THE KENYAN TEXTILE AND FASHION INDUSTRY

The role of fashion designers and small tailors in the fibre to fashion value chain

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Introduction

The economic development story of the 20th century was about the East Asian Tigers. Hong Kong, South Korea, Taiwan, Singapore, and now China, Vietnam, Thailand, Cambodia, and Bangladesh, have seen extraordinary growth, reductions in poverty, and improvements in living standards by pursuing export-oriented growth strategies. The garment industry, a labour-intensive, low-skill manufacturing process, served as the first step on the industrialization and growth escalator for these countries. Today, as production costs rise in Asia, Sub-Saharan Africa offers the last frontier in the search for new apparel sourcing markets. With a strong apparel tradition, a large and entrepreneurial workforce, and an attractive business environment, Kenya is a compelling new sourcing destination for global brands. However, Kenya also has a deep well-spring of talent among fashion designers and small tailors, who can serve both the global, domestic, and regional markets. This report is focused on how Kenyan designers and factories can capitalize on these opportunities.

The Kenyan economy has been resilient, registering economic growth of 5.7% in 2014, which is at par with other East African Community (EAC) countries, marginally higher than the Sub-Saharan region (5.1%), and much stronger than the global economic growth of 3.3% in 2014. The Textile and Clothing (T&C) sector, although a marginal player in the national economy – contributing just 0.6% to GDP and accounting for only 6% of the manufacturing sector – still earns 7% of total export earnings and holds tremendous economic promise. The Kenya Vision 2030 identified the T&C sector as the driver of Kenyan industrialization. The sector currently comprises 22 large foreign owned companies operating in the Export Processing Zones (EPZs), 170 medium and large companies, 8 ginneries, 8 spinners, 15 weaving and knitting companies, 9 accessories manufacturers and over 75,000 micro and small companies, including fashion designers and tailoring units. It spans the Fibre to Fashion (F2F) value-chain (cotton cultivation, ginning, spinning, weaving, knitting, dyeing and finishing, garment and accessories manufacturing).

Through its successful "Vijana na Equity" project, Equity Bank identified the potential of local fashion designers and tailoring units to create employment and generate income, thus promoting economic development in Kenya. However, this potential remains largely untapped due to systemic and structural weaknesses of the T&C industry, which, despite its rich history of over 100 years, remains fragmented, uncoordinated and misaligned. The sector is skewed towards cottage industries and low value-addition garment making, with an attendant steady decline in the textile sector.

Equity Bank-Kenya, in collaboration with HIVOS and the Association of Fashion Designers of Kenya, commissioned this study to understand the Clothing to Fashion Value chain and the impediments to sustainably integrating local fashion designers and small tailoring houses into the domestic retail platform, as well as the opportunities in regional and international markets. This report combines two elements. The ACTIF team conducted extensive research, analysis of the policy and regulatory environment, investigation

and interactions with the main stakeholders and clients, including policy makers, trade support institutions, production houses, major retailers, and fashion designers and tailors for the domestic market. The At Stake Advisors team looked at the global landscape, assessing how Kenyan designers and manufacturers can attract and tap into global apparel value chains. This report combines the two by looking first at the demand side of clothing markets, and then the challenges and opportunities on the supply side. Note that the report was integrated after both organizations worked independently on their respective areas of research, so this should not be considered a joint report. Overall, it offers a development strategy and action plan to develop and strengthen an inclusive and sustainable "Fibre to Fashion" (F2F) value chain, in which local fashion designers and small tailors can play a meaningful role on the domestic and global manufacturing and retail scene.

1.1. Executive Summary: Domestic Market

To unlock the full potential of the T&C sector with regards to creating jobs, generating incomes, strengthening trade, accelerating technology adoption, attracting investment, and promoting local entrepreneurship, most importantly women and youth entrepreneurs, there is an urgent need to recalibrate the growth strategy from low-value addition to high value-addition, enhancing Kenya's product offering from Cut, Make and Trim (CMT) to Full Package Service Providers (FPSP) and Original Design Manufacturing (ODM). This inevitably calls for the integration of local design values and capabilities in the National Value-Chain (NVC) equation. Hence, the initiative of Equity Bank Kenya together with its partners, namely HIVOS and the Association of Fashion Designers AFAD (K), to develop the local Textile and Fashion (T&F) industry by strengthening capacity of designers and small tailoring units to integrate the structured domestic retail market, in the first phase and to expand their businesses into the regional and continental markets thereafter. However, the dearth of reliable information and intelligence on the industry and the absence of a comprehensive database of local designers and their capabilities seriously inhibits the design and development of a strategy and appropriate action for the target constituencies.

The key challenges are:

(i) Lack of policy coherence and institutional alignment,

(ii) Low level of value addition and a disconnect between the apparel sector and the rest of the value chain segments,

(iii) Supply side constraints with regards to quality and price of fabrics, with focus on afro-centric cloth and garments,

(iv) Weak business environment,

(v) High cost of production and built-in systemic inefficiencies,

(vi) Lack of market readiness,

(vii) High cost and difficulties to access credit and finance,

(viii) Predominance of SMEs operating in the informal sector,

(ix) Lack of visibility of the Kenya's design capabilities and absence on the formal retail platform,

(x) Illicit imports and negative impact of second hand clothing, and

(xi) Lack of a clear national policy on textile and apparel.

The opportunities available to local designers and small tailors, including women entrepreneurs, are substantial on the domestic market as well as in the regional and global market space. Designers can move out of the "made to measure" to "ready to wear" segment, and also join the mainstream industrial manufacturing to add value to Kenyan exports. They can also tap into the lucrative tourism and corporate wear markets. Small tailors can effectively develop their own networking cluster to avoid competing at the low-end of the market

Overview of findings

The situational analysis of the Kenyan Textile and Clothing industry has revealed the challenges facing local fashion designers and small tailoring houses to develop and integrate the Clothing to Fashion Value chain (CFVC). The study has identified the following issues:

Kenya has a dynamic textile and clothing sector, fairly well integrated with cotton cultivation, ginning and spinning, weaving, knitting, dyeing and finishing facilities;

- The machinery and equipment are old and inefficient;
- The quality of yarn and fabrics produced in Kenya is poor for the world market;
- The textiles sub-sector primarily caters for traditional and African wear (Katenge, Kanga, Kikoye and Masai wears);
- Mismatch of fabric supply to designers' needs and requirements. Local fabrics not suitable for western type clothing;
- Unfair competition from good quality second hand imported garments;
- Kenya pursues a liberal trade policy and is a member of the EAC Customs Union and COMESA;
- High production costs (utilities, administration, inefficiencies, and cost of finance)

- Access to credit and finance is difficult, the more so for MSMEs;
- Scarcity of skilled and trained labour (engineers, merchandisers, supervisors, top management.);
- Lack of appropriate industrial infrastructure for MSMEs;
- Kenya is a sophisticated market for fashion wear (very Westernised) with limited ethnic and traditional wear;
- Kenyan designers are not integrated in the domestic textile and clothing value-chain;
- Kenyan designers have great difficulty entering the formal retail trade;
- Most of the MSMEs operate in the informal sector;
- AFAD(K) has limited territorial coverage (restricted to Nairobi only);
- Absence of appropriate platform to showcase designers' savoir-faire;
- Local designs are of good quality, however garment making needs improvements;
- Too many Trade Support Institutions catering for the MSME sector, without proper alignment;
- Lack of policy coherence;
- Lack of a clear strategy to promote local designers to enter the domestic, regional and international markets;
- The tourist industry remains inadequately catered for.

Key highlights of proposed strategy and action areas

The overarching objective of this project is to develop a holistic platform for Kenyan designers and small tailors to integrate the national textile and clothing value chain. The proposed strategy and key action areas would change the landscape of the clothing and fashion industry in Kenya. These are:

1. Addressing supply side constraints,
2. Developing market opportunities for Kenyan products on the domestic, regional and international markets,
3. Strengthening the national value chain, through better designs, innovation and presence on the domestic retail front,
4. Enhancing institutional alignment, especially among education and training centres and trade support institutions,
5. Creating an enabling business climate for inclusive and sustainable development of SMEs, including women and youth entrepreneurs, and
6. Capacity building of designers and tailors with regard to market and export readiness. The priority action plans to accelerate the process of integration are focused at addressing the problem areas, on the one hand, and at optimizing the opportunities, on the other hand.

Summary of proposals

The proposed strategy includes the following:

- Integrate local designers and small tailors into the domestic retail trade;
- Strengthen the National Fibre to Fashion Value Chain;
- Create an Enabling environment to support the growth and development of MSMEs in the Textile and Clothing sector;
- Strengthen the trade support network through institutional alignment;
- Build capacity of MSMEs to become market ready and export ready; and
- Enhance the visibility of Kenyan designers and their design capabilities in Kenya, the region and the global markets.

To realize the full benefits of the opportunities on the domestic market and to expand the footprint of Kenyan designers and designs on the regional and international levels, the support of several players need to be solicited. Equity Bank-Kenya, HIVOS and their Partners are ideally positioned to play a catalytic role.

Overview of action items

	ACTION ITEMS	RESPONSIBLE PARTY (Proposed)
1	Encouraging MSMEs to graduate from informal to the formal sector	Equity Bank and AFAD in collaboration with the relevant public sector agencies
2	Capacity building of MSMEs, with focus on women entrepreneurs, on market readiness	Equity Bank and HIVOS
3	Facilitate access to credit and Finance from banking and non-banking sectors	Equity Bank and HIVOS in collaboration with the Ministry of Industrialization and Enterprise Development (MOIED)
4	Develop linkages between the different segments of the Fibre to Fashion value chain	(MOIED in collaboration with relevant public sector agencies)
5	Improve product development in terms of quality, diversity and compliance to standards and norms	Equity Bank in collaboration with public sector agencies
6	Integrate local designers and small tailoring house into the formal retail trade	Equity bank and AFAD in collaboration with domestic retail-chains
7	Develop a National Strategy for the T&C sector, with a medium-term Action Plan	Relevant Government agencies and institutions. Equity Bank can trigger the process.
8	Enlarge the policy space for MSMEs	MOIED and relevant TSIs
9	Improve the Ease of Doing Business for MSMEs	Public sector agencies in collaboration with private sector and civil society
10	Build policy coherence and institutional alignment	Relevant ministries and government agencies
11	Develop linkages and collaborations among relevant public and private sector agencies	MOIED in collaboration with relevant public and private sector actors
12	Develop appropriate platform to showcase the Kenyan savoir-faire	Equity Bank in collaboration with AFAD
13	Make AFAD a national level association	AFAD with assistance from Equity Bank
14	Build a strong Brand identity for Kenya and Kenyan products	AFAD in collaboration with relevant public sector agencies. Equity Bank can be a facilitator.
15	Develop the traditional and ethnic wear segment for domestic and diaspora markets	Equity, HIVOS and AFAD
16	Develop products for the tourist market	AFAD in collaboration with Equity Bank and donor agencies

1.2. Executive Summary: Global Market

To effectively access the global market, Kenyan companies will need to

1. Understand the demands of the international market and the trends that are changing the global apparel landscape;
2. Leverage the particular advantages of the Kenyan market versus near competitors like Ethiopia, while simultaneously;
3. Being realistic about and able to speak to Western brands concerns about the risks involved with sourcing from Kenya; and finally
4. Pursuing several high-priority investments and opportunities that will best position Kenyan clothing designers, textile producers, and manufacturers to build a defensible strategic advantage in this very competitive market.

Equity Bank and Hivos International, the project's sponsors, could play a substantial role in helping jump-start this market in a way that best serves to empower Kenya's women and youth through strategic assistance with financial products and targeted interventions.

Today, one of the major trends shaping the global consumer landscape is fast fashion, meaning apparel retailers are selling smaller batches, working on faster timelines, offering customers more seasons, and often near-shoring their sourcing. It may be hard for Kenya to take advantage of this trend for the U.S. market, given their distance, but they are better positioned for the Middle East, the African consumer base, or parts of Europe. The other major global trend is conscious consumerism, with an increasing number of Western customers expressing concern about the provenance of clothes, creating both upside potential for a country that can convincingly market itself as a sustainable sourcing destination and major downside reputational risk around compliance for global brands. Here, Kenya has an opportunity to gain an edge over competitor countries like Bangladesh, by selling the story of socially beneficial and eco-friendly manufacturing.

However, the challenges and risks for international

companies in sourcing from Kenyan factories or designers are myriad. They face weak infrastructure, relatively low productivity versus Asian competitors and high costs versus African ones, outdated technology and slow communications norms, lagging human capital levels, and political risk. Kenya's apparel value chain has also eroded over the past twenty years, with many of the old ginneries and textile factories falling into disrepair, making it extremely hard to get locally-sourced fabrics and trims, especially for smaller batches. These risk factors are substantial, and may scare off companies looking for a new sourcing destination.

While Kenya does not have to fix all of these problems to make itself attractive, it should pursue three priority areas, some of which Equity and Hivos may be able to support: first, continuing to invest for the long-term in the transportation and electricity infrastructure, subsidizing power in the short-run for exporters; second, creating either a governmental or non-governmental apparel industry organization that can take the lead on overseas marketing and designer and manufacturer support on training and coordination; and finally, taking action to develop the social and environmental compliance element to ensure that the development of the industry serves the most vulnerable members of society and offers a low-risk, appealing sourcing destination for global brands. Equity and Hivos may be able to help with access to finance and creation of targeted programmatic interventions to support the women and young Kenyan workers who make up a disproportionate share of this industry. The new devolved system of governance in Kenya offers an enormous opportunity to experiment with policies that empower women and youth, without having to change national laws. Hivos also may be able to leverage its expertise on green energy to spearhead advocacy to make sustainable energy and transportation available to businesses outside of the EPZs, supporting off-grid green energy solutions for smaller factories as it has done all over the world.

2. Apparel Market Demand

To compete, Kenyan fashion designers and small manufacturers need to tailor their offerings to the demands of consumers both domestically and internationally. This section provides an overview of the landscape in each market.

2.1. The Domestic Apparel Market

The overall objective of this exercise is to identify the impediments to local fashion designers successfully and sustainably entering the sophisticated and buoyant domestic retail-trade, more importantly the network of major supermarkets. The Kenyan domestic market for textile and clothing is complex and competitive. The market is catered by:

1. Large import of second-hand used clothing (mitumba) of good quality and which are sold at very competitive prices in selected shops and by street vendors. Most of these products are illegally imported into Kenya, as such little official import figures are available. Imports of second hand clothing, in Kenya, under HS 63.09 were USD 96.7 million in 2014, representing 100,763 tons of second hand clothing.

2. Specialty clothing and apparel stores, such as Truworth and Woolworth and Brand Shops. These are mostly foreign owned chain stores. They offer a wide range of quality clothing and home textile products at reasonable prices. These are all imported products.

3. Large number of multi-product fashion stores owned mainly by Kenyan businessmen. These shops sell mostly imported products. A few stores occasionally carry local designer's products. These are either single outlet shops or multi-outlets ranging from 1 to 6 outlets in different areas of Nairobi.

4. Shop-in-shop stores that offer a wide range of branded garments under one roof such as Deacons. Again most of the garments and home-textile products are imported items.

5. Designer's stand-alone shops which offer ready-to-wear collections, designed and manufactured by local designers (KikiRomeo). Such shops and are available in major shopping malls. Most of them also carry imported garments and accessories, to complement their own collections.

6. Designer's boutiques, which are single retail outlet shops selling a designer's collection. Such shops are located in shopping area and Malla. Most of them also carry imported accessories as complementary products.

7. Large local supermarket chains like Nakumatt, Uchumi, Nivas, Tuskys, Ukwala and other regional level supermarkets operating in major cities of Kenya. Although such supermarket chain stores cover large shopping space, most of them carry limited garment collections. If they do, it is mostly imported garments. However, they have substantial product offering for home-textiles, which are manufactured locally.

8. Made-to-Measure designer's studios which provide exclusive garments, which are usually trendy and fashionable, using exclusive fabrics and accessories with high workmanship. They cater for the high income earning groups. Some of them also make African wears mostly for occasions, ceremonies.

9. On-line shopping - This retailing feature is slowly but surely gaining acceptance in Kenya, due to Kenya's robust ICT backbone and wide acceptance of mobile money, MPESA. E-Commerce is still in its infancy, but is poised to grow.

10. Street Vendors - Hawkers are an important link in the textile retail business, reaching out to the mass customer base. They are located at strategic locations in the city, along main streets, near main shopping centres, in the proximity of train and bus stations, and major road intersections. Street vendors remain a very important player in second-hand clothing market segment. They also carry locally made garments, mostly seconds and rejects of larger garment manufacturers.

Kenyan consumer preferences

Kenya is a sophisticated market for apparel. The urban population wear mostly Westernised garments. Men wear suits, trousers, shirts, and ties, while women wear skirts, blouses, trousers, and dresses. The rural population wear both Westernised as well as traditional African garments, with the women wearing primarily African clothing.

An anonymous observation, during the survey period, at several shopping malls confirmed the overwhelming dominance of Westernised apparel. Unlike, West Africa, Kenyans are not identity conscious through their dress codes. Ethnic wear in Kenya is limited to ceremonials and special occasions.

2.2. The Global Apparel Market

While Kenya's first blush of success in the garment industry was driven by domestic demand in an era of protectionism, Kenya now faces enormous opportunity, for its Cut-Make-Trim (CMT) factories, textile manufacturers, and local designers who have a chance to tap into a global consumer base. The global market is a difficult nut to crack, and competing successfully will require people who are able to bridge the challenging production environment in Kenya and the demanding international buyers who seek both innovative new designs and the next frontier of low-cost production opportunities.

End-market trends

The global fashion and apparel market is rapidly evolving. Kenya has an opportunity to enter the market where it is and where it is going, rather than getting left behind in the models of the past. Today's consumers look for excitement and a story: fast fashion gives them quick access to the latest trends and updated looks multiple times each season, while the growing conscious consumerism movement allows them to both look and feel good when they buy new clothing. These two trends, while often pulling in opposite directions, define today's fashion landscape—but they have yet to reach their peak. Kenyan designers and manufacturers need to design their strategies around this new reality.

Fast fashion is a term most frequently associated with the global brands Zara, Topshop, and H&M. Broadly, it refers to apparel companies that make smaller batches, with faster timelines and more "seasons" or collections. Often, fast-fashion companies choose to near-shore, producing in countries closer to their end-markets, making up for higher production costs with lower shipping costs, inventory costs, and improved alignment with demand. This drives shorter lead times: most companies order 80% of their clothing in advance of the season; Zara orders only 50%.

This has created increased pressure on lead times for apparel-producing countries, which currently Kenya struggles to meet, consigning mass export manufacturing in the country primarily to lower-margin basics. Simultaneously, the pressure for speed and efficiency has spread beyond the low-end of the market to put pressure on all retailers and even luxury brands to make their supply chain more efficient, increasing the burden on supplier countries.

