and participation in smaller exhibitions and fairs. – Assist Kenyan manufacturers to connect with the right buyers and partners in South Africa. – Attend official textiles and networking events with other foreign counterparts.	2		X Q3				• One fashion show hosted at Source Africa 2016 • At least 10 bilateral meetings between Kenyan and South African stakeholders carried out • At least 10 companies showcased at the Southern African International Trade Exhibition for Retail Products 2016 • At least 10 companies and the trade attaché trained	KNCCI, KAM, AFAD (K), regional support from ACTIF, EPZA	
	4.2.4 Support and widen services of the EPC and EPZA to support market development undertaken by companies. For example, Kenyan textile exporters to participate in important international textile fairs such as MAGIC (USA), Source Africa–Apparel (South Africa), CPD Dusseldorf (Germany), So Ethic (France), etc., and buyer–seller meetings.	2		X Q2				• EPC and EPZA provide at least four new fairs for Kenyan exporters to participate in	EPC, EPZA, KAM, KNCCI	
	4.2.5 ACTIF, in collaboration with Kenyan trade missions (embassies) based in the United States and South Africa, arranges buyer–seller meetings to facilitate interaction between Kenyan exporters and foreign buyers in target markets.	2		X Q2				• At least 20 buyer–seller meetings conducted by ACTIF with American and South African buyers	ACTIF, KNCCI	
	4.2.6 Develop appropriate national brand/sign promotion policy and coordinate implementation of activities under the 'Made in Kenya' tag. Create a logo and motto as a priority.	2		X Q3				• One national branding strategy developed • Common logo/motto agreed	KAM, AFAD (K), apex body, EPZA, Brand Kenya Board, MoIED	
	4.2.7 Conduct training on development of company level brands to be linked with the national brand (subsequent to 4.2.6)	2			X Q1			• Assistance provided to at least 10 firms to create or improve their branding	KAM, AFAD (K), apex body, EPZA, Brand Kenya Board, MoIED	

Strategic objective 4: Enable market penetration and product development through trade intelligence.										
Operational objective	Activities	Priority 1=high, 3=low	Starting period					Target measures	Leading national institution and possible implementing partners	Ongoing/future development programmes + international partners
			15	16	17	18	19			
4.3 Increase firms' capacity to align product development with key markets' requirements.	4.3.1 Support selected companies willing to diversify their product base by providing backup and consulting services throughout the process. The following orientations could be of interest. High potential products to the US market under AGOA: • HS 641410 – Intimate wear • HS 640443 – Dresses of cheap value synthetic • HS 640193 – Men's cheap value synthetic outerwear • HS 611596 – Specialty hosiery of synthetics. Other markets: • Yarn and fabrics (shirting, bottom weight and denim) – regional markets • Value added garments, diverse fibre base – other EU markets. Additional activity: support designers in subscribing to fashion trend databases. To be linked with the monitoring cell under ACTIF.	2		X Q4				• At least 20 companies supported to diversify their product base in target markets	KNCCI, EPC, KAM, apex body, regional support from ACTIF, EPZA	
	4.3.2 Based on target markets' needs, train firms on how to enhance customer focus through value added services such as vendor-managed inventory, multi-fibre expertise, ICT capacity (ICT-enabled teaching) and drop shipment.	2		X Q4				• Eighty to one hundred company managers trained per year	KNCCI, EPC KAM, apex body	
	4.3.3 Conduct visits to regional and international trade shows on T&C production technologies and new machineries with T&C entrepreneurs (industrial associations, clothing enterprises) Visit the world's leading apparel pattern design and cutting equipment manufacturers, e.g. Lectra Research and Manufacturing Facility, Bordeaux; Technical University of Liberec, Textile Department, Czech Republic; Première Vision (apparel show), Paris. The main outcomes of these tours should be to acquire knowledge on the latest developments in the T&C processing industry.	1		X Q2				• At least 20 companies accompanied to trade shows and equipment tours	KNCCI, EPC, KAM, apex body, regional support from ACTIF, Moi University, NITA	SITA
4.4 Provide targeted assistance to handloom firms and designers on trade promotion.	4.4.1 Establish linkages between Kenyan handloom producers and designers, and foreign buyers. • Promote unique handloom products and designs in collaboration with local and/or international designers/buyers. • Link local designers with handloom weavers to develop unique fabrics which can be used to develop products for local/export markets. • Support selected weavers and designers to: – Approach online stores that offer special collections (e.g. fair trade products, sustainable fashion items); – Sell directly to agents/companies that organize new shopping experiences; – Sell direct to customers by setting up a website including an online shop for consumers (female-friendly); – Facilitate connections between Kenyan weavers and designers.	2			X Q2			• Two to three Indian designers sign an MoU with the Kenyan Government for producing a handloom product range in Kenya • At least 100 handloom producers and designers supported	AFAD (K), apex body, handloom association, TVETA	Indian consulting firm such as Wazir¸ regional support from ACTIF
	4.4.2 Ensure promotion of Kenyan handloom products designed by Kenyan designers. • Promote handwoven products through fairs, exhibitions, media and retail outlets. • Develop a handloom brand with a genuine hand-made product certification. • Promote the value of handmade products. • Promote the use of organic or natural fibres in all handwoven products for the purpose of market differentiation. • Develop handloom sector/product promotional materials.	1		Q2				• Promotion plan developed for handloom producers and designers	EPC, AFAD (K), apex body, regional support from ACTIF Research organizations, handloom association	SITA