On the flip side of fast fashion is a growing trend of conscious consumerism. Fast fashion has borne the brunt of criticism around social and eco-sustainability issues, with headlines like "Your Clothes are Killing Us"1 common in the aftermath of the Rana Plaza factory collapse in Bangladesh. As H&M offers consumers the chance to buy a new wardrobe every two months for 100 USD, many fashion start-ups like Zady, Everlane, or Cuyana encourage customers instead to buy "fewer, better things." [2]

While these start-ups are still small, more and more consumers globally are interested in and concerned about where their clothing comes from. Across developed countries, 35-51% of respondents reported that they are more likely to buy products from companies that are socially

responsible, with women and Millennials agreeing most strongly. [3] Similarly, while environmentalism is not a top purchase-driver for consumers, "70% would be bothered if they found out their clothes were produced in a non-eco-friendly way." [4] In the same way that organic food gradually became a major market force over the past decades, attention is now turning to sourcing and origin of products across all different categories, including apparel.

In order to leverage this trend effectively, small and medium Kenyan designers and factories will need support and capacity-building investments. Training would be useful for these smaller companies on the importance of social responsibility and how to comply effectively with national and global standards for environmental and labor compliance. This is both a matter of conscience, good business practice, and a marketing differentiator. At the core of this message is treating workers fairly—avoiding child labor, respecting worker's rights as laid out in the law and international treaties, and paying a fair wage.

[1] CNN Money, "Your clothes are killing us," 22 May 2015.

[2] www.cuyana.com

[3] BCG Consumer Insight Survey 2013

[4] Cotton, Inc. "Consumer Perspectives on Green Apparel," 2013.

Value chain trends

The apparel value chain is a game of "costs, capacity, speed, quality, and compliance." [5] From cotton growing, to ginning, to spinning, to textile production, and finally to garment manufacturing, global brands are trying to optimize across these dimensions. Countries seeking to differentiate themselves from the pack need to convince brands that they are exceptional on one or more of these legs.

We are now in the middle of the second paradigm shift of the past two decades in the global apparel sourcing world. The first was when the Multi-Fibre Arrangement (MFA) expired in 2005. The MFA imposed garment quotas by country, leading many successful manufacturers to expand abroad to take advantage of unused quotas in other countries. In its wake, with less need for this sort of geographic diversification, a massive consolidation towards the least expensive sourcing destinations occurred, with China drawing a disproportionate share and prices falling an estimated 16-30%. [6]

However, with wages in China now as much as ten times higher than other sourcing destinations, brands are starting to look for the next hot spots. Nearly ¾ of chief purchasing officers reported that they anticipate reducing their China sourcing in the next 5 years, an ongoing trend since 2011. [7]

In the face of this more recent shift, many buyers are looking to Sub-Saharan Africa (SSA), drawn by attractive wage rates and the African Growth and Opportunity Act (AGOA). AGOA provides most SSA countries duty-free access to the U.S., a benefit that provides a cost advantage of up to 32%. The renewal of AGOA, including the Third Country Fabric Provision, until 2025 gives SSA countries a stable and predictable cost advantage when exporting to the U.S. While Kenya also enjoys duty-free access to the European Union under Economic Partnership Agreements, the cost edge is lower, since other competitor sourcing countries (like Bangladesh) enjoy similar privileges. Because of this asymmetry, U.S. buyers are more likely than those from the E.U. to view SSA as an important part of their sourcing strategy (33% vs. 11%). [8] Kenya also may benefit from COMESA, which reaches to over 360 people in 19 countries of Eastern and Southern Africa, of which 14 have joined the COMESA FTA.

Recent developments, however, with the Trans-Pacific Partnership (TPP), may again erode the African cost advantage. Vietnam, which U.S. buyers view as a top-tier competitor of SSA countries,[9] is a signatory to TPP, while Thailand and the Philippines are in talks to potentially join at a later date. This next-generation disruption of the sourcing landscape is an important risk to consider when investing behind African apparel manufacturing.

Additionally, with the increased emphasis on speed and costs in the value chain, countries that are able to source inputs locally have a substantial edge in attracting business, and moreover command a higher proportion of the overall margin in the manufacturing process. While CMT can easily move and go to any country with a cheap needle, the presence of vertically integrated textiles manufacturing, and a variety of widely-available local fabrics, gives countries an edge. First of all, they save money on transportation costs when they can source locally, rather than shipping from abroad. Secondly, they are able to offer much faster turnaround times, since they avoid customs and shipping delays and the substantial lead time that accompanies overseas fabric purchases. Countries that can provide end-to-end services therefore have an advantage in today's market.

Finally, there is a slow but steady technological revolution in the garment industry. Today, being highly responsive to email and electronic invoicing is table stakes to do business with global brands. Buyers have historically struggled with poor responsiveness from factories in Kenya, which has made them less likely to initiate or continue doing business with factories in the country. Furthermore, technology is integrated into the patterns processes, whether printing brand-provided cutting patterns or using an electronic Pattern Design System to create cutting patterns on-site. These allow factories and brands to maintain quality standards and reduce waste. And RFID (or other tracking systems) remain on the horizon. While they have been slow to catch on, these technologies could prove disruptive if brands insist on their suppliers being part of a fully electronic supply chain tracking system.

[5] McKinsey & Co., "Sourcing in a Volatile World: The East Africa Opportunity," April 2015.

[6] Takahiro Fukunishi, "The Kenyan Garment Industry: Is it able to revive in the economic boom?" January 2012.

[7] Supra note 5.

[8] Ibid.

[9] USAID, "U.S. Apparel End-Market Analysis," August 2012.

Path to market for Kenyan designers

There are four primary paths to market for Kenyan designers who want to sell their products globally: wholesale, e-commerce, retail stores, or brand partnerships. For example, Indego Africa, a successful Rwandan social enterprise selling African-style handicrafts to the U.S. market, sells roughly 15-20% through e-commerce, 45-60% through wholesale, and the remainder through brand partnerships. See box below for an overview of each of these paths, their relative strengths and weaknesses, and how to access each.

Each of these requires a substantial presence in your target global market. It will be extremely difficult to run a brand for a global market exclusively from Kenya. Providing market linkages is a useful service for a global organization to provide on an on-going basis for designers that are too small to support the infrastructure on their own. For example, the Bhavana World Project is a non-profit that works to promote women's economic empowerment by connecting women in emerging markets to international business opportunities, playing essentially this market linkages role for female artisans to help provide them with global reach. Target-market presence is critical, first of all, to

understand the end-market consumer. Global fashion customers demand high-quality clothing, new looks every season, and prompt and reliable delivery of the promised goods. Secondly, it is important in order to build the relationships with buyers, press, and relevant taste-makers that will be critical to get sufficient reach for the product.

Several new internet companies are also making it easier for even the smallest designers and crafts-makers to access a global market, much as small-scale artists in the U.S. use Etsy or in the U.K. use Folksy. Etsy, in fact, allows global artisans to sell worldwide, and already has a few Kenyan crafts on the site; ArtFire is also designed as a global design marketplace. These sites allow designers to sell directly, though they would likely need a degree of support to get accounts and payments set up—once set up, however, Etsy even has a mobile application designed especially for sellers. The other alternative are curated sites like Global Good or Globeln, which choose specific cooperatives to work with and do all of the marketing and distribution centrally.

PATHS TO MARKET FOR KENYAN BRANDS

Wholesale

Selling products through boutiques or large multi-brand stores, generally at 50% of MSRP

How to access

- Trade fairs, e.g. NY Now or Capsule
- Sales reps
- PR/brand development -wholesaler inquiries

Advantages

+ Easiest way to get reach quickly
+ Geographic diversity
+ Can support small volumes
+ Low overhead and risk for designer

Disadvantages

- Lower margin
- Requires middleman
- No contact with customer

Brands that use

- Indego Africa
- Osei Duro

E-commerce

Setting up own online store to sell direct to customers

How to access

- Professionally-designed website
- Distribution center (likely in U.S.)
- PR / brand development
- Logistics team

Advantages

+ Brand control
+ High margins
+ Geographic reach

Disadvantages

- Highly competitive space
- Shipping and logistics
- Customer can't touch and feel the product

Brands that use

- Kisua
- Lemlem
- Indego Africa
- Osei Duro
- SoleRebels

Retail

Setting up own retail stores to sell direct to customersP

How to access

- Need to decide on location and find retail space
- Manage inventory and merchandising

Advantages

+ Brand control and brand building
+ High margins
+ Own the customer relationship

Disadvantages

- High upfront / overhead costs
- Have to bet heavily on specific geographic locations

Brands that use

- SoleRebels

Brand partnerships

Develop exclusive collection for an established brand

How to access

- Pitch brands – often a longer-term process
- Need stringent quality control in place to meet brand standards

Advantages

+ Compelling story front and centre
+ Brands manage distribution and marketing
+ Credibility of association with major brand

Disadvantages

- Incredibly demanding quality standards
- Lower margin
- Long time horizon and high cost to develop relationship

Brands that use

- Indego @ J.Crew, Anthropologie, Eileen Fisher
- Kate Spade's On Purpose
- Osei Duro @ Urban Outfitters
- Anthropologie's Legend & Song

Path to brand partnerships for Kenyan CMT factories

For Kenyan factories, there are three primary avenues through which to find global brands: trade shows, middlemen, or online.

Trade shows or other industry events are a way to come into contact with a large number of global buyers and market your distinctive value proposition broadly. It may make sense to have the government, the East Africa Trade Hub, or Kenya Apparel Manufacturer's & Exporter's Association represent the region's factories more broadly, as it is unlikely to be cost-effective for individual factories to attend until they reach substantial scale.

Global brands may sometimes use middlemen, often on the smaller side (Responsify, Made in Africa, see box below) to enter into a new sourcing market like Kenya. Especially for smaller factories, building a relationship with these companies can provide good introductions to brands that are interested in manufacturing in Africa but are not investing at the same massive scale.

And many brands (again, often smaller ones), may rely heavily on internet research, whether a factory's own website or government or industry compilations of eligible manufacturers that provide buyers with information on what products and services are available. Rapid replies to any buyer-driven outreach is critical in order to convert these leads—brands will not want to work with factory management they cannot communicate effectively with.

Path to market for small kenyan factories – middlemen

Responsify.

Responsify works with international brands to support their sourcing efforts in Sub-Saharan Africa. Their stated goal is to do this in a way that "include[es] human rights, ethics and environmental aspects, allowing them to "grow together with our partners in a sustainable and profitable way." They are based in Ethiopia, with a team of eight that helped support the H&M Ethiopia production initiative. While they have considered Kenya as a source for woven products, the level of government support has been much lower than Ethiopia, so they are currently focusing a lot of their attention in that country.

Made in Africa is an initiative of Liberty & Justice, which runs its own fair trade factory in Liberia. Made in Africa seeks to develop a network of ethical apparel factories and connect them with global brands. This could allow a smaller factory to benefit from the international market.

3. The Supply Side

3.1. Apparel Industry Background

The Golden Era

Kenya has a long and rich history in the Fibre to Fashion (F2F) industry dating back as far as the early 1900s. The sector grew nicely with accelerated downstream developments, including ginning, spinning, weaving, knitting, dyeing & finishing, and garment making facilities both for the local and export markets. The Government played a catalytic role through direct investments in establishing large-scale integrated textile mills and through policy (mostly protectionism) which were followed by investments from the private sector.

By the 1980s (T&C) became the most important manufacturing activity in Kenya accounting for nearly 30% of total employment in the manufacturing sector. At that point, the F2F value chain was mostly dominated by cotton cultivation, with over 200,000 household farms, and substantial Government investments in integrated textile mills, some of which had state-of-the art imported technology. The diagram below depicts the value creation in F2F value chain.

At its peak, the sector comprised over 200,000 cotton farmers, 20 ginneries and 70 textile mills (spinning, weaving and integrated mills). It produced excellent quality cotton and blended yarns and a wide range of fabrics, both woven and knitted, for the domestic as well as export markets, mostly to the neighbouring countries. Cotton production peaked in 1984/85 with production of 39,300 tons of lints. The clothing sub-sector produced a wide range of apparel as well as home-textiles.

The decline

The Kenyan Textile and Clothing sector started to suffer in the late 1980s, mainly due to:

1. Introduction of second-hand clothing (mitumba) in the 1980s,
2. Decline in government investments in the sector,
3. Weak private sector appetite for investing in the sector,
4. Import of cheaper products due to the liberalization of the T&C sector in the 1990s,
5. Disruption in the established value-chain,
6. Obsolescence of technology, machinery and equipment,
7. Rising costs of production due to high cost of energy, and
8. Absence of a proactive strategy for the development of the T&C sector.

The above factors, individually and collectively, led to a rapid decline of the Kenyan Cotton, Textile and Clothing industry. Cotton production dropped from its historical peak of 39,300 tons to just over 7,000 tons. The number of farmers has come down from 200,000 to just over 45,000 and the acreage under cotton has contracted. The number of ginneries has shrunk from 20 to 8, most of them using imported cotton from Uganda. They are still using the old technology and operate at under-par capacity levels. Productivity is low, quality has deteriorated and prices have increased, making Kenyan-produced cotton uncompetitive.

The weaving and knitting sector has also suffered with only 15 out of the 52 mills still in operation, most of them using outdated machinery and equipment and technology. The level of utilization is low, the range of products limited and the quality very basic. The bulk of the fabrics produced are Kitenge, Kanga and Kikoye which are meant for the African traditional wear, Masai wear, bedsheets, and other home-textile products. The textile mills have started importing yarn and fabrics from overseas, especially India and China, creating more pressure on the local weaving and knitting mills. From a textile and garment exporter, Kenya has become a net importer of yarn, fabrics and apparel. Cheaper African print products are now imported from India and China.

During the same time the clothing and apparel sub-sectors also faced problems from large scale imports of second-hand clothing, cheaper imports under the economic liberalization programme, government disinvestment, and declining private sector investment. In the absence of a supporting policy, the entire F2F industry has nearly collapsed, giving way to imported cotton lints, fabrics and weaving apparels, and resulting in loss of jobs, decline in export earnings, obsolescence of machinery and equipment, and a drop in investment in the sector.

The revival

The introduction of the Africa Growth and Opportunity Act (AGOA) in 2000, a unilateral trade agreement between the U.S.A and Sub-Saharan African countries, played a catalytic role in re-dynamizing the Kenyan T&C industry, with specific focus on the clothing sector. The new preferential market access to the lucrative U.S. market, Duty Free and Quota Free (DFQF), has attracted major Asian investors, mainly from China and India, to Kenya, to set-up garmenting operations in the Export Processing Zones (EPZs). The Government capitalized on the emerging opportunity by creating enabling environment in terms of legal and regulatory frameworks, infrastructure, supporting institutions, improving the business climate and providing incentives. Several Export Processing Zones (EPZs) have been created to woo foreign investors into Kenya. However, the bulk of foreign investment in the clothing sector has gone into low-value addition CMT operations, which uses imported yarns, fabrics and accessories. During the same time the local private sector has joined the industry through rehabilitation and modernisation of existing mills and even in greenfield investments, creating promising dynamics for the future of the sector.

Interestingly, over the last 15 years, Kenya has emerged as the top exporter of ready-made garments to the U.S. under AGOA, overtaking

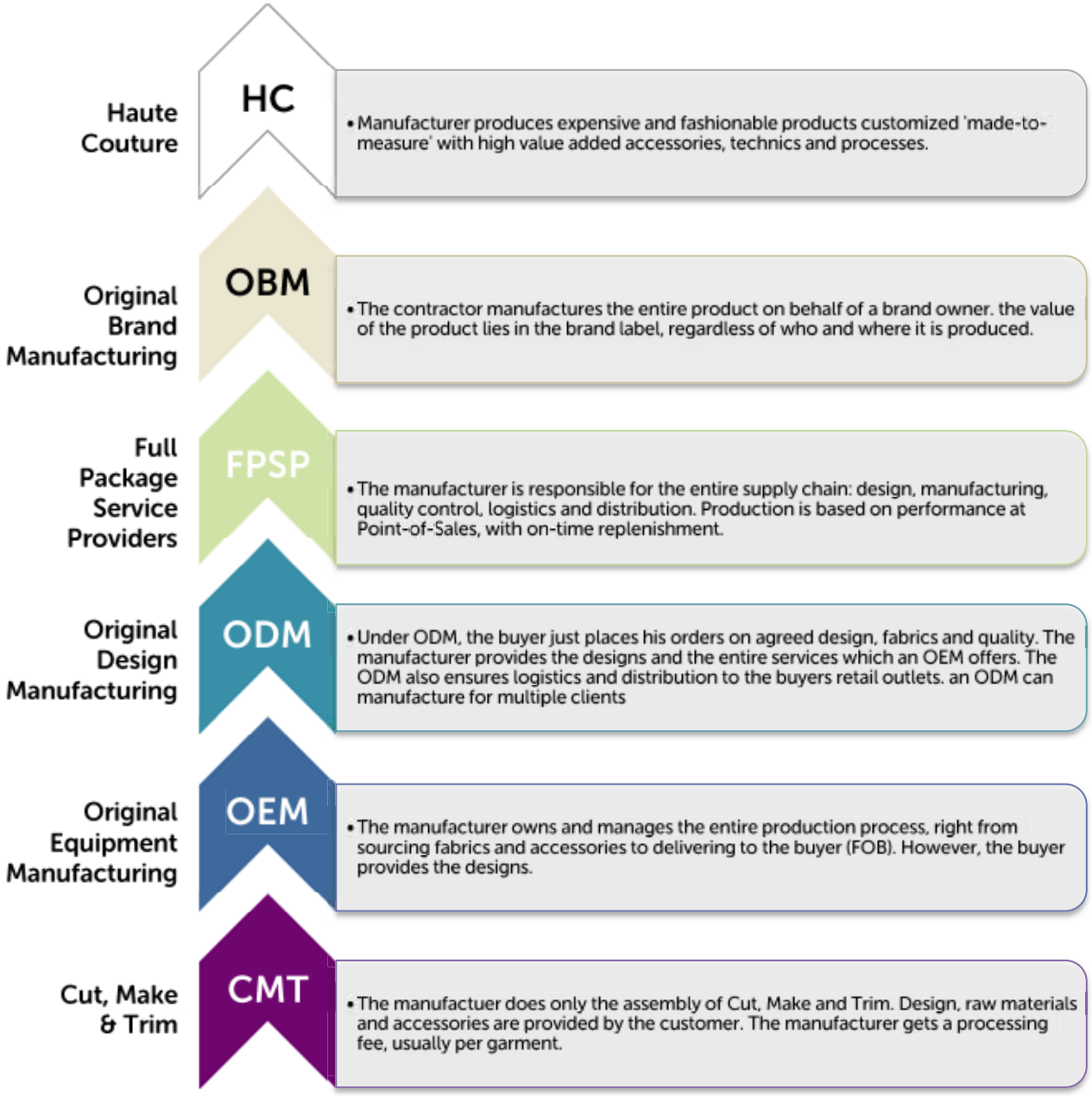
Lesotho, Madagascar and Mauritius. Exports to the U.S. crossed $400M in 2014 and are rising, accounting for over 95% of total exports of garments from Kenya. Today, "Made in Kenya" products are sold in major U.S. chain stores, department stores, boutiques, discount houses, as well as through mail order and e-commerce outlets. However, Kenya's outreach to world markets remains very low, with limited exports to Canada (1%), the Netherlands (0.6%), and the East African Community (EAC) (1.5%) among other export destinations. The trade statistics of Kenyan imports and exports of textile and clothing (HS 52, 60, 62 & 63) are given at Annex 2.