APPENDICES

SECTION A: INVESTMENT AND EPZ

1) Table 1: International business rankings of Kenya and its competitors

	East African countries			Selected Asian textile and apparel exporters					
International benchmark	Kenya	Ethiopia	United Republic of Tanzania	China	India	Bangladesh	Viet Nam	Pakistan	Myanmar
Ease of Doing Business ranking (1)	136	132	131	90	142	173	78	128	177
Competitive Industrial Performance ranking (2)	102	130	106	7	43	78	54	74	Not ranked
Global Competitiveness Index (3)	90	118	121	28	71	109	68	129	134
Inward FDI Performance Index (4)	129	120	59	86	97	114	22	110	52
Corruption Perception Index (5)	145	110	119	100	85	145	119	126	156
Economic Freedom Index (6)	122	149	109	139	128	131	148	121	161

1– World Bank Group, 2015); 2– United Nations Industrial Development Organization (UNIDO), 2010; 3– World Economic Forum, 2014; 4– United Nations Conference on Trade and Development, 2010; 5–Transparency International, 2014; 6– Heritage Foundation, 2015

2) EPZ and Government concessions

The EPZs were created as means of promoting exports from a number of priority sectors, including the T&C industry, by offering various Government concessions, including:

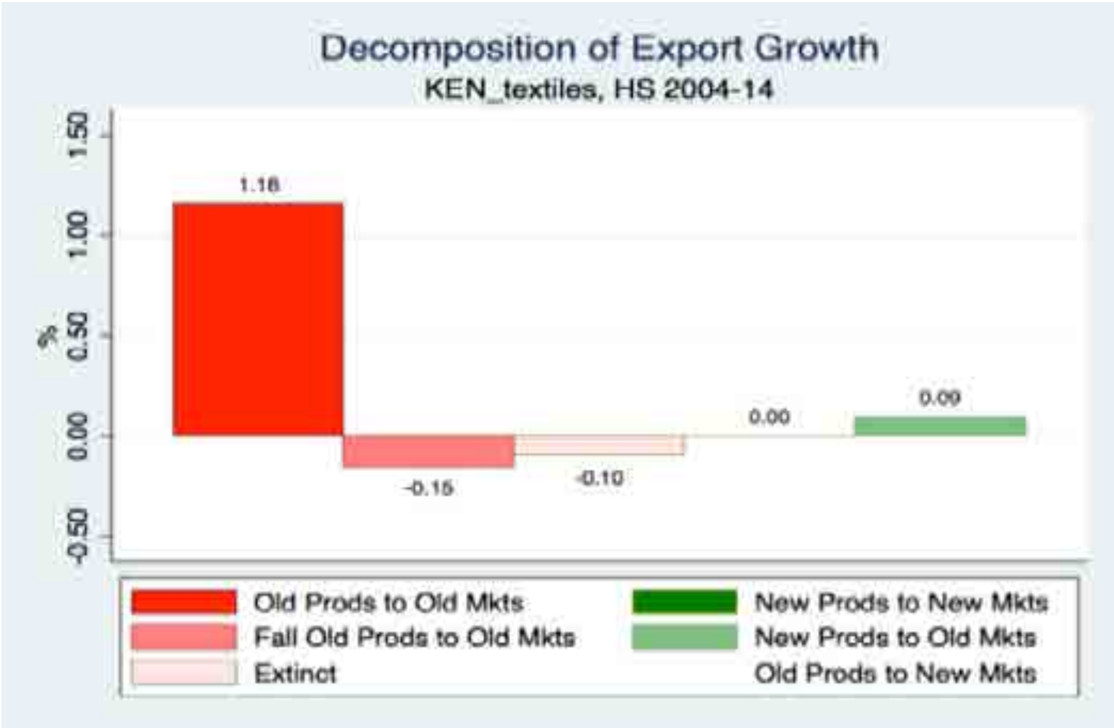
- A 10-year corporate tax holiday and 25% tax rate thereafter
- A 10-year withholding tax holiday on dividend remittance
- Duty and VAT exemption on all inputs except motor vehicles
- An investment deduction of 100% on capital expenditures for 20 years
- Stamp duty exemption
- Exemption from pre-shipment inspection
- Availability of on-site Customs inspection
- Work permits for senior expatriate staff.

At the Athi River EPZ, space can be rented within office blocks, business centres and industrial buildings at rates ranging from US$2 to US$2.80 per square foot per year.[1] Leases are renewable every six years and subject to a 15% service charge annually. Serviced industrial plots can be leased for a minimum of 30 years at a rate of US$5,000 per hectare per year plus a 10% service charge fee. Sixty-year leases are available for US$100,000 per hectare.

1. Kenya Export Processing Zones Authority (2015). Website. Available from http://www.epzakenya.com/.

SECTION B: TRADE STATISTICS ANALYSIS

Figure 1: Decomposition of Kenya's T&C export growth, 2004–2013

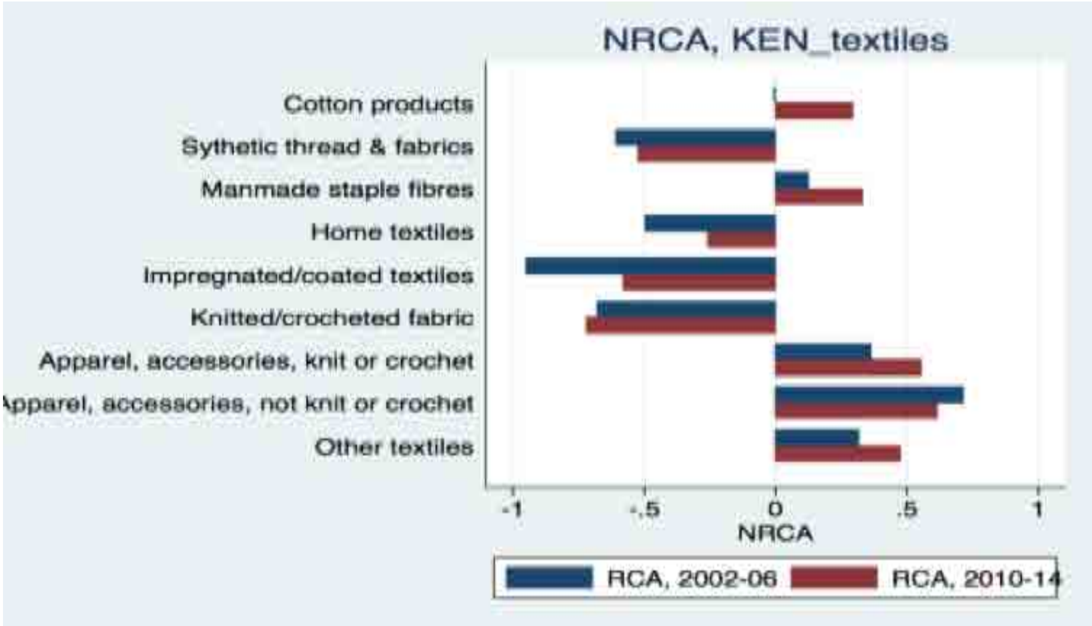


Source: International Trade Centre (2015).

There are, however, some signs of product diversification in the T&C sector. For example, in 2004 there were only 11 products whose exports were valued between US$ 1 million and US$ 10 million. A decade later, 26 products fall within this category, while 10 have exports of over US$ 10 million. Even so, it is worrisome to note that the probability of a Kenyan product surviving for two or more years in a market is only 9%. For the sake of comparison, the probability in Ethiopia is 11%, while in China, India, Bangladesh and Turkey it ranges between 16% and 20%.