These developments have disturbed the existing value-chain, skewing development towards the clothing sector, while the textile sector continues to suffer. Unlike its more successful peers in Africa which are developing stronger Fibre to Fashion value-chains namely Mauritius and Ethiopia, Kenya seems to be going the other way with stronger development of the lower-value addition segment, dominated by CMT. Under CMT, the customer/buyer supplies the designs, raw materials and accessories, and even imposes conditions from whom/where to buy, and decides the delivery schedules and other logistics. Under the AGOA Third Country Fabric Rule, Kenyan exporters can use imported fabrics to qualify for the Rules of Origin (RoO) criteria.

The missing links

Thus, despite the rising tide and the promising future, Kenya's T&C industry remains disparate and fragmented. There exist few, if any, linkages between the EPZ and non-EPZ operators. Local fabrics, accessories and designs remain outside the export equation. Contrast this to the Mauritian experience, which has built an integrated industry over just 40 years, focusing on high content and value-addition. An overview of the Mauritian experience is provided at Annex 3.

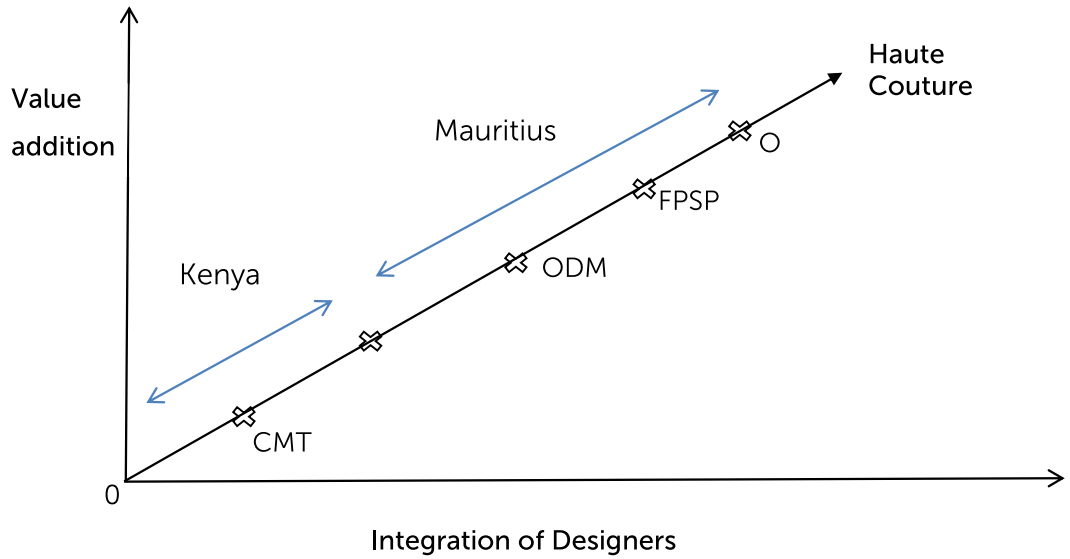
The flow chart below shows a Value-Addition Path in the T&C industry.



Adapted from Gene. G and Frederick, S (2010); and Straits. C (2012)

Compared to Mauritius, the Kenyan T&C industry is slowly gravitating towards low-value addition CMT operations . The textile industry is not able to support the export oriented activities, the EPZ sector is not linking with the Non-EPZ, and local designers and small operators are left out of the emerging F2F value-chain.

Positioning of Kenya & Mauritius in the value chain



Policy context today

The Kenya Vision 2030 is Kenya's development blueprint to create a robust, vibrant, globally competitive, and prosperous middle-income nation with high quality of life by 2030. Vision 2030 recognises the central role to be played by the manufacturing sector in spearheading the industrialisation of Kenya through local entrepreneurship development, more specifically the development of Micro-Small and Medium Enterprises (MSMEs). MSMEs, in all countries, developed as well as developing, remain the engine of economic development and growth for jobs creation, income generation (including foreign exchange earnings), technology transfer, attracting investment (including Foreign Direct Investment), entrepreneurship development (including women and youth entrepreneurs), and strengthening the National Value-chain (NVC), Regional Value-chain (RVC) and Global Value-chain (GVC).

The textile and clothing sector, despite its low present contribution to GDP, has been designated as a priority industry to drive Kenya's industrialization. As a result, the Government has launched a host of policy measures to create a conducive environment for mobilising domestic investment and attracting higher levels of quality FDI. The policy measures include legal and regulatory reforms. infrastructure investments, human resource development, improving the ease of doing business, establishing appropriate

institutional framework, strengthening political and economic diplomacy, developing value-chains, aggressive export and investment promotion, and entrepreneurship development, among other initiatives. These initiatives form part of the National Industrialisation Policy (NIP), which is an integral part of Vision 2030.

Some of the flagship projects in support of Micro, Small and Medium Enterprises (MSMEs) operating in the T&C sector (over 75,000), contained in the Industrial Transformation Programme (ITP) include:

- Construction of SME Parks and Special Economic Zones (SEZs) (The Naivasha Textile city in Athi River)
- Improve infrastructure through construction of the Dongo Kundu Port
- Creating industrial incubators for start-ups under the EBA Project
- Encourage creation of fabric distribution hubs, wholesale market hubs and producer business groups
- Promote linkages among EPZ and Non-EPZ operators
- Develop support and auxilliary industries for the T&C sector
- Strengthen value-chain creation, modernising the spinning, weaving, knitting, and the dyeing and finishing plants,among others.

Additionally, reforms have been launched to improve the business climate in Kenya to promote MSME development. Some of the reforms include:

1. A new Companies Act 2015 to facilitate business creation (one man company, waiver in registering Memorandum of understanding and Memorandum of Association, need company constitution, use of notaries/lawyer, etc).
2. Clear definitions of SMEs, which defines SMES as registered businesses with:
   - 1 to 150 employees, and
   - With an annual turnover of between 8 and 100 million Kenyan Shillings
3. Streamlining processes and procedures for obtention of permits, licenses, approvals and clearances based on clear, transparent and rule-based guidelines.
4. Establishing the Tax Remission for Export Office to facilitate refund of import duty and VAT on re-export through transformation.

Institutional framework today

Ministry of Industrialization and Enterprise Development (MOIED) provides policy support to the manufacturing sector. The MOIED intervenes through its departments and agencies, namely the Export Processing Zones Authority (EPZA), the Kenya Bureau of Standards (KEBS), the Micro and Small Enterprise Authority (MSEA), and the Kenya Industrial Estates (KIE) Ltd.

Additionally, a host of public and private sector agencies, organizations and Trade Support Institutions (TSIs) crowd the Trade Support and Network (TSN) space to assist local and foreign entrepreneurs, including MSMEs, in Kenya. Some of TSIs that directly or indirectly assist operators in the T&C industry:

1. The Kenyan National Chamber of Commerce and Industry (KNCCI), (Private Sector) Is membership based;
2. The Kenya Investment Authority (KIA) (Public Sector Agency) the focal point for attracting and facilitating investments in Kenya;
3. The Export Promotion Council (EPC) (Public sector Agency) the National Trade Promotion Organization (TPO) to promote exports from Kenya;
4. The Kenya Association of Manufacturers (KAM) (private sector) which is membership based;
5. The Kenya Apparel Manufacturers and Exporters Association (KAMEA) – (Private sector and membership based);
6. The Association of Fashion Designers of Kenya (AFAD (K)) (Private sector and membership based);
7. The Handloom Weavers' Marketing Cooperative Society (WEAMCO) – (Private sector and membership based);
8. The East Africa Trade Hub (EATH) US Agency under USAID;
9. The Africa Cotton and Textile Industry Federation (ACTIF), a pan-African organisation, headquartered in Nairobi,
10. A Host of Higher Education, and Technical and Vocational Education Training (TVET) Institutions offering degree, diploma and certificate courses. Some of the leading institutions are:

- Universities: Moi University, Egerton university, Nairobi University, Kenyatta University, Maseno university, South Eastern College, Machakos University college
- Training Institutions: The Technology Development Centre, Kenya Industrial Research and Development Institute, Kenya Polytechnic University College, Ramoji Institute of Advanced Technology, the Kenya Textile Training Institute
- TVET: Evelyn College of Design, Vera Beauty and Fashion college, Buru Buru Institue of Fine Arts, Mcensal school of Fashion Design, the Nairobi Art Academy
- Private Training Schools/Centres: There exist a large member of private training schools and centres in major cities of Kenya that offer training courses in garment making, patron making, quality control and fashion design.

A closer analysis of the above Trade Support Networks will reveal little collaboration and synergies, if any, between or among them. Each TSI works in isolation, like in a silo, has a different reporting lines, pursues its own mandate, and services its own stakeholders. In the absence of a holistic Trade Support Network (TSN), policy coherence and institutional alignment, the effectiveness of the support facilities is greatly compromised.

3.2. Kenya's Global Competitiveness

Despite the "missing links," discussed above, increasingly, global buyers, in search of the next inexpensive sourcing destination, are directing their attention to Africa, giving it a strong potential future. Kenya shares several of the advantages of the continent overall, but has distinctive strengths and weaknesses that the country's apparel strategy needs to account for in order to effectively attract global investment.

Advantages of Sub-Saharan Africa

In the shift away from China, the African continent has five main selling points for buyers:

1. Attractive wages
2. A large working-age population
3. AGOA trade preferences
4. Value chain potential
5. Geographic risk diversification

One buyer, discussing the African opportunity, said "Africa could be a greenfield site – it has water, cotton, labour and green energy." [10] If the infrastructure and value chain are developed, this could offer a sustainable cost advantage for the continent over Asia, which has a substantial head-start on infrastructure, skills, and productivity.

However, African countries struggle with aging and insufficient infrastructure, corruption, poorly developed value chains, and low productivity, making it difficult to compete on price, despite the lower wages that drive CMT costs.

Advantages of Kenya

Kenya in particular shares the continent's advantages of a young population, AGOA trade preferences, regional value chain potential (especially in conjunction with neighbours Tanzania and Ethiopia), and risk diversification if the government can maintain a stable investment climate.

However, Kenya's wages are substantially higher than other African countries, especially Ethiopia. Kenya has a statutory minimum wage for mass production machinists of around 12,500 Ksh / month (120 USD) around Nairobi, and even 9,500 Ksh (90 USD) in the non-urban areas, for example, in the Export Processing Zone (EPZ) in the national park near Voi, Kenya. [11] In Ethiopia, by contrast, there is no statutory minimum wage for garment workers, and workers typically earn 600-1200 birr (30-60 USD), ~25-50% of Kenyan wages. While the Kenyan wage model is much better for the workers, predominantly young women, who work in the factories, it does necessitate marketing a different value proposition to global brands considering pursuing a manufacturing base in Africa. See recommendations section below for two possible approaches that could turn this wage differential into a compelling strategic edge. Both require ensuring that Kenya cleans up and maintains a sterling labour environment. In the early-to-mid 2000s, reports of abuses in the EPZs, including sexual harassment and abuse, non-payment of health care and social security premiums, and long hours without overtime hurt Kenya's reputation globally. To make Kenya's higher wages an advantage instead of a challenge

[10] Financial Times, "Textiles sector in Kenya gears up to take a larger share of world market," 2 Dec 2014.

[11] WageIndicator.org, "Minimum Wages in Kenya with effect from 01-05-2015," July 2015.

requires differentiating as an ethical sourcing destination, including respecting worker rights and maintaining a safe working environment.

Kenya does have two main advantages today, which it could leverage. First of all, it has a substantial history of apparel manufacturing. While the sector contracted after the 1990s trade liberalization in Kenya, which brought in a flood of cheap imports and second-hand clothing, before then, Kenya was a regional hub of apparel and textiles. Despite the decline (which is reflected in both human and physical capital), Kenya retains a productivity and professionalism edge over its African neighbours: "While Ethiopian workers are unused to life in a factory and managers say labour retention beyond six months is dicey, Kenyans are expert clothes makers." [12] A 2009 study found that productivity between Kenyan and Bangladeshi clothing manufacturers was comparable, and that the cost differential was driven instead by wages. [13] While the productivity of the two countries has probably diverged since (though, simultaneously, wages in Bangladesh have been rising), a 2012 USAID apparel study found that the in-factory costs for Kenya were comparable with those of China and Cambodia, and that it was instead the higher costs of inputs (fabrics and trims) and in-country transport that ate away at the cost advantage offered by AGOA. [14] Building on the historical tradition that has given Kenya a productivity edge down to the current day should be part of Kenya's competitive strategy for attracting global buyers. The key challenges section below addresses some of the issues on the flip side, as Kenya's skill base has declined, and the country faces high input costs that offset this advantage.

The other major advantage that Kenya has is the strong government policies supporting the apparel sector and an attractive business environment, discussed above. Apparel is a top government priority, and they have established a "Textile City" in Athi River. Kenya's EPZs offer companies a 10-year tax holiday, exemption from paying duties or VAT, and a 100% investment deduction. Additionally, the Kenyan government has recently subsidized electricity in the designated zones for apparel manufacturers, cutting power costs, which were previously debilitatingly high, in half.

Kenya's government is also working to address port and customs issues, and a Nairobi-Mombasa railway is under construction, which would expedite and reduce the cost of within-country transport. Some consider Kenya "one of Africa's most attractive business environments," [15] and it has the advantage of being one of the countries most frequently mentioned (alongside Ethiopia) in the discussion of growing hotspots in the garment industry in Africa.

most frequently mentioned (alongside Ethiopia) in the discussion of growing hotspots in the garment industry in Africa.

[12] Supra note 10.

[13] Takahiro Fukunishi "Has Low Productivity Constrained The Competitiveness Of African Firms? A Comparison Of Kenyan And Bangladeshi Garment Firms", The Developing Economies, September 2009.

[14] Supra note 9

[15] Solidaridad, "Africa en Vogue: The Opportunities And Challenges Of Textile & Apparel Sourcing Markets In East Africa," February 2015.

3.3. Key Challenges

Kenya faces both macro and micro challenges in meeting the opportunity offered by apparel. On the domestic side, the team's survey reveals the challenges facing the Kenyan fashion designers and small tailors to developing into sustainable businesses. The global market team then identified seven major challenges that will be particularly pertinent to international players: infrastructure, value chain, productivity and costs, technology and communications, entrepreneurship skills, access to finance, and political risk.

3.3.1. Domestic issues

Despite the positive turn-around in the Kenyan T&C sector, in terms of jobs creation (over 40,000), rising investment (including FDI), increasing foreign exchange earnings, and renewed interest of local enterprises, the T&C industry remains fragmented with few linkages between the different segments of the industry, and between companies operating in the Export Process Zones (EPZs) and those catering for the domestic markets. The textile sub-sector is not feeding into the clothing sub-sector. More importantly, local design capabilities are not being exploited either by the companies operating in the EPZs or by the medium and large firms servicing the domestic market. In this value-chain local designers and small tailors are non-existent. They have instead created a self-employment space for themselves, with some employing as many as 50 people. Most of the 75,000 micro enterprises in the T&C sector operate under cottage industry framework and mind-set. They source their requirements – machinery, fabrics and accessories – from local suppliers and wholesalers of imported materials. Most of them work on a "made to measure" basis for their clients, making a wide range of items, including shirts, trousers, suits, dresses, and traditional and ethnic wears. Some have structured workshops to make ready-to-wear garments, mainly school uniforms, corporate gear, shirts, trousers, suits, dresses, and gowns. A few manufacture high quality garments, semi-haute couture, under their own label that are sold in boutique shops. The most successful player has a chain of 6 shops in Kenya. The list of products manufactured by the companies' survey is given in Annex 1.

The main weaknesses in the supply side are the short supply of quality fabrics, other than African fabrics, scarcity of qualified labour, access to finance, and more importantly access to the formal retail market.

Value chain analysis

The research, consultations and visits confirm the bipolar structure of the Kenyan value chain, with concentration at two ends:

1. Large number of economic operators in the textile and clothing sector are MSMEs, including fashion designers and small tailors, mostly working in the informal sector. They are primarily self- employed or employing family members and work from home. They are scattered all over Kenya, with a heavy

concentration in Nairobi and Mombasa. They cater to the domestic market. They source their fabrics from local textile mills directly (<10%) or wholesale shops. These tailoring units also use imported fabrics sourced from these same wholesalers, with a few directly importing their fabrics.

2. Heavy concentration in low-value addition garment making, mostly on a CMT basis, operating from EPZs. 45 large scale companies, of which 22 are foreign-owned, produce a wide range of apparel for export, mainly to the USA under AGOA. These companies work on customers' designs, provided by the foreign buyers, and source inputs (fabrics and accessories) from overseas, mostly from China, India, Hong Kong, or Taiwan. None of the companies operating in the EPZs use local fabrics.

Thus, the F2F value chain remains fragmented, with low level cotton farming, limited spinning and under-utilized weaving and knitting capacities. There is an absence of structured linkages between companies engaged in exports (EPZs) and those supplying the domestic markets. However, the later are using local fabrics and accessories. Local designers and smaller tailors are inconsequential players in the Kenyan clothing to retail value-chain. In fact, none of the larger retail chains, both local and foreign owned, carry "Made in Kenya" apparel.

Trade support network (TSN) analysis

The textile and clothing TSN is characterised by a lack of institutional alignment at all levels and the absence of a clear SME Development Strategy to contribute towards achieving the higher National Objectives defined in the Vision 2030.

The Trade Support Network of institutions, agencies and organisations assisting MSMEs, directly and indirectly, is dense. The principal actor is the Ministry of Industrialisation and Enterprise Development and agencies operating under its aegis, most importantly, the Micro and Small Enterprise Authority (MSEA), the Kenya Bureau of Standards (KEBs). The services of the latter towards the T&C sector remains unclear and discriminatory at the best, especially with regard to the process, time and cost of obtaining the KEBS Standardization Mark (certification) to be able to sell their products through retail outlets, as compared to the Certificate of Conformity (COC) for imported products, including second-hand clothing.

Additionally, there are large number of private sectors institutions that provide disparate services to their membership base, including the Kenya Association of Manufacturers, the Kenya Apparel Manufacturers and Exporters Association, and the most active, Association of Fashion Designers of Kenya. However, the latter is only Nairobi based and does not have presence in other cities and towns of Kenya. On the other hand, a large number of education institutions throng the training space, offering certificate and degree courses. Some have established industry linkages for student internships. However, there is no structured alignment between these training institutions with regard to syllabus and course content, academic and student exchange programmes, and interactions with the industry.

There was no evidence suggesting that these institutions have a shared common vision or a common platform to promote the MSME sector. There is an urgent need to align the service offerings of all TSIs and to enhance their coherence

and capacity to effectively and efficiently assist MSMEs to optimise their potential and contribution in the F2F value-chain. National level organisations like the Kenya Investment Authority (KIA) and the Export Promotion Council (EPC) of Kenya similarly do not have defined services to assist MSMEs to attract investment or to internationalise their products and services.

Business environment scan

The overall business environment in Kenya remains unfriendly. Kenya is a reforming Nation, however it is still ranked 108 out 189 countries in the 2016 World Bank Ease of Doing Business Survey, an improvement from 129th position in 2015. Kenya's global rankings on other indices similarly leave a lot to be desired. The table below provides an overview of the main problem areas:

Ease of doing business 2016

Issues	Ranking out of 189
Starting a Business	151
Obtaining a Construction Permit	149
Trading Across Boarders	131
Getting Electricity	127
Registering a Property	115
Protecting Minority Investors	115
Resolving Insolvency	144
Enforcing Contracts	102

The Government is committed to improving the business environment in Kenya and has undertaken far-reaching reforms to improve the business climate. For example, the Companies Act has been amended to facilitate starting a business in Kenya. SMEs now have clear definitions. New industrial infrastructures are being created. However, the missing element is the absence of a medium to long term MSME master plan. Even the Vision 2030 plan is silent about MSMEs.

Market readiness

The Self-Assessment Diagnosis Survey, based on a structured questionnaire of 47 operators from Nairobi, Eldoret, Nakuru and Mombasa (the latter two destinations through mail surveys), confirms the findings from the brainstorming stakeholder workshops, face-to-face meetings, and telephone inquiries. The survey investigated the following issues, among others:

1. Business registration and ownership structures
2. Business process operations and internal controls

3. Capacity utilisation and out-sourcing
4. Sourcing inputs
5. Access to credit and finance
6. Understanding market needs and requirements
7. Current market share, including export markets
8. Barriers to expansion
9. Design capabilities

The findings of the survey are summarised below:

1. More than 60% of participants operate in the informal sector and are not registered entities. These are mostly self-employed entities operating from home.

2. 58% of entities are sole ownership businesses, with only 2% duly registered as companies.

3. Women entrepreneurs are very strongly engaged (+80%) in the textile and clothing industry, more particularly in the fashion design and tailoring activities.

4. More than 90% of operators service the domestic market, with only a few doing ad-hoc export.

5. Most of the designers and tailors are engaged in direct sales to the customer. 12% sell to local small retail shops, while 6% do business through agents.

6. Most of the participants (75%) have their own in-house production facilities. Some 25% designers sub-contract their production to other tailors.

7. Most of the designers and tailors use only local fabrics, while some 25% use both local and imported fabrics. A few designers use exclusively imported fabrics.

8. Over 50% of operators do tests and inspections on their products, including pre-production inspections. The types of inspections are typically: Loose threads, Straight Stitching, Fabrics, Shrinkage, Design, Materials, Pattern construction, Finish.

9. The larger tailoring units, employ up to 47 operators and up to 6 quality controllers and supervisors. The smaller ones employ between 6 to 10 workers, including technical people (cutting, pattern making).

10. The monthly production capacity of enterprises surveyed vary between 1 to 6000 pieces. However, most of them do less than 1000 pieces a month.

NB: A few companies did not respond to this query.

11. Only companies selling through structured retail stores need to have KEBS Standardization Marks. More than 80% MSMEs do not have KEBS certifications.

12. The unit price of garments vary between Ksh 1,000 to Ksh 200,000 (haute couture).Most of the garments are priced at less than Ksh 2000 per piece. A few businesses manufacture speciality products with prices ranging between Ksh 5,000 to Ksh 10,000.

13. The annual sales (Turnover) of most enterprises vary between Ksh 1 million (USD 10,000) and Ksh 2 million. One company realised annual sales in excess of Ksh 5 million in both 2013 and 2014. One company did a turnover of Ksh 60 million in 2014, down from Ksh 80 million in 2013. This company is engaged in export business and has its chain of retail outlets.

14. Reasons for Expansion:

    - Have limited growth opportunities on the domestic markets
    - The regional/international markets offer better opportunities for your products
    - Need to extend the life cycle of existing products
    - To diversify your markets to reduce risk
    - To utilize your production capacity more effectively
    - To exploit new technology and know how
    - To acquire new knowledge & experiences so as to improve your share on your local market and/or in existing markets
    - To improve overall return on investment

15. List of products manufactured by companies:

    - African wear
    - Office wear
    - Vintage costumes
    - Ladies wear
    - Baby & Children's wear
    - Menswear
    - Bags & Accessories
    - Bridal-wear, Corporate Uniforms, Fabric & Leather bags
    - Corporate wear
    - Denim bags and shoes, Khaki and corduroy Clothing
    - Made to measure
    - Designing Prints and Apparel
    - Curtains, bed-covers, Floor-mats
    - Sweaters, socks, Shoe lining, embroidery
    - School uniforms casual wear
    - Safety & Protective wear
    - Overalls, Dust coats

The key challenges

As per the survey, MSME businesses face the following problems:

- Lack of Entrepreneurial Skills & Mentoring Programme
- Access to Credit & Finance
- Administrative (formal structures and systems)
- Production capacity
- Access to market
- Cost of doing business
- Lack of proper structures & Planning
- High cost of production
- Imported cheap products
- Lack of properly trained personnel
- Difficult transition from made to wear to ready to wear
- Access to local retail market
- Access to regional market
- Lack of consistency in quality of raw materials and labour output
- High taxes on raw materials

- Weak management system
- Lack of visibility
- Lack of information on market requirements
- Poor record keeping
- Competition from imported second hand products
- Difficult distribution & logistics facilities
- Meeting Quantity and Quality Specifications of market
- Design not matching market requirements
- KEBS Registration
- Legal regulations in place
- Products not competitive
- High cost of electricity
- Absence of coordination and team work
- Competition from established competitors
- Seasonal nature of business
- Old production facilities
- Lack of appropriate infrastructure
- Poor marketing

NOTE: The challenges identified in the survey corroborate with the findings of the workshops.

3.3.2. Supply side challenges from a global perspective

The opportunities for Kenyan fashion designers and SMEs in the global market are real and achievable. But there are substantial obstacles standing between where Kenya is today and taking a substantial role in the global apparel ecosystem. Kenya struggles with its infrastructure, productivity, entrepreneurial skills of its factories and designers, access to finance across the value chain, and political risk. Since many of these issues were addressed in the domestic research, the bulk of this section will focus on the specific elements of those problems that most affect global competitiveness.

Ethiopia and Tanzania: Competitors and Allies?

Ethiopia is indisputably an apparel sourcing up-and-comer. 36% of CPOs surveyed by the global management consulting firm, McKinsey, reported that they expect to start or increase their sourcing from Ethiopia in the next 5 years; that same survey found that Ethiopia was the only African country in the top 10 anticipated sourcing destinations over the same period.

The country's attractions are substantial. They offer attractive wages, strong government support (in the form of preferential tax and tariff treatment, low-cost financing, technical expertise, value chain investment, and substantial infrastructure investments to support the industry), low electricity costs, and, with 3 million hectares of land suitable for cotton-growing, the prospect of a genuine fiber-to-fashion offering.

It may be tempting to view Ethiopia, therefore, and other neighbours like Tanzania, as competitors for scarce sourcing dollars directed to the continent. But with the entirety of the African continent accounting for just over half a percent of global apparel exports, there is ample opportunity for both countries—provided they can offer a compelling value proposition. In fact, many of the biggest obstacles to Kenya's competitiveness on the world market could be alleviated through improved regional integration.

Currently, Kenya has to import almost all of its raw materials, increasing lead times and costs. Improving regional integration, including reducing land border delays, improving internal transportation, and eliminating regional tariffs and duties, could create a regional apparel hub that rendered each country more competitive and effective. The United States International Trade Commission, for example, argues that Tanzania is a "comparatively favourable location to establish textile and apparel inputs production." Ethiopia's inexpensive electricity and cotton production may make it well-suited to export textiles to other countries in the region, while Kenya's long history of apparel production gives it an edge in producing higher-skilled garments.

If the East African countries can move quickly enough towards regional integration, they need not compete for scarce resources, but could potentially make the region overall a substantial player in the global garment trade over the next decade.

Infrastructure

Quite frankly, Kenya fails to provide the necessary infrastructure for a thriving export-driven garment industry. However, they are improving rapidly, a promising sign for the country. While the improvement is encouraging, there is still substantial room for growth— according to the World Bank, problems at the Mombasa Port are one of the leading causes of Kenya's weak manufacturing performance. [16] As discussed above, internal transport costs are one of the major cost drivers that erodes the price edge provided by AGOA. And, in addition to the actual costs incurred by Kenyan factories, poor transportation and trade infrastructure slows the system down dramatically, costing money in time and frustrating global customers for whom speed is increasingly

[16] World Bank, "Incentives, Exports and International Competitiveness in Sub-Saharan Africa: Lessons from the Apparel Industry," May 2011.

critical. As the rest of the world shortens lead times and moves towards a just-in-time supply chain, fabric delays alone can add 40 days to the production cycles in Kenya. [17] Clearing customs in Kenya takes 11 days, versus 2 days in Cambodia. [18] One London-based apparel purchaser who works with a factory in Kenya described working a year in advance without much ability to modify, while their other suppliers offer much quicker, more flexible turnaround times. Kenya needs to continue to build on the progress it has made with its logistics infrastructure to develop a reputation as an easy place to do business for global buyers.

Beyond the transportation infrastructure, the power grid reliability and electricity costs are the other main infrastructure hurdle. Power may go out in Kenyan factories several times a week, and even if generators are available to prevent work disruption, they do so at 4x the cost of grid power. [19] And even Kenya's grid electricity is generally more expensive than its neighbours, at 4-5x the rate in Ethiopia in 2014. [20] Along this dimension, as well, however, Kenya is making substantial progress, rolling out energy cost cutting and subsidies for export zones that are bringing costs nearly in line with those of Ethiopia.

Energy infrastructure is particularly critical for textiles manufacturing, which the country will need to be an apparel hub in the long-term. Not only can a power disruption ruin a run of fabric, energy is a much larger component of costs for a textile mill, and the high price of electricity is one of the major factors inhibiting the development of a robust textile industry in Kenya. [21] Paired with these electricity issues are problems with securing sufficient clean water, and appropriate water disposal infrastructure, to be able to dye textiles at a large scale in a globally-compliant way. Infrastructure gaps are an even more substantial obstacle for Kenyan textile companies than for CMT.

[17] Supra note 5.

[18] World Bank, "Average time to clear exports through customs," 2013.

[19] Supra note 5.

[20] African Capital Markets News, "Ethiopia lures manufacturing with cheap power and labour costs a tenth of China's," 7 September 2014

[21] USITC, "Sub-Saharan African Textile and Apparel Inputs: Potential for Competitive Production," May 2009.

Value chain

Manufacturing in Kenya today is harder than manufacturing in China because garment makers cannot easily find and purchase the inputs they need. Fabric, thread, buttons, zippers, etc. are difficult to source locally, especially in the quantities required for smaller batches. While historically Kenya had a robust textiles industry to supply its CMT manufacturers, today the equipment is "antiquated," [22] and there is little locally-produced fabric that can meet international standards. The problem is even greater for smaller quantities, where public markets, with inconsistent selection and volume, may be the only option. Furthermore, many Kenyan textiles are sold in pieces, not rolls, which makes grading difficult for international buyers. Guaranteeing the quality and compliance with chemical requirements for dyes is nearly impossible. When countries want over ten thousand meters they can work directly with the textile factories, but most "African print" collections have a much smaller run. The gap in textile manufacturing in Kenya remains a challenge for companies seeking to manufacture in the country.

[22] USAID, "Strengthening the Cotton, Textile and Apparel Value Chain in East Africa: An Assessment," August 2014.

Productivity, skills, and costs

While Kenya exceeds the productivity performance of its nearest neighbours, Ethiopia and Tanzania, it needs to be even higher to compensate for the wages it pays its workers. There are two main gaps: one around skills and one more structural. On the skills side, Kenya needs more trained apparel workers, both at the sewing and the managerial level. Part of this will come with time and experience, but in the short-term, the country's garment industry relies on expatriates from Mauritius, India, or Sri Lanka who can bring expertise in producing for global clients, but at a high cost. And, to develop Kenya's home-grown talent in the long-run requires strong educational and on-the-job training programs, which today are not up to international standards. [23] Kenya needs consistent investment in capacity-building at the factory level to drive productivity improvements. Not only does the skill gap hinder productivity for simple garments, it also prevents Kenyan firms from providing higher value-added services, such as rapid-turnaround sampling, fabric management and quality checking, consistency in fit / producing to customer specifications, packaging and labeling, design support, embellishments, washes, etc. In-sourcing these services would create a more sustainable competitive edge (since it is harder for other, lower-wage countries to enter) and would make the overall package more cost-competitive for global customers.

The other issue is a structural one. First of all, several academic studies (taking a variety of approaches) have found evidence suggesting that Kenya's productivity is not improving, and that, counter to what one would expect in a competitive market, the more productive firms are not thriving and the less productive firms are not exiting. For Kenya's garment industry to thrive, it will be critical that resources and access to government incentives goes to those companies that can best take advantage of them, making the industry overall more globally competitive. The second structural issue is that capacity utilization dramatically lags other apparel producing countries, meaning either that the customer bears a higher burden of the factory's fixed costs (since it is not spread as broadly) or that the factories are not sufficiently covering their fixed costs and will lack the resources to reinvest and maintain their factories to international grade. Improved marketing to increase utilization rates, paired with superior production management could help address this issue.

Finally, investment is needed to develop the apparel ecosystem to dramatically bring down the cost of inputs. External groups like Hivos may be well-positioned to advocate for policies that will help drive down input prices, thus making Kenya's costs more competitive against other apparel-producing countries.

[23] Anne Mastamet ¬Mason and Michael Ogembo¬ Kachienga, "Development of Competitive Advantage in Apparel Industry in Kenya," May 2012.

Technology

In many ways, the biggest challenge from the global client's perspective is modernizing and upgrading the garment industry in Kenya, which currently lags sufficiently behind that it creates a quality issue for the end-client. This takes two forms: first, leapfrogging to the frontier of apparel production technology by upgrading machines, and second, leapfrogging to the frontier of production organization, adopting lean manufacturing techniques that eliminate waste and allow maximum flexibility without loss of productivity.

On the physical capital front, the machines Kenyan factories are working with are dramatically out-of-date, some dating back to the country's heyday in the 1980s and before. The equipment is old and outdated, slowing production down and leading to poor quality garments that cannot meet international standards, whether with inconsistent stitching, cutting, or finishing. For example, global customers will often demand the consistency and low waste that comes from a computerized pattern design system and printer, but today most smaller factories in Kenya are still doing pattern laying by hand.

This outdated technology is especially problematic at earlier points of the value chain. From the farming stage, where the use of polypropylene bags contaminates the cotton and prevents it from being used for international grade textiles, to Kenya's twenty-four ginneries, of which only ten are operational, Kenya needs a wholesale investment across the value chain to modernize its physical capital in order to compete with the brand new Ethiopian manufacturers opening up in giant, brand-new factory shells with all new machines. Kenya's apparel history can be a major asset, but the out-of-date and decrepit machines are instead an albatross around the industry's neck.

Kenya's lagging physical capital matches its lagging human capital in the garment industry. As mentioned above, the technical schools are out-of-date, and few factories have lean or flexible manufacturing expertise. Where they do, it often comes from very expensive ex-pat managers. To thrive, Kenya needs to start to develop that talent locally to match and complement upgraded machines and technology.

Entrepreneurship skills

Kenya currently lags in the constant connectivity and responsiveness necessary to thrive in today's fast-paced global business environment. One global buyer said that "Kenyan factories have got to gear themselves up to rapid communication and servicing clients; the industry is so fast-paced. It is absolutely the biggest challenge with doing business in the region. And they need the technology to support that." Part of this is an infrastructure and technology issue—factories in Kenya need consistently working internet and easy access to emails from clients—but it is also partially a culture change problem that needs to be addressed as part of broader upgrading efforts. Today's factories need to be online, and both the infrastructure and the people need to jump from today's unresponsive, unconnected status quo to the new reality of the global market.

Customer responsiveness is just one of the key entrepreneurial skills for a business operating in the global market. Lack of business skills is a key challenge for the Kenyan garment sector, whether for the small designers seeking to export to the small and medium-sized factories that want to produce for global partner brands. Indego Africa, which has brought Rwandan artisanal goods to the U.S. consumer market, views basic business skills as one of the critical gaps for the crafts groups and workshops they source from, and therefore the training they provide is a core part of their value proposition. Female and young entrepreneurs have major skill gaps on how to build a business model, run operations, efficiently manage production, handle logistics, keep track of transactions, formalize the business to comply with legal requirements and facilitate global payments, etc. Doing business with international companies at all requires following international conventions on record-keeping and financial compliance. And to thrive in that business requires a robust but flexible business plan and managerial talent that can help make the business profitable. Without this, Kenya's businesses will struggle to grow and create the high-quality jobs for women and youths that the sector potentially could.

Access to capital

While Kenya has a relatively developed microfinance and banking sector, there are still a number of challenges for factories starting up a new order or designers selling internationally. The fundamental issue is one of timing of cash outflows and inflows. While the costs are all incurred up front, often before an order has even been placed (for example, getting factory standards up to a level where they meet brand's production and compliance standards), the payment is not sent until 30-60 days after the goods have been received (either for designers selling to global wholesalers or CMT factories selling to global brands). This creates a substantial working capital problem for factories. And since margins are so low in the garment industry, existing working capital products often charge rates so high as to eliminate the factory's profit.

Additionally, addressing the other challenges described above around outdated machines and factory technology will require a large upfront investment with a long and uncertain repayment horizon. Current financial products, while able to handle capital expenditures to a degree, are not well suited to the return period common in apparel manufacturing.

Political risk

The final major challenge for the Kenyan garment industry is political risk. Geographic diversification is appealing for international brands, as it provides them cover for everything from the mundane (holidays that slow production substantially) to the extreme (natural disasters) to humanitarian problems (the Rana Plaza collapse). But while Kenya is generally perceived as a favorable and business-friendly place to invest, there are a number of risk factors around security, currency volatility and inflation, instances of poor social compliance, and issues caused by bureaucracy, delays, and corruption.

On the security front, the ethnic violence of 2007-2008 and resulting ICC prosecutions have cast a long (though fading) shadow over the stability of Kenya for investment. More recently, worries about Al-Shabab and terrorism, with the widely publicized tragic attacks at Westgate Mall and Garissa University College may discourage some brands looking at Sub-Saharan Africa from focusing their efforts on Kenya. This risk is difficult for factories to eliminate, but it will be important to be prepared to address these concerns.

Economically, the currency and inflation volatility pose a challenge for potential investors. While Kenya has an edge over Ethiopia, with much looser foreign exchange restrictions, its currency has fluctuated with one USD worth Ksh 80 in 2010, versus Ksh 100 today. Linked with this movement is an inflation rate that has ranged from 6% up to 14% over the past four years. Global customers do not like unexpected or unpredictable changes to their cost base, like swings in foreign exchange rates.

Other political risks are on the compliance side. Especially for a relatively high labour cost country like Kenya, the social story will be critical to attract some brands. Kenya rates lower than Ethiopia on social compliance in the recent McKinsey report, and reports of "by unfair and restrictive labour practices including low wages, inadequately compensated overtime, sexual harassment and the violation of the organisational rights of workers" [24] in the EPZs are a substantial risk to the social value proposition of Kenya as a sourcing destination.

Finally, corruption and excessive bureaucracy remains a major concern for global buyers. Roadblocks in Kenya have become notorious as an illegitimate toll on business transport. [25] Kenya ranks 145th out of 174 countries on Transparency International's corruption perceptions index, well below close competitors like Vietnam (119), Thailand (85), and Ethiopia (110). [26] As mentioned above, part of the issue is the delays corruption may cause, adding time and unpredictability to the production timeline. But it also carries the risk of substantial financial liability under the United States' Foreign Corrupt Practices Act or analogous statutes in European countries if a company is found to have paid bribes to officials. Moreover, corruption is a public relations risk for brands. Paying bribes exposes them not only to legal action in their home market, but also consumer opprobrium and reputational damage. They will be hesitant, therefore, to do business somewhere where they cannot succeed and meet their cost and production targets without having to "grease the wheels" along the way.