An analysis of the Revealed Comparative Advantages Index, which evaluates a country's exports vis-à-vis other exporters, puts Kenya's T&C sector in a slightly more positive light. The index suggests that most segments in Kenya's T&C sector are more competitive today than they were 10 years ago (2002–2006). This improvement is particularly notable in textile segments. Nevertheless, the improvements have been slow compared with other countries. Greater competitiveness should be expected given the relative age and size of the sector when compared with newer industry players.

Figure 2: Kenya T&C, Normalized Revealed Comparative Advantage (NRCA) ANNEX



Source: International Trade Centre (2015).

Note: NRCA>0: comparative advantage; NRCA<0: comparative disadvantage.

Table 2: Kenya's exported garments with value equal to or above US$10 million in 2013 (US$ thousands)

HS code	Product	Exported value in 2013 (US$ thousands)	CAGR (2004 versus 2013)	CAGR (2009 versus 2013)	Export share 2009	Export share 2013
HS 620462	Women's/girls' trousers and shorts, of cotton, not knitted	41 990	52.0%	9.1%	14.1%	13.2%
HS 620342	Men's/boys' trousers and shorts, of cotton, not knitted	33 528	84.7%	32.6%	5.2%	10.5%
HS 611090	Pullovers, cardigans & similar articles of other textile materials, knitted	25 411	122.5%	64.7%	1.6%	8.0%
HS 610469	Women's/girls' trousers and shorts, of other textile materials, knitted	19 377	114.7%	69.1%	1.1%	6.1%
HS 620463	Women's/girls' trousers and shorts, of synthetic fibres, not knitted	17 355	195.8%	163.0%	0.2%	5.5%
HS 620469	Women's/girls' trousers & shorts, of other textile materials, not knitted	14 778	60.9%	34.1%	2.2%	4.6%
HS 610590	Men's/boys' shirts, of other textile materials, knitted	14 482	102.8%	78.1%	0.7%	4.6%
HS 610829	Women's/girls' briefs and panties, of other textile materials, knitted	13 477	93.2%	223.5%	0.1%	4.2%
HS 610990	T-shirts, singlets and other vests, of other textile materials, knitted	12 858	29.8%	33.3%	1.9%	4.0%
HS 630612	Tarpaulins, awnings and sunblinds, of synthetic fibres	7 723	17.2%	27.5%	1.4%	2.4%

Source: International Trade Centre (2015).

Table 3: Kenya's textiles exports >= US$0.1 million in at least two years between 2004 and 2013

HS code	Product description	Export value in 2013 (US$ thousands)	Growth rate		Share in textile export	
			CAGR 2004 versus 2013	CAGR 2009 versus 2013	2009	2013
HS 530500	Coconut fibres, abacá, Manila hemp and other vegetable textile fibre	22 153		412.9%	0.1%	43.9%
HS 551110	Yarn, >/=85% of synthetic staple fibres by weight, put up for retail sale	9 211	12.8%	16.4%	18.1%	18.2%
HS 530390	Jute and other textile bast fibres, not spun, n.e.s.; tow and waste of these fibres	8 395		16.6%	16.3%	16.6%
HS 530310	Jute and other textile bast fibres, raw or retted (excluding flax, true hemp and ramie)	3 450	79.3%	-27.0%	43.8%	6.8%
HS 560790	Twine, cordage, ropes and cables, of other materials	1 427	43.0%	56.0%	0.9%	2.8%
HS 580219	Terry towelling and similar woven terry fabrics, of cotton	820	47.4%	92.3%	0.2%	1.6%
HS 560721	Binder or baler twine, of sisal or other textile fibres of the genus Agave	444	-5.9%	49.0%	0.3%	0.9%
HS 540754	Woven fabrics of yarn containing >= 85% by weight of textured polyester filaments	380	48.2%	41.1%	0.3%	0.8%
HS 560490	Textile yarn, strip and impregnated, coated, covered or sheathed with rubber or plastics	371	26.4%	74.5%	0.1%	0.7%
HS 560811	Made up fishing nets, of man-made textile materials	309	2.2%	15.8%	0.6%	0.6%
HS 580810	Braids in the piece	250	63.5%	2.4%	0.8%	0.5%

Source: International Trade Centre (2015).