[24] Jacob Omolo, "The Textiles and Clothing Industry in Kenya," January 2006.

[25] African Cotton & Textiles Industries Federation, "Policy Research on the Kenyan Textile Industry: Findings and Recommendations," June 2013.

[26] Transparency International, "Corruption Perceptions Index" 2014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4. Solutions and Opportunities

[27] Supra note 9.

[28] Supra note 17.

Not all of these challenges and risks can be eliminated. But Kenya can thrive as an apparel sourcing destination and an African design hub even if many of these challenges remain. The key is to identify the highest-priority areas that can transform the garment industry.

4.1. Domestic

The Strategic Orientation defines the Strategy for the MSMEs operating in the T&C sector to play a meaningful role in the domestic textile and clothing sector. The general wish of the stakeholders is "to create a conducive eco-system that will enable Kenyan MSMEs, including designers and small tailors (including women and youth entrepreneurs) to contribute to the overall economic development of Kenya". To support this vision, the following Strategic Goals (SG) must be satisfied:

SG 1: Integrate local designers and small tailors on the domestic retail market.

SG 2: Strengthen the National Fibre to Fashion Value Chain.

SG 3: Create an enabling environment to support the growth and development of MSMEs in the textile and clothing sector.

SG 4: Strengthen the Trade Support Network through institutional alignment to provided coordinated and efficient service to MSMEs in the T&C value chain.

SG 5: Enhance the visibility of Kenyan designers and their design capabilities in Kenya, the region and the global markets.

4.2. Global

Government priorities

Direct governmental functions

The highest priority for the Government of Kenya in supporting the garment industry should be in those arenas solidly within the locus of control of the government: infrastructure investment, both on the transportation and energy sides; efforts towards regional integration, and eliminating corruption along the export value chain.

On the transportation infrastructure side, the top priority should be streamlining the ports by continuing to invest in e-ports initiatives, converting to all-electronic systems, increasing capacity, and streamlining the process for goods making it through the customs process at the border. Port delays make doing business in Kenya unnecessarily difficult for international companies, and addressing this issue will not only stimulate the apparel sector, but have broader beneficial effects.

[27] Supra note 9.

[28] Supra note 17.

Overland transportation is also a challenge. While not as bad as Ethiopia (where factories are generally around Addis Ababa and the port is in Djibouti, well over a day's truck journey away), the roads between Nairobi and Mombasa are relatively narrow and unsafe, and could not support exporting activities on the kind of massive scale that would have a real impact on job creation at the macro level. The government therefore needs to prioritize upgrading Kenya's highway system. Overland transport is also substantially more expensive than competitor countries—getting to the port costs $0.25 per garment in Kenya, versus $0.04 in China and $0.10 in Cambodia, [27] partially due to trucking cartels. The train construction currently underway will be a hugely useful investment, and to fully reap the returns it is critical that it is completed on time, and that the tariffs charged are reasonable, bringing Kenya in line with its competitors on in-country transport costs.

Regional overland transportation is also an important longer-term priority. East Africa and Ethiopia together could be a powerful juggernaut offering a true end-to-end garment value chain (see box above). But currently transportation and border crossings between the countries make this prohibitively expensive and time consuming. Today, "Shipping a container from Tokyo to Mombasa costs less than transporting it to neighbouring Uganda from the Kenyan coast." [28] Improving internal regional transport networks will be very important for local sourcing, but also, in the longer-term, as Africa's consumer base matures, in offering the opportunity for a nearby manufacturing base for regional fast fashion (see, for example, Eve & Tribe in Nigeria). Investing in regional infrastructure may not have the immediate impact of port reforms, but it will help create an ecosystem that gives Kenya, Ethiopia, and Tanzania a sustainable long-term edge.

Linked with this, the government should pursue further progress towards regional integration. While the East African Community putatively creates a single market since 2010, there have been reports of fees charged for trucks moving across country boundaries and other remaining regional differences in regulation, and, furthermore, Ethiopia is not a party to the agreement. Creating a truly integrated regional market is a major opportunity for East Africa to compete with Southeast Asia as a regional destination for apparel sourcing.

The second top priority for the Kenyan government, which it is already taking action on, is continuing to improve the price and reliability of the power grid, and particularly to invest in green energy as it becomes cost-effective. Transportation and electricity are the two biggest challenges eroding Kenya's cost advantage, and also have a substantial effect on reliability and turnaround time. The government could help address electricity issues by investing in the reliability of the grid (especially for EPZs) and finding sources of cheaper electricity (like Ethiopia's hydro-power) or subsidizing electricity for qualified factories. Subsidies for solar energy conversions would help with both energy costs and enhance factory's "conscious consumerism" story, while also enabling smaller factories to operate off-grid with next generation energy technology, as Hivos has promoted worldwide. While starting with the EPZs makes sense, investing in the power grid overall, and off-grid storage systems can have beneficial effects throughout Kenya's economy, much like any streamlining of the port systems would.

Corruption is another area which is solidly within the government's control, and which has cast a shadow over international companies' willingness

to invest in Kenya. Due to liability, policy, and reputational concerns, it is critical that factories be able to run and export efficiently and effectively without encountering the demand for bribes.

Promotion of ecosystem

While it is not directly a governmental responsibility, the government could take three main actions to promote the apparel industry more broadly: investing in skill development, expansion of the value chain, and creating a centralized trading hub that serves to attract FDI, set up buying offices abroad, do marketing and outreach to international buyers, and support designers in accessing global markets. Note that these same functions could be provided either by a standalone or subsidized industry association that represented manufacturers and designers across the country and of all sizes.

On the skills side, this report discussed in the challenges section the lagging technical skills of the Kenyan workforce. Ethiopia is addressing this issue by investing in apparel schools and training programs. However, evidence suggests that in-house training is superior to publicly-provided training, [29] and therefore a subsidy or resources for factory's to provide on-site training would be an effective alternative policy to jump-start Kenya's productivity and skill level.

For value chain development, a major problem today is that it is very difficult for CMT factories or designers who wish to export to locally source international grade fabrics, trims, packaging, etc. Government promotion of up and downstream activities would both lower the costs associated with manufacturing in Kenya, reduce production time, and serve to entrench the industry, making it difficult for another country to dislodge Kenya with lower wages. Advocacy may be necessary to convince the government of Kenya to take action in this domain. The government of Ethiopia has taken an active role in promoting the development of activities ranging from button production to packaging manufacturing. Kenya's government could play a similar role to promote the garment value chain in-country.

Lastly, it makes sense to have a centralized trade hub that represents the interests and attractions of Kenya's manufacturing and fashion designers to the world. Having a presence in global apparel centres like New York, London, or Paris, attending trade shows, doing roadshows to attract foreign investment, or running fashion weeks, all have huge pay-offs to the industry but do not make sense (for the most part) for an individual factory or designer to invest in. To compete globally, having a presence in international markets and a compelling and attractive story will be critical to differentiate Kenyan companies, and either the government or trade associations should leverage economies of scale to make this financially viable.

However, these priorities are just guidelines to address the biggest challenges Kenya faces today. A truly effective industry-promoting policy will require flexibility and adaptability to address the issues that arise as the industry grows and, hopefully, thrives. A London-based buyer lamented "There are always horrendous challenges, and every season a new one. A fire in Nairobi lost all the care labels, a bug infestation led to eggs laid in one palette of clothes for the Christmas shipment and everything had to be fumigated, the electricity goes out, there are floods." Doing business in Kenya is unpredictable; and the government needs to be flexible in adapting to the challenges that arise and the concerns of companies operating in the country.

[29] Supra note 26.

Industry alignment

Whether or not the collective industry actions described above are subsidized by the government, having a strong and effective industry association for Kenyan garment manufacturers and Kenyan designers will be critical. These industry associations can assist or take the lead on the skills training and trade hub aspects discussed above, perhaps with government subsidization for services provided. They can also pool information on sourcing and apparel trends; negotiate transit rates to fight the trucking cartels to bring down the costs of overland travel, and coordinate communication with the government to raise the common issues companies are facing. Establishing a strong Kenyan garment manufacturing association will be a critical first step to industry success.

Access to capital

Helping factories address working financing challenges is the biggest financial lever that banks could provide to make globally-oriented business feasible in Kenya. Factories and designers need to pay for fabrics, trims, rent, electricity, and workers, all before they receive a dime from their end-clients. And for CMT producers in particular, margins are small enough that rates will need to be very low to avoid eliminating all factory products. Expanding access to working capital products at affordable (even government-subsidized) rates would enable Kenya's garment sector. Furthermore, expanding the time horizon on these products slightly to enable them to be used for other non-machine upgrades like managers or internationally-recognized certifications would also ease the journey to become a globally-competitive player.

Gender and youth

Perhaps the most substantial opportunity for the Kenyan garment industry is to establish its growth on a socially sustainable basis. Apparel manufacturing disproportionately employs young women, and the resulting dynamics can be either exploitative or empowering.

The opportunities are enormous: the head of a Bangladeshi think tank argues that "There is no other industry that can absorb so many female workers with little schooling or skills." [30] Bangladesh, a nation of 157m people, employs 4m in the garment industry, 80-90% women. In Kenya today only 29% of workers nationwide earning a formal wage are women. [31] Manufacturing could be a substantial lever to improve women's formal workforce participation. Beyond that, academic studies have found that garment manufacturing can help prevent underage marriage, improve gender parity in education, reduce maternal mortality, and improve child health outcomes. [32] Women working in factories report increased self-sufficiency and self-confidence, and are able to both contribute to the education of siblings or children, and save money to spend on themselves. [33] One worker told a journalist, "I like it here [in Dhaka]. I make my own decisions. I can earn money and help my family...I can do whatever I want. I can enjoy myself. I have freedom." [34]

However, there are substantial challenges. Many report issues of sexual harassment, low wages, dangerous conditions, and violence against women. There is often role division by gender, with

[30] International Business Times, "Despite Low Pay, Poor Work Conditions, Garment Factories Empowering Millions Of Bangladeshi Women," 25 March 2015.

[31] Financial Sector Deepening, "Gender Equity Issues in Kenya."

[32] Rachel Heath and A. Mushfiq Mobarak, "Manufacturing Growth And The Lives Of Bangladeshi Women," August 2014; World Bank, "Exports, Equity, And Empowerment: The Effects Of Readymade Garments Manufacturing Employment On Gender Equality In Bangladesh," January 2011; David Atkins, "Working for the Future: Female Factory Work and Child Health in Mexico," April 2009.

[33] Supra note 31.

[34] Ibid.

women predominantly line workers and men more likely to work as managers, cutters, or in finishing. Bangladesh has a substantial wage disparity, with women on average making 70 cents for every dollar a man in the garment industry makes. [35]

There are three primary levers for ensuring that the growth in the garment industry redounds to the benefit of the young, female workers who make up the bulk of its labour force: government regulation, independent unions, and private sector or brand-driven compliance efforts (see box below for specific examples of the first and third).

Similarly, the youth of garment workers offers both an opportunity and a risk in the social sustainability of the industry. In the most recent Kenyan census, there were 8 million Kenyans aged 15-24, with an unemployment rate around 14%. In urban areas, they fared even worse—over 20% of urban youths were unemployed. Furthermore, over 80% of the employed were considered "vulnerable workers," further exacerbating the economic exposure of the young population entering the workforce for the first time. [36] The apparel industry can offer young workers the same opportunities that it does to women, but with similar pitfalls, and potential abuses of underpaid child labour.

Labour laws, especially around occupational safety, wages, labour rights education, and safe and secure transportation, can reduce the chance of the sorts of worker safety incidents and exploitation that undermine the potential for female empowerment that the garment industry offers. But, even beyond the development side, McKinsey & Co., the global management consulting firms, strongly encourages countries that are serious about attracting global investment "to make every effort to ensure social and environment compliance." [37] Credible government regulation can alleviate reputation risk for companies producing in Kenya.

Note that brands need to be particularly cautious about young workers, to ensure they do not run afoul of child labour laws and international treaties. Factories need strong compliance systems that ensure that, per Kenyan law, work does not interfere with education nor harm their development. Some factories that are strongest on compliance may actually be over-wary of hiring younger workers because of the risks that go along with it, and Hivos or another entity could help facilitate youth empowerment through employment by offering a capacity-building program that would assist factories in developing robust age-related compliance systems.

Additionally, independent labour unions can provide a check against factories tempted to turn to abusive practices in order to improve their profit margins. Trade unions play an important monitoring role, and countries or factories that hesitate to allow them may be those that have something to hide.

Finally, the private sector may decide that it is in their own self-interest to perform to a high level of social compliance. There are several global certification standards, for example WRAP or SA8000, that global brands require of their factory partners, which aim to eliminate the worst labour abuses. And some companies elect to go even further, investing in the empowerment of their workforce to reap the long-term payoff of a motivated, loyal, and highly skilled workforce.

[35] Supra note 33, World Bank.

[36] Kenya Population and Housing Census, 2009

[37] Supra note 5.

Three Approaches to Worker Empowerment

The garment industry can create thousands, or even millions, of formal-sector jobs for low-skilled, generally young, women, transforming their lives with control over family finances, a stable pay-check, and even health, retirement, or education benefits. However, it can also exploit those workers, putting them to work in unsafe conditions, for excessively long hours, or even forced to work against their will by unethical managers. Kenya has the opportunity to create a sustainable apparel industry that empowers instead of oppresses its largely young and female workforce, acting as a force for gender equality and youth empowerment in the country.

Cambodia demonstrates a government-led approach to an empowering its workers

In 1999, the U.S. and Cambodia signed a Textile and Apparel agreement that linked duty-free access to the U.S. market with improvement of worker rights. The ILO carefully monitored Cambodia's progress in improving labour standards, including the right to organize and respect for international and domestic labour standards and laws. This led to increased employment, higher wages, and improved compliance with labour standards for a workforce that is 85-90% women. It also has given Cambodia a competitive advantage in the global apparel trade as a reliably ethical sourcing destination, with their Minister of Women's Affairs saying that "Cambodia's competitive edge is our good labour practices."

During the years of the agreement, Cambodia's apparel exports increased fivefold, and the reputation they developed even in the aftermath has allowed them to retain their global edge.

While MAS Holdings offers a private-sector way

MAS Holdings is an apparel factory based in Sri Lanka. It employs almost 70,000 people, of which 80% are women. In 2003, MAS began a program called "Women Go Beyond" that was designed to promote career advancement among its female staff, offering them classes in English, information technology, managerial skills, and the law, along with recognition programs to celebrate "Empowered Women" within the company.

Paired with a number of other female-friendly programs, including on-site infirmaries and maternity clinics, reproductive health trainings, awareness programs around sexual harassment, on-site child care in many of the plants, and company-provided transportation to alleviate safety concerns, these efforts have led to higher worker morale and an growing number of women in managerial roles.

And PACE and HER work from the brand side

In 2007, Gap Inc. launched P.A.C.E., a program designed to provide life skills and technical training for its female garment workers. Almost a decade in, the program has shown measurable results, improving worker self-esteem, efficacy, and promotions. Gap is now planning to roll out the program more broadly and make the trainings available to other companies that want to implement it among their factory workforce.

Similarly, BSR, a global non-profit organization has worked with such brands as Primark, J.Crew, and Nordstrom's to provide financial literacy and health trainings to female workers through HER project. They have reached over 250,000 women on farms and in factories since its founding in 2007.

Recommendations for global competitiveness

Given Kenya's wage structure, which is higher than its neighbours (desirably so), it will likely be difficult for it to compete purely on cost once Ethiopia gets its productivity closer to international benchmarks. Therefore, we recommend two alternative strategic advantages that would give Kenya a more differentiated and sustainable edge globally, while also encouraging the kind of inclusive economic development that the government and other stakeholders seek.

Small scale, adaptive manufacturing

Kenya has a long history of apparel manufacturing, and consequently a greater (though not sufficient) base of talent, including multi-skilled operators who can shift from one task to another, greatly increasing the potential flexibility of lines. Its machines and technology, however, are woefully out-of-date. If and when they upgrade, it makes sense to upgrade to the unmet needs of the market, rather than simply trying to compete on costs for the same white t-shirts that every other low-wage country tries to make. The next frontier in e-commerce is likely to be around mass customization, which will require smaller, or at least more adaptable, product runs. Two researchers from Kenya Polytechnic suggest that "Apparel industry in Kenya should be customer-focused to provide opportunities for cottage, boutique specific manufacturing (custom-made) and mass customization." [38] Lots of factories can make cotton basics. Fewer can efficiently do small batches or more complex products like pleated trousers or embroidered sweaters.

Additionally, moving away from cotton basics can provide a cost advantage when it comes to Kenya's AGOA trade preference. Since products made from man-made fibers face higher tariffs than cotton-based clothing, the cost edge versus Southeast Asia is greater for clothing made from synthetics, which may be more common with small-batch, complex orders. For a t-shirt (which is representative of the different rates generally), a cotton shirt faces duty of 16.5%, while one from man-made fibers pays a 32% rate. [39]

Margins are also substantially higher when companies need smaller batches. Companies in the middle to high-end of the market are much less likely to be competing solely on prices (and working with razor thin margins), and there will therefore be less price pressure on the factories. This can offset the higher wages in Kenya, by offering global companies an alternative value proposition. It will also make it easier for Kenyan factories to supply to Kenyan designers who wish to access the global market, but often in small qualities—redesigning processes and investing in technologies that enable high-efficiency, high-quality small batches will make it possible for Kenyan designers to produce relatively inexpensively in-country to the demanding quality standards of global partners.

Finally, small batches are often more economically shipped by air rather than sea freight. While this is more costly, it also avoids many of the infrastructure issues that can cause delays for Kenyan companies, which may further enhance Kenya's comparative advantage on this kind of order.

[38] Anne MastametMason, Michael OgemboKachienga "Development of Competitive Advantage in Apparel Industry in Kenya," May 2012.

[39] Supra note 22.

Ethical fashion

As conscious consumerism becomes an increasing global trend, customers care more and more about where their goods come from and the story behind it. A committed and growing cohort are willing to pay a premium for a company's commitment to ethical treatment of workers, environment sustainability, and the story they buy when they purchase a product. Some Kenyan factories, like Soko in Voi, have done a strong job of telling their story, even convincing ASOS, a global buyer, to pay a premium for their products and market a dedicated collection around that story. This is a model that can and should be adopted more broadly, as it is linked with 1) a relationship with brands that goes beyond offering the lowest price and 2) a sustainable competitive advantage.

To take advantage of this sustainability niche, Kenyan factories will need to invest on a few fronts. First, social and environmental sustainability are highly linked for the global consumer, and so investing behind and securing high-quality sources of organic cotton, eco-friendly dyes, green energy, and low-waste processes will make the overall product offering that much more compelling. Secondly, getting a price premium for the story requires investing in the marketing materials to support and spread that story. Soko has a strong website (http://www.soko-kenya.com) and ASOS has undertaken substantial PR efforts to get them featured in trade press and consumer-facing magazines. Providing or supporting brand efforts to create consumer-friendly content like photos, stories, worker testimonials, etc. will make shoppers feel good about purchasing products made in Kenya, thus justifying and providing an economic return for the additional cost to producing in a relatively higher wage country.