SECTION C: TRADING ACROSS BORDERS

Table 4: Time and cost to trade across borders in Kenya, Ethiopia and the United Republic of Tanzania

	Kenya				Ethiopia				United Republic of Tanzania			
Nature of export / import procedures	Export procedures		Import procedures		Export procedures		Import procedures		Export procedures		Import procedures	
	Time (days)	Cost (US$)	Time (days)	Cost (US$)	Time (days)	Cost (US$)	Time (days)	Cost (US$)	Time (days)	Cost (US$)	Time (days)	Cost (US$)
Document preparation	12	305	11	250	27	520	29	700	8	270	13	575
Customs clearance and inspections	4	375	3	510	7	290	5	390	4	250	5	250
Ports and terminal handling	6	375	8	390	3	270	3	270	4	320	7	540
Inland transportation and handling	4	1 200	4	1 200	7	1 300	7	1 600	2	250	1	250
Totals	26	2 255	26	2 350	44	2 380	44	2 960	18	1 090	26	1 615

Source: World Bank (2015).[2]

2. Stakeholders indicated that in practice the number of days is generally lower.

SECTION D: POTENTIAL INVESTORS

Company	Products / activities	Turnover (US$ millions)
Vardhman Textiles	Yarn, fabric, threads, fibre & garment	834
JBF Industries Ltd	Synthetic fibre	772
Arvind Limited	Denim, fabric, apparel, advanced materials	770
Trident Group	Towels	624
Welspun India Ltd	Home textile and synthetic yarns	570
SRF Limited	Tyre cord yarn	551
Garden Silk Mills	Polymers, yarn, filament and fabric	495
SEL Manufacturing Company Ltd.	Yarns, knitted fabric, terry towels, ready-made garments	477
Bombay Rayon Fashions Ltd	Fabrics, apparel	469
RSWM Ltd	Synthetic and blended yarn, fabric, denim fabric	463
Indo Rama Synthetic Ltd	Synthetic fibre and filament	424
Lakshmi Machine Works	Textile machinery	362
Nahar Spinning Mills Limited	Yarn and fabric	356
Raymond Limited	Suiting and shirting fabric, apparel	353
KPR Mill Limited	Yarn and fabric	316
Sutlej Textiles	Synthetic and blended yarn, fabric, home textile	303
Filatex India Ltd	Synthetic yarn	285
Mandhana Industries Pvt. Ltd	Yarn dyeing, weaving, fabric printing, processing & garmenting	245
Century Enka Ltd	Nylon & polyester filament yarns, polyfill yarn	237
Sangam India Limited	Yarn, fabric, denim fabric	231
Indo Count Industries Ltd	Yarn & knitted fabrics	227
Siyaram Silk Mills Ltd	Suiting	210
Page Industries	Knitwear	192
Spentex Industries Ltd	Yarn and fabric	184
Gokaldas Exports Ltd	Garments	179

Similar lists can be obtained for each target country from their respective sector associations or independent sector research. As an example, the following list offers the names of three of the top clothing brands and retailers in some of Kenya's most likely sources for T&C FDI. Investment promoters would investigate the top garment factories supplying such firms and target them for investment in Kenya.

Likely FDI source countries	Major brand, retailer or manufacturer	Type of business
	GAP	Specialty store
	Limited Brands	Specialty store
United States	Polo Ralph Lauren	Specialty store
	Lotte	Department store
	Shinsegae	Department store
Republic of Korea	Hyundai	Department store
	Youngour Group	Ready-made garment manufacturer
	Hongdou Group	Ready-made garment manufacturer
China	Heilan Group	Ready-made garment manufacturer
	C&A	Specialty store
	H&M (Sweden)	Specialty store
Germany	KiK	Specialty store
	Inditex (Zara)	Specialty store
	Mango	Specialty store
Spain	El Corte Inglés	Department store
	Next	Specialty store
	Marks and Spencer	Department store
United Kingdom	Heilan Group	Ready-made garment manufacturer
	Aksa Akrilik Kimya	Ready-made garment manufacturer
	Korteks Mensucat	Ready-made garment manufacturer
Turkey	Advansa Sasa Polyester	Ready-made garment manufacturer