TWO GLOBAL COMPETITIVE ANGLES

FLEXIBLE MANUFACTURING

Leapfrog to adaptable, lean manufacturing to

accommodate small batches and more complex products

ETHICAL FASHION

Sell the story of female empowerment to command a consumer premium for clothes produced ethically in Kenya


@HivosEastAfrica


@HivosEastAfrica

5. The Way Forward

5.1. Domestic

Domestically, the action plan to achieve the above Strategic Goals relies on specific Strategic Objectives under each Strategic Goal and structured activities. The Tables below provide an overview of the proposed Strategic Plan and its corresponding Action Plan

Strategic Goal 1: Integrate Local Designers And Small Tailors In The Domestic Retail Market

STRATEGIC OBJECTIVE	ACTIVITIES
1.1 Graduate from Informal to Formal Sector	1.1.1 Sensitive MSMEs on the benefits of registering their business under the new companies Act 2015 1.1.2 Assist MSMEs to complete the necessary formalities for registration/incorporation
1.2 Build Market Readiness	1.2.1 Training on understanding buyers' requirements and buying cycles 1.2.2 Assist in preparing proper collections for local retailers 1.2.3 Improve product development with regards to local values (traditional and ethnic inspiration) 1.2.4 Training in garment making to improve techniques and finishing
1.3 Access to Credit and Finance	1.3.1 Training workshop on financial literacy and options for accessing Credits and Finance 1.3.2 Assist MSMEs in preparing bankable Business Plans 1.3.3 Creating non-banking financial instruments for MSMEs

Strategic Goal 2: Strengthen The National Fibre To Fashion Value Chain

STRATEGIC OBJECTIVE	ACTIVITIES
2.1 Improve quality of local products at each segment of the industry	2.1.1 Modernise technology, machinery and equipment and production processes 2.1.2 Promote R&D, product development and innovation 2.1.3 Create linkages among the different segments of the industry through collaboration, sharing of information/intelligence and feedback to complete the loop
2.2 Improve the competitiveness of local suppliers	2.2.1 Enhance product offerings in terms of product diversity 2.2.2 Training on resource efficiency and productivity enhancement 2.2.3 Capacity building at management, supervisory and quality control levels

Strategic Goal 3: Create An Enabling Environment To Support The Growth And Development Of Msmes In The Textile And Clothing Sector

STRATEGIC OBJECTIVE	ACTIVITIES
3.1 Promote Policy Coherence	3.1.1 Develop a National Strategy for the textile and clothing sector, aligned to Vision 2030 3.1.2 Develop a long-term masterplan for MSMEs 3.1.3 Democratise the economic space by empowering MSME, including women and Youth entrepreneurs 3.1.4 Introduce procurement policy for sourcing from MSMEs 3.1.5 Strengthen economic diplomacy to open new market opportunities through bilateral trade agreements

3.2 Improve Ease of Doing Business	3.2.1 Strengthen trade facilitation through law enforcement against illegal imports, undervaluation and corruption at Border Points and Customs 3.2.2 Waiver the KEBS Standardization Mark Certification on locally manufactured garments 3.2.3 Establish clear, transparent and rule-base guidelines for all license, permits, clearances or approval 3.2.4 Promote E-Government Initiative for E-application and E-approval for license, and permits
3.3 Provide appropriate incentives	3.3.1 Exempt raw materials, machinery and equipment and spare parts from import duties 3.3.2 Offer accelerated investment allowance for modernisation and investments in energy saving and cleaner technologies promoting sustainable development 3.3.3 Tax deduction of expenses relating to market development and promotion, including export marketing (cost of travel and accommodation) 3.3.4 Matching grant for job creation 3.3.5 Harmonize fiscal incentives between EPZ and non-EPZ operators

Strategic Goal 4: Strengthen The Trade Support Network Through Institutional Alignment

STRATEGIC OBJECTIVE	ACTIVITIES
4.1 Promote Institutional alignment so as to improve efficiency and effectiveness of service delivery	4.1.1 Synchronise the service offerings of MSEA and the KIE and other public agencies 4.1.2 KIA to assist MSME in mobilising investments, including FDI, through licensing, franchising and joint venture collaborations 4.2.3 EPC to assist in the internationalisation of Kenyan products and services including those of MSMEs
4.2 Promote synergies in the Education and Training sector	4.2.1 Develop collaborative synergies between Universities, TVET and Training Centres in teaching Fashion design and garment making 4.2.2 Organise joint fashion-shows and other promotional events 4.2.3 Develop greater linkages with the industry 4.2.4 Introduce the concept of Campus-Interviews for graduating students

Strategic Goal 5: Enhance The Visibility Of Kenyan Designers And Their Design Capabilities In Kenya, The Region And The Global Markets

STRATEGIC OBJECTIVE	ACTIVITIES
5.1 Strength AFAD (K) into a National organisation	5.1.1 AFAD to extend its membership to designers from all over Kenya 5.1.2 AFAD to set-up regional level antennae 5.1.3 AFAD to organise National Level Fashion shows to promote Kenyan designers 5.1.4 AFAD to come-up with a National Kenyan costume (a national dress for ladies and for gents)

5.2 Promote African Design	5.2.1 Encourage development of African design using local materials 5.2.2 Promote traditional and ethnic wears, through national level design competition 5.2.3 Attract Kenya designers settled overseas to Kenya
5.3 Venture into the Regional and International Markets	5.3.1 Participate in selected regional and international fashion shows to promote "Made in Kenya", namely at Origin Africa, at Source Africa, at the Mercedes Benz show, and in Shows in major fashion capitals in Europe, USA, Africa 5.3.2 Target the Kenyan diaspora market overseas 5.3.3 Establish Kenya Emporiums in selected foreign cities , in the EAC, Nigeria, U.K, U.S.A 5.3.4 Develop a strong Brand Equity for Kenyan Design 5.3.5 Set-up e-Commerce business for on-line sales
5.4 Capture the Tourist Market	5.4.1 Understand tourist purchases and develop appropriate collections – safari wear, traditional wear, ethnic wear, beach wear, home textiles in African print 5.4.2 Develop complementary Fashion accessories for tourists (footwear, leatherwear, jewellery, decorative items)

The proposed strategy and action plans can effectively be categorised into three distinct phases:

1. Immediate (very short term);
2. Short term (between 1 to 3 years); and
3. Medium term (between 3 to 5 years).

Successful implementation will depend on the degree of support and the level of engagement of all the stakeholders

5.2. **Global:** Roles and responsibilities for project owners

While they are not themselves public actors, Equity Bank and Hivos have a powerful voice coming out of the private and civil society sectors. They can leverage that weight to try and encourage the government to adopt advantageous policies for Kenya, lead programmatic interventions that could help the sector, offer financial products that facilitate doing business for apparel manufacturers, and nurture the development of the overall ecosystem and value chain, encouraging all of this development in ways that will best serve Kenya's women and youth in broad-based and inclusive sector growth.

National policy advocacy

Given the powerful influence of the project sponsors, they are in a strong position to advocate on behalf of the garment industry on some of the leading areas that the government needs to prioritize. Some areas where they might want to focus their advocacy:

- Long-term investment in the power system (especially green energy, where possible, both on and off-grid), paired with short-term subsidization of electricity for priority industries
- Continued streamlining of the ports and a move towards a fully-modernized port in Mombasa with minimal delays
- Building roads and trains to facilitate transportation from factories to ports
- Ensuring that social and environmental compliance regulations are in place and enforced
- Specific government subsidies to enable the sector's sustainable development (see Programmatic interventions and Financial products sections below)

Entering the fray in support of these issues will serve to show the broad-based support for these items, and will allow the growth of the garment and other manufacturing industries, which will benefit both the communities predominantly employed in manufacturing and Equity Bank in its capacity as one of Kenya's premier local banks.

Programmatic interventions

As a sophisticated global player, Hivos is well-positioned to partner with industry associations or the Kenyan government to run programs that improve market linkages for Kenyan factories and designers, and to offer trainings in the basic professional skills that global brands have identified as critical for success in the apparel industry. Providing these trainings will open the industry up to those outside of the mainstream, opening up a path to success for motivated female business owners, and to younger Kenyans who may have secondary or university education, but no professional skills training.

The market linkages program, inspired and building on programs like the Bhavana World Project referenced above could offer a one-stop shop to provide companies and designers with support on creating marketing and PR materials, including websites, online lookbooks, and samples; pursuing

and creating partnerships with companies that have already expressed interest in sourcing in Sub-Saharan Africa, like PVH or VF; establishing a Kenyan presence at international trade shows; attracting international manufacturing companies like Li & Fung or Arvind that are expanding their sourcing operations in Sub-Saharan Africa, and maintaining relationships with sales representatives and distributors who bring smaller designers to multi-brand stores like Macy's or Barney's. All of these areas require high up-front costs for factories or Kenyan brands that wish to expand globally, and substantial knowledge barriers for those new to the global market. They should not have to reinvent the wheel. Creating a hub that can serve as a resource for tapping into the unfamiliar global market leverages economies of scale and increases Kenyan companies' chances of success in this novel space.

Secondly, Hivos and Equity could launch a professional skills training program could cover a variety of areas. First, it could provide basic business training on key terms, industry standards, introductory bookkeeping, customer responsiveness expectations, etc. Over time, it could gather business best practices to offer Kenyan companies a business Center for Excellence with ideas for how to improve production efficiency, quality, and customer satisfaction. Additionally, they can provide training and support with targeted functional areas like legal services, e.g. how to review a contract or contacts for good, or connecting companies with experienced lawyers who can support companies negotiating with international partners for the first time.

Furthermore, the center could support the development of operational capabilities like logistics, providing training and support on how to handle shipping, import and export documentation, etc. Finally, they could provide an overview of some of the international certifications, both social and environmental, the pros and cons of each, and the process to achieve certain certification levels. There is no need for each factory or designer to have to figure all of these different elements out on their own. Hivos could leverage existing models from NGOs or companies like Indego in order to develop a strong basic business curriculum, tailored to the apparel industry, which would position Kenyan companies for success as they break into the world market.

Financial products

Equity Bank also has a substantial role to play in the success of this industry by offering appropriate financial products for apparel players. As discussed above, the biggest opportunity is around working capital. Inexpensive working capital is make or break for growing companies working in apparel in Kenya. Only those with either a global partner willing to put up initial cash needs up front, or an existing on-going business where payments are already coming in regularly (if continually staggered) will be able to manage the working capital constraints of this industry. However, Kenyan small and medium enterprises are unlikely to be in either of those boats, and so will need a financial intermediary to help them smooth over the period between cash outlays for inputs and manufacturing and the payments from global buyers. Purchasing fabric alone can tie up 3-4 months of working capital. Filling this gap is a role Equity is ideally suited to fill. Since margins are so slim in the garment industry, the working capital loans may need to be subsidized by the

government to be priced at sufficiently attractive rates. In Ethiopia, the government itself will front the costs at zero percent interest, provided that factories have a signed purchase order for export. Kenya's banking system, led by Equity Bank, is sufficiently developed (much more so than the banking sector in Ethiopia) that it likely makes sense for this product to be provided by the private sector, although the government may need to subsidize it to ensure that the rates are low enough to really enhance Kenya's global competitiveness.

Players in the apparel sector will also need the full array of standard banking products, but with an increased demand for foreign exchange services, perhaps even hedging services for more sophisticated companies. To pay for imports (when buying directly, rather than through a local distributor) and to receive payments from international buyers, apparel companies will need prompt, inexpensive forex services. Many of the existing products for SMEs will likely make sense for this industry, but a package that caters to their particular needs, particularly with international money transfer, will differentiate Equity Bank's products from competitors.

Value chain

Finally, developing a long-term apparel industry will require a fully-fleshed out value chain. Each stage of the value chain has different financial needs, which Equity could serve to both facilitate the emergence of an integrated local value chain, and to distinguish itself from its competitors.

At the first stage, cotton growing, Kenya has huge untapped potential. While not as substantial as the 3M hectares in Ethiopia, Kenya does have around 400K hectares suitable for cotton growing. Providing short-term financing to cotton growers would allow them to improve production dramatically by purchasing necessary seeds, tools, and fertilizer to increase the volume and quantity of their yields. A longer-term vision could provide financing for organic cotton certification, or hedging products to protect against global cotton price fluctuations. A more robust cotton supply within Kenya would solidify its global positioning in the apparel supply chain.

Second, as mentioned above, the cotton gins, spinning, and textile plants are dramatically out of date and need to be upgraded. Focus groups conducted by the World Bank suggested that "Many firms were operating with production equipment and other technology that was outdated – in some cases equipment was 30 years old or more and had never been replaced since the firm initially started." Replacing equipment at this scale requires substantial capital investments with a very long payback period, generally 5-10 years for a textile plant. The challenge is that the benefits accrue far more broadly than to the direct owner of this value chain-critical physical capital, and so the social return is much higher. Furthermore, the absence of a moveable asset registry can make most banks hesitant to accept these capital expenditures as collateral on loans. This may be another area that requires government subsidization or policy reforms to provide sufficiently attractive rates to make ginneries, spinning, and textile factories good investments. The subsidy is a worthwhile investment because they make a fully in-country value chain (which reduces costs and turnaround time, as discussed above) feasible.

6. Conclusion

The main conclusions of the domestic survey are:

1. The overall T&C sector in Kenya is fragmented with little or no linkages between the different segments of the industry, namely cotton cultivation, ginning, spinning, weaving and knitting, dyeing and finishing, garment making, support industries and service providers;
2. The contribution of the T&C sector remains insignificant to the national GDP;
3. There is no National Strategic Plan for the development of the T&C sector, although the Vision 2030 recognizes the potential of this sector to create jobs, generate income and attract investment;
4. The value-chain remains under-developed. As such the sector is not optimizing its full potential in creating wealth and generating sustainable economic growth and development;
5. The NVC is skewed towards low-value addition CMT operation for exports, on the one end, and large number of operators (MSMEs) in the informal sector, on the other hand;
6. Women participation in the textile and fashion value chain is strong. However, their businesses tend to remain small and family owned and operated;
7. The local industry, across the entire value chain, is non-competitive due to outdated machinery and equipment, under-utilized capacity, low productivity, lack of skilled manpower, poor quality of products, high cost of energy, difficulties in accessing credit and finance, among other cost factors;
8. There is fierce competition from imported second-hand clothing, mostly through illegal routes, and imports from cheaper sources due to trade liberalization;
9. The Trade Support Network is fragmented and is unable to provide coherent and value-added services to MSMEs, due to lack of institutional alignment, lack of resources and funds, lack of capacity, and above all turf fighting among themselves; The KIA does not have any initiatives to mobilise local investment, instead concentrating its efforts in attracting FDI. Similarly, the EPC does not have any affirmative action to promote local designs;
10. The Business environment remains unfriendly and difficult, although proactive actions have been initiated under the economic reform agenda to improve the business environment of Kenya. However, the implementation of these policies remains weak. There is also lack of policy coherence with regards to T&C industry in general and MSMEs in particular;
11. Exports of T&C is concentrated on the US market, which absorbs over 95% of total exports. This is risky in terms of resilience and sustainability;
12. Kenya is not optimizing its preferential market access to major markets in the region and at the international levels. Cross-border trade with EAC remains unexploited;
13. Local designers and small tailors are not integrated in the T&C value chain. They are also not connected to the structured clothing retail trade platform, mainly due to their lack of in-depth knowledge of the market requirements in terms of trends and fashion, buying seasons, pricing, preparation

of collections, size specs, delivery schedules, access to credit and finance, among other factors;

14. There is a general level of interest of local retail outlets to carry "Made in Kenya" products on their shelves;
15. The Tourism industry is not properly serviced with local or African designs and apparel;
16. Fashion designers and tailors occupy mostly the made-to-measure market space and most of them do not master the ready-to-wear business model;
17. Kenya is a sophisticated market for garments. The trends are very Westernized, as such there is short supply of traditional and ethnic clothes, unlike its peers in West Africa;
18. AFAD (K) remains a Nairobi based organization and lacks a national dimension;
19. There are many universities and training institutions offering training courses in fashion design and garment making. However, the technical capabilities remain poor. Moreover, the level of synergies and linkages between these institutions remains low;
20. There are too many platforms to showcase design capabilities due to proliferation of Fashion shows as such there is no common platform to showcase genuinely "Made in Kenya" products;
21. The Kenyan T&C industry is on an upswing, driven by rising exports to the USA under AGOA, from foreign owned companies operating from the EPZs;

On the global side, Kenya is brimming with potential for its clothing manufacturers and designers, and in the long-run, for an end-to-end garment value chain. It has a particular opportunity in two niche areas of the multi-billion dollar global apparel market: leapfrogging to the technology frontier to create a skills and technology advantage in small-batch, flexible manufacturing that is increasingly in demand worldwide, and creating an ecosystem that offers a compelling social and environmental value proposition for the conscious consumer.

To fulfill this potential, however, will require a recognition of the challenges the country faces, paired with targeted government, civil society, and private sector interventions to best overcome the outdated public and private infrastructure, rebuild Kenya's human capital skill base in apparel, and ensure that the growth happens in a socially responsible way.

Equity Bank and Hivos International have a major role to play. As one of the country's leading banks and a respected international organization, they are well placed to meet unmet needs around financing for designers and manufacturers, and to help provide the market linkages and basic business training that Kenyan companies will need to succeed.

APPENDIX A

ACKNOWLEDGEMENTS

The domestic component of this report was commissioned by the Equity Bank Kenya and HIVOS of the Netherlands and was designed and developed by ACTIF in collaboration with AFAD(K), under the leadership of Belinda Edmonds and her team comprising Dev Chamroo, Joseph Nyagari and the Secretariat of ACTIF. The main objective of this laudable and ambitious initiative is to integrate local designers and small tailors (MSMEs), including women entrepreneurs, into the Kenyan textile and clothing value-chain, with focus on sustainably embedding them into the retail trade platform.

ACTIF wants to acknowledge the guidance provided by Mrs. Lydiah Kiburu and Mrs. Lydia Mugo of Equity Bank and Ms. Nyambura Gathumbi and Ms. Ruth Kimani of HIVOS and Ms. Sally Karago, Chairperson of AFAD and her Team. The support of the Management of Rivatex, in Eldoret to organise the workshop at their premises is very well appreciated and duly acknowledged.

The Team would like to sincerely thank all participants in the Workshops in Eldoret and Nairobi, companies that agreed to meet the team for face-to-face interviews, management of AFAD(K) for the Focus Group Meeting, enterprises that received the team for visits, namely Rivatex and Thika Clothing Mill, and all those who provided support in the data gathering and consultations. Special thanks to Mr. Hezekiah Bundu, Director, Vision 2030 Delivery, Manufacturing Sector and Mr. Lawrence Nyagari, Manager of Textile and Clothing sector at the Ministry of Industrialization and Enterprise Development for their guidance on Government's initiatives in promoting the MSME sector and the Textile and Clothing industry. The Team wishes to express its deep gratitude to all collaborators for the open and frank discussion and support.

The Strategic Orientation and the Action Plan contained in this report is the outcome of the collaboration of stakeholders directly or indirectly engaged in the development of the textile and clothing sector in Kenya. These collaborators were individuals, enterprise, institutions and policy makers.

The Team sincerely hopes that the recommendations contained herein will be implemented for the overall benefit of MSMEs, more particularly local designers and small tailors so as to better service the domestic market of Kenya, before venturing into the regional and international markets.

The Team wishes Equity Bank Kenya, Hivos and the other partners all the best in this laudable endeavour.

The international component of this report was commissioned by the Equity Bank Kenya and HIVOS of the Netherlands and was designed and developed by At Stake Advisors including its founder Sean Ansett and his colleague Leora Kelman, Senior Consultant. At Stake Advisors wants to acknowledge the support and guidance provided by Mrs. Lydiah Kiburu and Mrs. Lydia Mugo of Equity Bank and Ms. Nyambura Gathumbi and Ms. Ruth Kimani of HIVOS.

APPENDIX B

GLOSSARY AND ACRONYMS – DOMESTIC TEAM

ACTIF	AFRICA COTTON AND TEXTILE INDUSTRY FEDERATION
AFAD(K)	ASSOCIATION OF FASHION DESIGNERS OF KENYA
COMESA	COMMON MARKET FOR EASTERN & SOUTHERN AFRICA
DFQF	DUTY FREE AND QUOTA FREE
EATH	EAST AFRICA TRADE HUB
EPA	ECONOMIC PARTNERSHIP AGREEMENT
EPC	EXPORT PROMOTION COUNCIL
EPZ	EXPORT PROCESSING ZONES
EPZA	EXPORT PROCESSING ZONES AUTHORITY
F2F	FIBRE TO FASHION
FDI	FOREIGN DIRECT INVESTMENT
FPSP	FULL PACKAGE SERVICE PROVIDERS
FTA	FREE TRADE AREA
GSP	GENERALISED SYSTEM OF PREFERENCES
GVC	GLOBAL VALUE-CHAIN
HC	HAUTE COUTURE
ITP	INDUSTRIAL TRANSFORMATION PROGRAMME
KEBS	KENYA BUREAU OF STANDARDS
KIA	KENYA INVESTMENT AUTHORITY
KIE	KENYA INDUSTRIAL ESTATES
KNCCI	KENYAN NATIONAL CHAMBER OF COMMERCE AND INDUSTRY
MNE	MULTI-NATIONAL ENTERPRISES
MOIED	MINISTRY OF INDUSTRIALIZATION AND ENTERPRISE DEVELOPMENT
MSEA	MICRO AND SMALL ENTERPRISE AUTHORITY
MSME	MICRO AND SMALL MANUFACTURING ENTERPRISES
NVC	NATIONAL VALUE-CHAIN
OBM	ORIGINAL BRAND MANUFACTURING
ODM	ORIGINAL DESIGN MANUFACTURING
OEM	ORIGINAL EQUIPMENT MANUFACTURING
RVC	REGIONAL VALUE-CHAIN
T&C	TEXTILE & CLOTHING
TSI	TRADE SUPPORT INSTITUTIONS
TSN	TRADE SUPPORT AND NETWORK
TVET	TECHNICAL AND VOCATIONAL EDUCATION TRAINING
WEAMCO	THE HANDLOOM WEAVERS' MARKETING COOPERATIVE SOCIETY

GLOSSARY AND ACRONYMS – GLOBAL TEAM

African Growth and Opportunity Act (AGOA): A United States law enacted in 2000 and recently renewed until 2025, giving eligible countries in Sub-Saharan Africa, including Kenya, duty-free accessssss to the U.S. market.

Basics: Basic items of clothing, including t-shirts, simple trousers, sweatpants, sweatshirts, leggings. Often made out of cotton or other knits, or simple woven fabrics. These are items without much embellishment or elaborate construction.

Cut-Make-Trim (CMT): The labor-intensive part of apparel manufacturing, meaning the factories cut the fabric, sew the pieces together, and add any trims and packaging. They do not have responsibility for design or materials.

Compliance: Rules and regulations factories are required to follow, either by local law, including local adoption of international treaties, or by contract in order to supply for a given brand.

Conscious Consumerism: Purchase decisions based on the ethics and impact of how the product was made and brought to market.

Devolution: In 2010, Kenya adopted a new constitution after the electoral violence of 2007-2008. That constitution created a new layer of county government, which decentralized many government functions and creates a new opportunity for experimentation at the county level.

East African Community (EAC): Regional organization consisting of Kenya, Uganda, Tanzania, Rwanda, and Burundi with a common market and the goal of additional unification of currency, labor, and goods.

Economic Partnership Agreement (EPA): Free trade agreements between the European Union and African, Caribbean, and Pacific states. They give duty-free access to the E.U. for East African countries, but the tariff gap is smaller than exports to the U.S., since so many other countries share them.

Export Processing Zone (EPZ): Government-sponsored zone to promote export-oriented investments, often offering subsidized space, electricity, and tax advantages.

Fast Fashion: Fashion that moves quickly from runway to market. It focused on optimizing the supply chain and shortening lead times, often at low prices.

Fiber-to-fashion (F2F): Refers to an end-to-end apparel offering, from growing or producing the raw materials (often cotton) to assembling, finishing, and shipping the garment.

Ginning: Separating the lint and seed from picked cotton, before it can be processed by a textile mill.

International Labour Organization (ILO): Part of the United Nations, the ILO promotes worker rights, encourages economic opportunities, and strengthens social protections. The ILO conventions form the backbone of international worker protection treaties.

Industry certifications: e.g. SA8000 or WRAP. These are internationally recognized certifications around worker protections and rights, generally based on but building beyond the ILO conventions.

Knits: Textile that is knit together. Typically softer and more flexible, used for t-shirts, sweaters, socks, etc.

Lean manufacturing: Systematic method for the elimination of waste within a manufacturing process, eliminating unnecessary steps and rebalancing to maximize efficiency.

Multi-Fibre Arrangement (MFA): Governed global garment trade between 1974 and 2004, giving quotas for each producing country.

Microfinance: Financial services for entrepreneurs or small businesses that lack access to the traditional banking sector.

Millennials: Those born between the early 1980s and 2000, the current generation of new workers and consumers, whose preferences are changing consumption patterns worldwide.

Pattern Design System / Software: Electronic pattern laying and printing, to minimize waste and error. Requires skill to use software and large specialized printer to print the pattern.

Radio Frequency Identification (RFID): Tags that allow real-time tracking of items and their information wirelessly and without line-of-sight.

Spinning: Preparing the ginned cotton or other materials into yarn or thread that can be knit or woven into textiles.

Synthetics: Textiles made from man-made instead of natural fibers, like polyester, nylon, or spandex.

Textiles: Knitted cloth or woven fabric made from yarn or thread.

Third Country Fabric Provision: Allows AGOA treatment for apparel made in a qualifying country, even in the fabric is imported from a non-AGOA country.

Trans-Pacific Partnership (TPP): Trade agreement reducing trade barriers between 12 Pacific countries, including Singapore, Vietnam, Malaysia, the U.S., and Australia. It has not yet been ratified by the U.S. Senate.

Trims: Non-fabric items used in the assembly of a garment, e.g. buttons, zippers, thread, labels.

Value Added Tax (VAT): Tax on consumption. Manufacturers can generally avoid paying VAT on fabric, trims, and other inputs, especially if they operate in an EPZ.

Vertically integrated manufacturing: When a firm owns or controls upstream or downstream parts of the value chain, e.g. textile production.

Working capital: Difference between current assets and current liabilities. The money a company needs to cover its bills. May be an issue in the garment industry because of the gap between paying for inputs and getting paid for the final products.

Wovens: Textile made by weaving thread together on a loom, generally automated. It is often stiffer and is used for trousers or dress shirts.

APPENDIX C

SCOPE OF WORK, TERMS OF REFERENCE, THE TEAM AND DELIVERABLES

1. Conduct a baseline study of the Kenya textile and apparel sector to identify the gaps and challenges facing MSMEs and the opportunities for them to integrate the NVC, with specific focus on local designers and tailors, including women and youth entrepreneurs;
2. Explore and understand the "Fibre to Fashion" value-chain;
3. Analyse the Trade Support Network of institutions, agencies and organizations that are helping the MSMEs in the T&C sector;
4. Understand the supply side issues, including production capacities at the different stages in the Farm-to-Fashion value-chain;
5. Explore and understand the market opportunities, with specific focus on the structured domestic retail market;
6. Conduct a value-chain analysis of the T&C sector;
7. Understand the prevailing business environment influencing and /or inhibiting the development of MSMEs;
8. Organise structured consultations with shareholders and clients to understand their strengths, weaknesses and challenges;
9. Understand the State of readiness of MSMEs to successfully integrate the T&C sector.

TERMS OF REFERENCE

The Terms of Reference (TOR) for this project are, inter alia:

1. To provide a detailed narrative of the fashion sector clearly illustrating the different sub-sectors, their stakeholders, the challenges and bottlenecks and recommendations.
2. To clearly articulate the fashion value chain in their proposal narrative and what it entails.
3. To ensure all information is disaggregated by gender to include specific challenges and potential recommendations for the inclusion of women as well as the gender power relations in the sector.
4. To develop the methodology for the baseline research and work with the project owners and managers during planning and execution phase.
5. To develop a well-articulated work plan outlining the expected level of effort for each phase of the baseline study, deliverables, milestones and indicative timelines for each.
6. The study is expected to be completed within 45 consulting days

DOMESTIC TEAM COMPOSITION

This project was designed and developed by the Africa Cotton and Textile Industry Federation (ACTIF), the only Pan-Africa organization servicing the entire "Farm-to-Fashion" value chain on the Continent, in collaboration with an expert from Mauritius.

The Team members who worked on this project, individually and collectively, have deep understanding of, knowledge and experience on the Kenyan, African and international textile and fashion industry. They also have extensive network and connections in the industry, at the regional and international levels, covering the entire value-chain.

The Team comprised the following member:

SN	Person	Position	Area of Expertise
1	Belinda Edmonds	Executive Director ACTIF	• Market and Product Development • Sourcing & Merchandising • International Marketing • Negotiations • Strategy Development
2	Dev Chamroo	Senior Consultant CITC-Mauritius	• Export and Investment Promotion • Product and Market Development • Visioning and Strategic Planning • Consultancy & Training • International Marketing • Branding • Policy Advocacy
3	Jocelyn Nyagari	Program and ICT Manager	• Research & Development • Organizing International Workshops, Conferences and Trade Fairs • I.T • PR
4	Support Team	The Secretariat ACTIF	• Event Management • General Administration • PR

THE DELIVERABLES

The main deliverables of this project are:

1. An overview of the Textiles and fashion sector in Kenya which is provided at Chapter 1.2
2. A State of Market Readiness Report, based on the self-Assessment diagnosis survey- which is provided at Chapter 3.6
3. An Interim Report on the challenge and opportunities facing the industry, based on the workshops which is provided at Chapter 3.1
4. A Market Development Strategy to integrate MSMEs, including Women and Youth Entrepreneurship into the T&C National value-chain - which is given at Chapter 4.2, and
5. A three Year Action Plan- which is given at Chapter 4.3.

APPENDIX D

THE METHODOLOGY – Domestic Team

The project aims at creating an enabling framework for Kenya fashion designers and tailors to successfully integrate the domestic "Fibre to and Fashion" value chain. It seeks to connect these micro and small players, who are mostly working from home under a cottage industry framework, into the mainstream Textile and Fashion industry by developing profitable, sustainable and long term linkages with the manufacturers of textile and clothing, on the one hand, and the major retail platforms on the other hand. Subsequently, they can venture-out into the regional markets and into the global markets thereafter.

The methodology used by ACTIF for this baseline study relies on collaborative, consultative and participatory approach of the main stakeholders and clients in the "Clothing to Retail" space, more importantly the fashion designers, the small tailors, the material suppliers, the Trade Supporting Institutions, the Policy makers, and the large retailers, among other. The primary objective of this approach was to develop a home-grown strategy, co-created with the industry stakeholders based on a common shared vision of the industry, so as to secure their buy-in and participation in the implementation phases of the Strategy and Action Plan.

The project has been developed in a four-step procedure:

1. The Diagnosis
2. The Discussions
3. The Development, and
4. The Delivery

1. The Diagnosis

The first step was dedicated to a comprehensive review of literature (publications, documentations, policy and research papers, statistics, Vision and strategies Papers on the Kenyan cotton, textile, clothing, fashion, and retail industry. This phase relied on competitive analysis of the actual status of the industry including the stakeholders thereon and to diagnose the linkages and gaps in the Fibre to Fashion (F2F) value-chain in Kenya. The list of materials consulted is given as References.

2. The Discussions

The second step was to conduct extensive consultations and discussions with the stakeholders engaged in the different segments of the Textile and Clothing value-chain so as to understand their roles, contributions, challenges and their support needs.

The consultations with the stakeholders were conducted on a one-to-one basis, as focus group meetings, through structured workshops, telephone discussions and through a survey-questionnaire.

This phase provided insights and overview of different components in-play in the textile and clothing value-chain. These components include, among other:

a. Supply side issues

b. Market opportunities

c. Value-chain Analysis

d. Trade support Network Analysis

e. Business Environment

f. Market Readiness

The following actions were successfully undertaken under the Discussions phase:

1. Two structured consultation workshops were organized in Eldoret and Nairobi respectively. These interactive workshops were attended by fashion designers, tailors, education and training Institutions, suppliers of materials and accessories, independent consultants, service providers, journalists, and the sponsors. The main objective of these workshops was to build shared understanding among the participants so as to collectively identify challenges facing the sector, prioritize the critical root causes thereof, and to collectively develop future perspectives, in terms of a cohesive Strategy and appropriate Action Plan, to successfully and sustainably integrate local designers and tailors, including women entrepreneurs into the NVC. The Top management of AFAD actively participated in both the workshops. The sponsors (Equity Bank Kenya and HIVOS) attended the Nairobi Meeting. These Meetings were organized as Visioning Exercises to explore the foresight of the Kenyan textile and fashion industry. The list of participants in the above workshops is provided at Annex 4.

2. A Focus-Group meeting was held with the Management and members of the Association of Fashion Designers of Kenya to understand their problem areas and to chart their strategic orientation. The objective is to make AFAD a National organisation (beyond Nairobi) with a mandate to promote the visibility and acceptance of Kenyan designs on the domestic, regional and continental levels. AFAD endeavours to become the spokesman of the fashion industry of Kenya.

3. Visits to two integrated textile mills (Rivatex and Thika Clothing Mill) to see their product offerings and understand the role they play in the NVC. Rivatex is a public owned company, vested with the MOI University for training, research, product development and production. It is a fully integrated mill with spinning, weaving, printing & finishing, and a small make-up unit. Thika Clothing Mill is a privately owned semi-integrated mill with spinning, weaving, knitting and print & finishing operations. It offers a larger range of fabrics, which are sold to garment making units catering for the domestic and regional markets, in a smaller way.

4. Structured interviews were held with selected fashion designers and tailors to understand their perspectives, challenges and opportunities.

5. Visit to the retail outlets and production studio of a fashion designer (KikoRomeo), to see first-hand the working environment and their set-up.

6. A meeting with the Ministry of Industrialization and Enterprise Development to understand the policy dimension and orientation with regard to the textile and clothing industry, with specific focus on MSMEs.

7. A meeting with Trade Support Institutions, namely the Kenya Bureau of Standards (KEBS) to understand the nature and scope of their services and assistance they provide.

8. Meetings with financial service providers (bank and non-bank) to understand the credit and financial instruments available for MSMEs. Meetings were held with Umati Capital and HEVA Funds. Information was gathered from local banks, insurance companies and the Kenya Industrial Estates Ltd.

9. Meetings with major Kenyan retailers, namely Nakumatt, Uchumi and Deacons, Kenya's leading supermarket chains, to explore market opportunity for "Made in Kenya" clothing and wearing apparel. Telephone discussions were held with the agent suppling all garments to Nakumatt, and with the person responsible for sourcing at Uchumi.

10. Visits to major Shopping Malls (Westgate, Sarit Center, Yaya, The Mall Westlands, and Nakumatt Lifestyle) to understand the retail structure for clothing and wearing apparel and to observe prices, trends and dress codes of Kenyans.

11. Mystery shopping in selected shops (Nakumatt, Naivas, Tuskys, Truworth, designer's boutiques) to see the product offerings, sources of imports and prices.

12. A Self-Assessment Diagnostic Survey was conducted to evaluate the state of readiness of fashion designers and tailors in Nairobi and Eldoret to successful penetrate the domestic, regional and international markets. A structured questionnaire was used for the survey and which is given at Annex 5. The scope of the survey was later extended to other Cities and Towns of Kenya, namely Mombasa and Nakuru using the online platform. However, the response from these cities has not been encouraging. The findings of the survey, presented in graphics, are given at Annex 1.

13. Several pre-workshop and post workshop meetings were held with Equity Bank and HIVOs in the preparation of this study.

3. The Development

The third step was the Development stage dedicated to finding sustainable solutions to the critical root causes facing the target constituents and building the future perspectives in terms of strategy and actions for the short and medium terms, with defined milestones and Key Performance Indicators (KPIs). The results and findings of the Second Phase were used to work out the Problem Tree and the Strategic Plan.

4. Delivery

The final step is to deliver a holistic Strategy and an Action Plan to successfully and sustainably integrate local fashion designers and tailors, including women entrepreneurs, into the greater Textile and Fashion Value-Chain (TFVC) so as to maximize their value creation and value addition capabilities.

The findings, recommendations and the action plan will be handed over to Equity Bank, Kenya and HIVOS for implementation.

The box below provides an overview of problems faced by the consultants in completing this assignment.

Problems faced during the Study

Given the fragmented structure of the textile and clothing industry in Kenya, the more so, with its non-substantial contribution to the National GDP (0.6%) and the specificity of the economic operators at the different segments of the value chain ranging from cottage industry to large scale operations, including foreign Multi-National Enterprises (MNEs), reliable information and intelligence, and data are unfortunately not readily available. The absence of a comprehensive database of operators/companies and even a product directory listing the names and contact details of economic operators made the research work very difficult.

Company listings were gathered from different sources, namely, Ministry of Industrialization and Enterprise Development, the Chamber of Commerce and Industry, AFAD, Education and Training institutions, Client list of textile-mills, ACTIF's data-base, among others.

The bulk of the information received had to be further processed as it contained just a name and a telephone number. The acquisition process comprised these steps:

1. Telephone campaign to identify relevant stakeholders, and obtaining their e-mail addresses.
2. Launching of e-Invitations to attend the workshops in Eldoret and Nairobi. The survey-questionnaires were also sent to them.
3. Follow-up telephone calls to secure confirmation of participation in the Workshops in Eldoret and Nairobi and for face-to-face interviews.