SECTION E: LIST OF PARTICIPANTS IN PUBLIC PRIVATE CONSULTATIONS

	Name of Institution	Name
1.	Ministry of Industrialization and Enterprise Development - PS	Dr. Wilson Songa
2.	Ministry of Industrialization and Enterprise Development - Industrialization Secretary	Mr. Julius Korir
3.	ACTIF	Jas Bedi
4.	ACTIF	Belinda Edmonds
5.	ACTIF	Joseph Nyagari
6.	Africa Apparels EPZ LTD	Mr. Pankaj Motilal
7.	Africa of Women Entreprenure Program	Zohra Baraka
8.	Alliance garments	Harrison Kinuthia
9.	Alltex EPZ Ltd	Jane Adero Okech
10.	Alpha Knits Limited	Mr. Hiran Bid/Mr. Sagar
11.	Ashton Apparel EPZ Ltd/Atraco Group	Pankaj Mehta
12.	Association of Fashion Designers	Sally Karago
13.	Brother Knits	Mohan Arora
14.	Cotton Fibre Directorate	Anthony Muriithi
15.	Cotton Ginners Association	James Mathenge
16.	Designer	Peggy Odhiambo
17.	Equator Apparels	Mr.Ndumbia
18.	Export Processing Zones Authority - Kenya - CEO	Cyrille Nabutola
19.	Export Processing Zones Authority - Kenya - COO	Fanuel Kidenda
20.	Export Processing Zones Authority - Kenya - GM Investments	Margaret Waithaka
21.	Export Processing Zones Authority - Kenya - Head of Projects	Moses Ngaruia
22.	Export Processing Zones Authority - Kenya - Head of Textiles	Moses Kipkebut
23.	Export Promotion Council	James Munyi
24.	Fair Trade Africa	James Mwai
25.	Global Apparels	Mr.Narain Shahdadpuri
26.	Handloom Weavers Marketing Cooperative Society	Rose Mwathi
27.	IREN KENYA	James Shikwati
28.	Julius Rono - Solidaridad	Julius Rono
29.	Kapric Apparels Ltd	Mr. Thomas Puthoor
30.	Kenya Association of Manufacturers	Betty Maina/Joseph Wairuko
31.	Kenya Civil Society Association	Ayoma Mutunga
32.	Kenya Industrial Research and Development Institute (KIRDI)	Alice Waithaka
33.	Kenya Investment Authority	Moses Ikiara
34.	Kenya National Chamber of Commerce and Industry (KNCCI)	Peter Biwott

	Name of Institution	Name
35.	Kenya Polytechnic University	Mary Nyaiyeka
36.	Kenya Private Sector Alliance	Carole Kariuki
37.	Kenya Revenue Authority - Deputy Commissioner of Customs	Ms. Rose Gichria
38.	Kenya Textile Training Institute - Center Manager	Mr. Festus Musyoki
39.	Kiboko Leisure wear Ltd	Sabine Huster
40.	KIKOROMEO (Kiro Ltd)	Ann MacCreath
41.	Kimili Africa	Sylvia Mwaura
42.	Kitui Ginneries Ltd	Taher Zavery
43.	LOULOU CREATIONS	Catherine Obam
44.	Makueni Ginnery	David Masika
45.	MEFA Creations	Evelyne Akinyi
46.	Micro & Small Enterprises Authority/Federation	Mathew Ashers
47.	Midco Textiles (EA) Ltd	Mr. Tejal Shah
48.	Moi University	Dr. Eric Oyondi
49.	New wide Garments Kenya EPZ Ltd	Heman Boodia
50.	Panah Project	Evgeniya Khromina
51.	PVH	Roy Ashurst
52.	Rift Valley Products(Salawa ginnery)	Sital Panara/Ramesh Khagram
53.	Rivatex East Africa Ltd - MD	Mr. Thomas Kipkurgat
54.	Rupa Mills (EPZ)td	Mr.Tinu Shah
55.	Sandstorm	Mark Stephenson
56.	Sunflag Textile & Knitwear Mills Ltd	Mehboob Moledina
57.	Tailor made Jeans EPZ ltd	Samuel Meeks
58.	Technology Development Center	Lucy Wambugu
59.	Thika Cloth Mills	Ms. Tejal Dodhia
60.	Tosheka Textiles	Herman Bigham
61.	TSS spinning & weaving mills	Mr. Mwamisi
62.	Ultra Kenya Ltd	Sumeet Walia
63.	United Aryan (EPZ) Ltd	Pankaj Bedi
64.	University of Nairobi	Dorothy Mc Cormick
65.	USAID - EATIH	Kanini Mutooni
66.	USAID - EATIH	Finn Holm Olsen
67.	Vision 2030 Seceretariat - Director Social & Political Pillars	Dr. Gituro Wainaina
68.	World Bank	Aref Adamali

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