APPENDIX E

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Domestic

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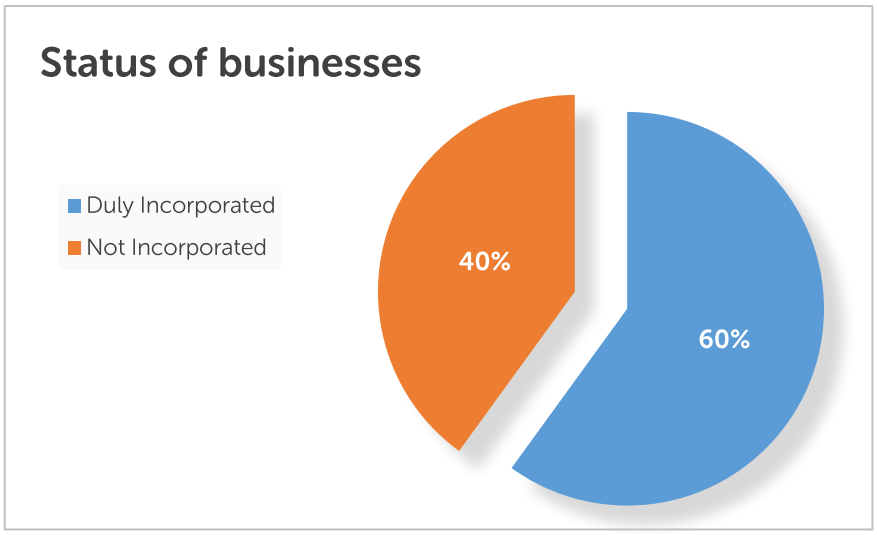
APPENDIX F

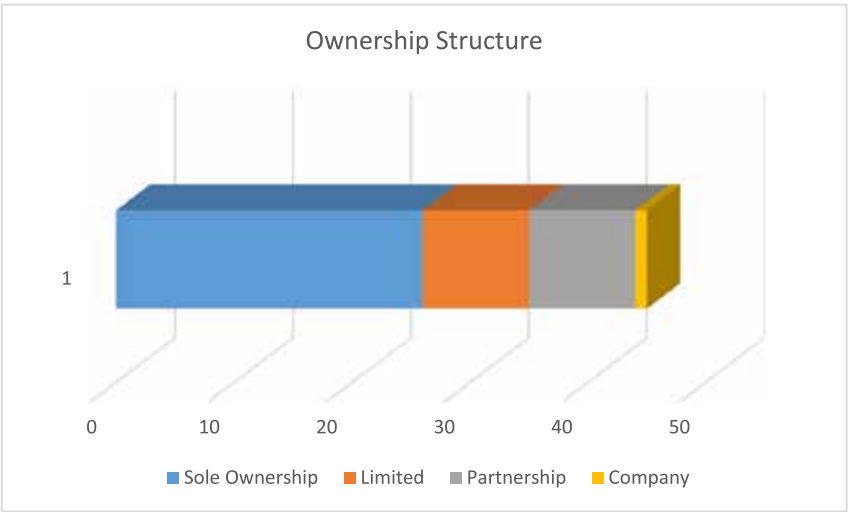
The Results Of The Self-Assessment Diagnosis Survey

1. Status of Businesses Registration: Duly incorporated v/s not incorporated



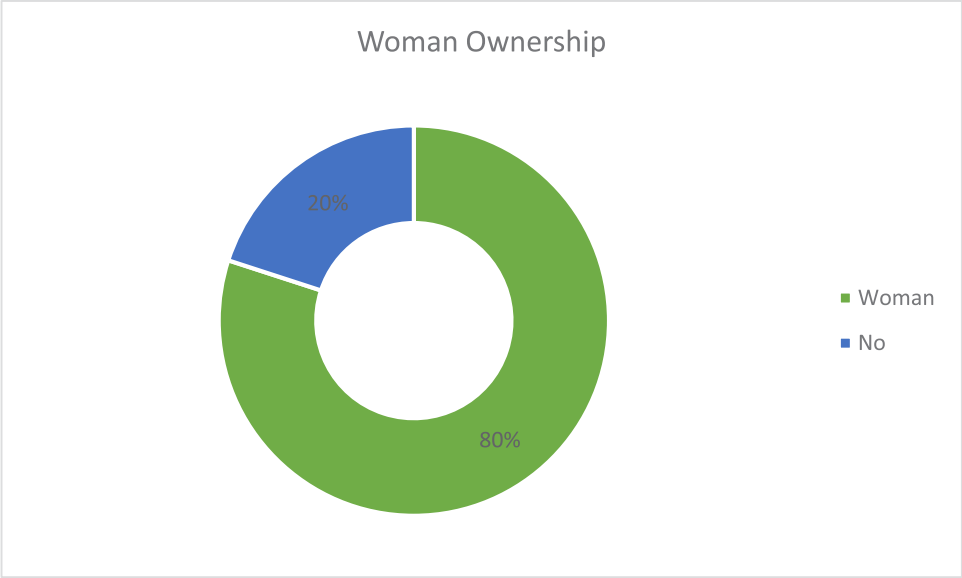
Clearly more than 60% of participants operate in the informal sector and are not registered entities. These are mostly self-employed entities operating from home.

2. Ownership Structure



NOTE: Most of the entities are sole ownership businesses, with only a handful which are duly registered as companies.

3. Woman Business Ownership Pattern



NOTE: Women entrepreneurs are very strongly engaged (+80%) in the textile and clothing industry, more particularly in the fashion design and tailoring activities.

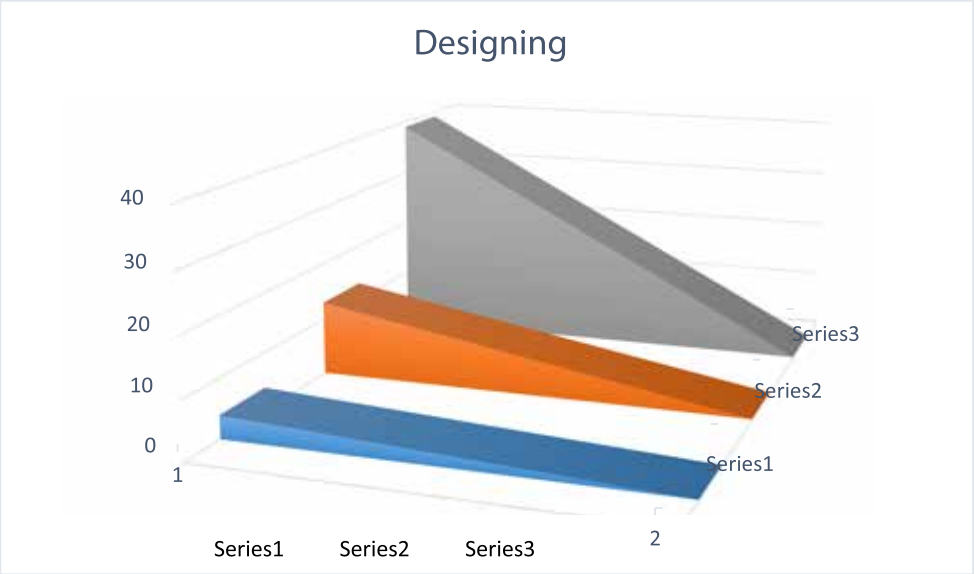
4. Sales

NOTE: More than 90% of operators service the domestic market, with only a few doing ad-hoc export.

5. How products are sold?

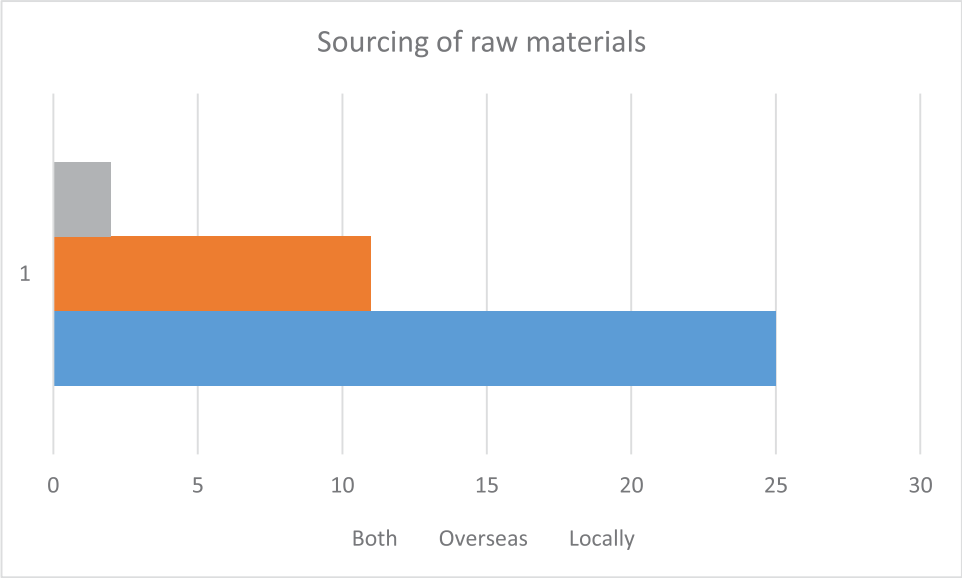
NOTE: Most of the designers and tailors are engaged in direct sales to the customer. 12% sell to local small retail shops, while 6% do business through agents.

6. Designing



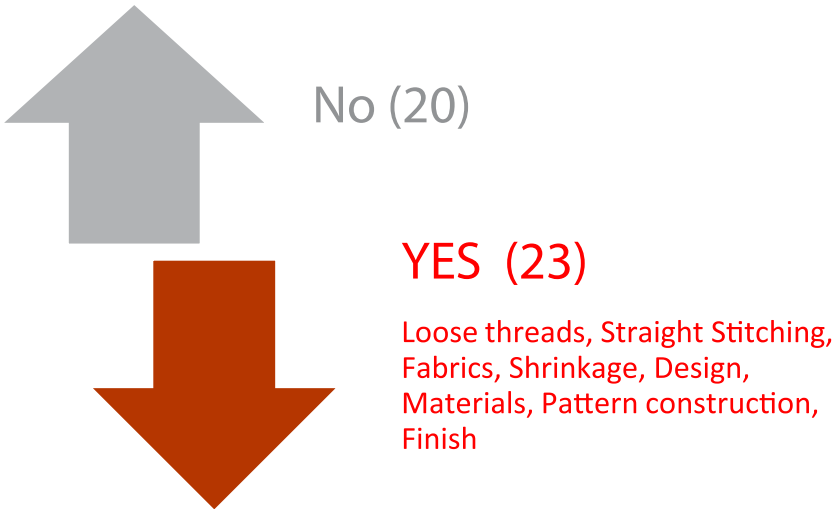
NOTE: Series 1: Sub Contracting Series 2: Other manufacturers Series 3: In-house. Most of the participants have their own in-house production facilities. Some 25% designers sub-contract their production to other tailors.

7. Sourcing of Raw materials



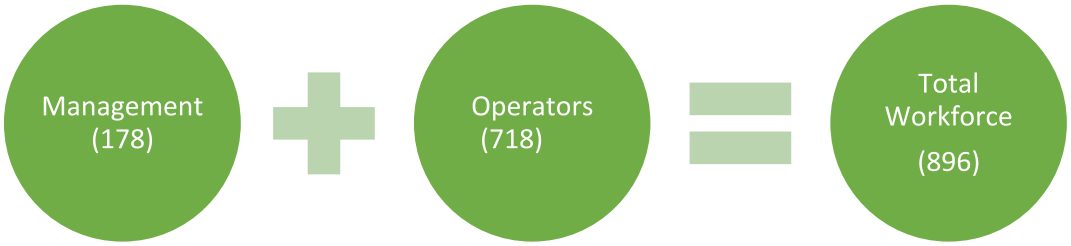
NOTE: Most of the designers and tailors use only local fabrics, while some 25% use both local and imported fabrics. A few designers use exclusively imported fabrics.

8. Quality Inspection



NOTE: Over 50% of operators do tests and inspections on their products, including pre-production inspections.

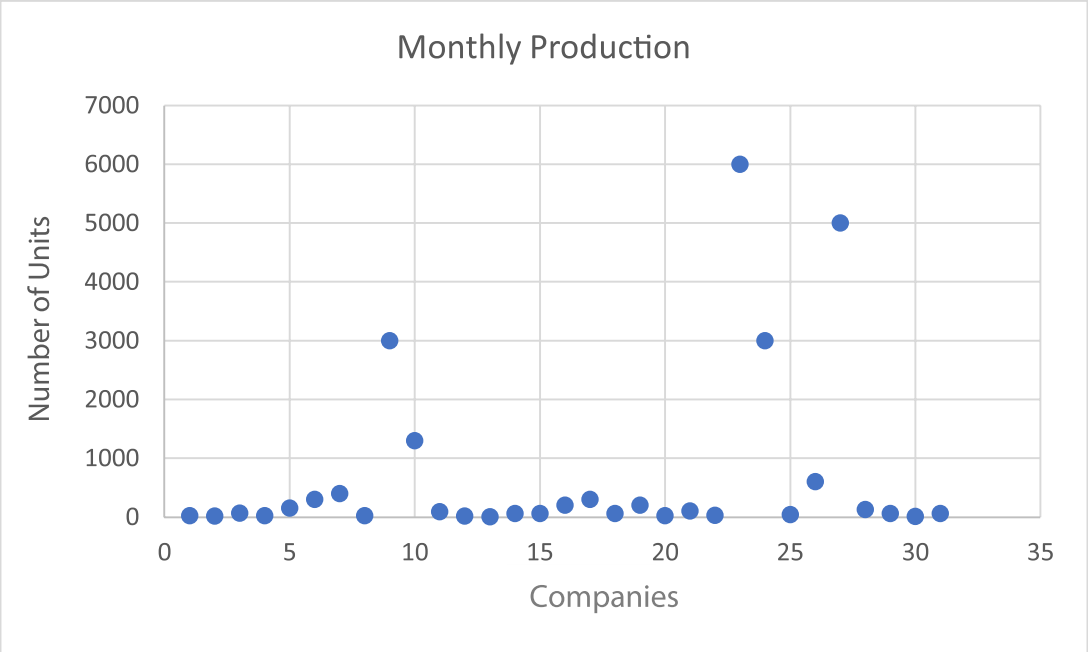
9. Workforce (48 businesses)



NOTE: The larger tailoring units, employ up to 47 operators and up to 6 quality controllers and supervisors. The smaller one employ between 6 to 10 workers, including technical people (cutting, pattern making)

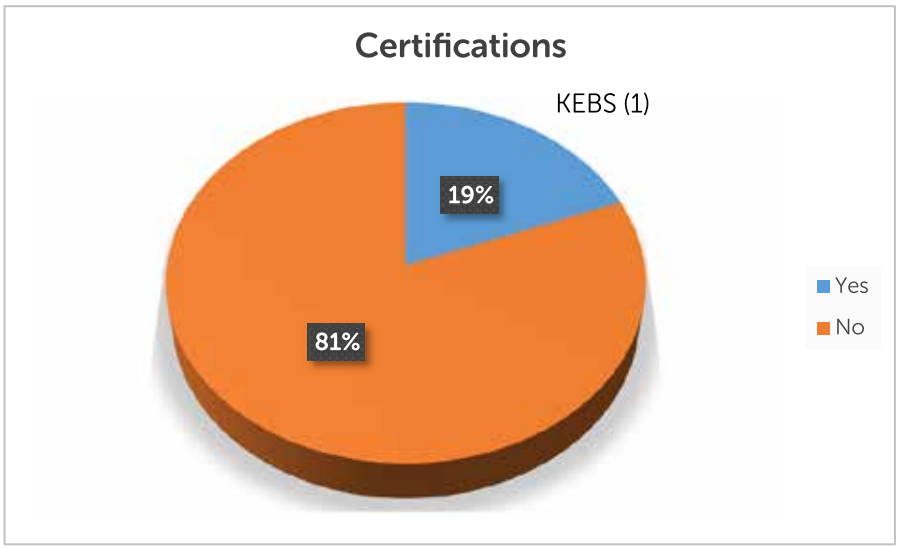
10. Monthly Production

NOTE: The monthly production capacity of enterprises surveyed vary between 1 to 6000 pieces. However, most of them do less than 1000 pieces a month.



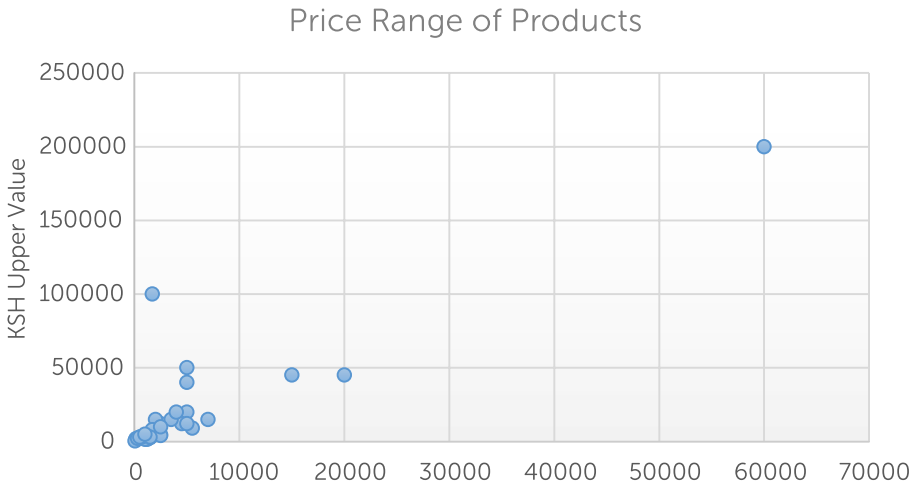
NB: A few companies did not respond to this query.

11. Certifications



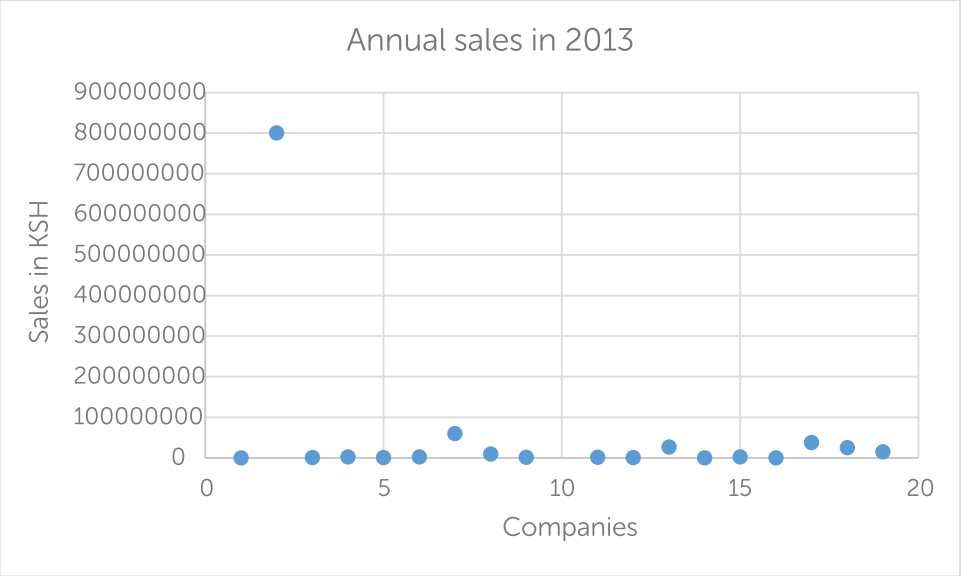
NOTE: Only companies selling through structured retail stores need to have KEBS Standardization Marks. More than 80% MSMEs do not have KEBS certifications.

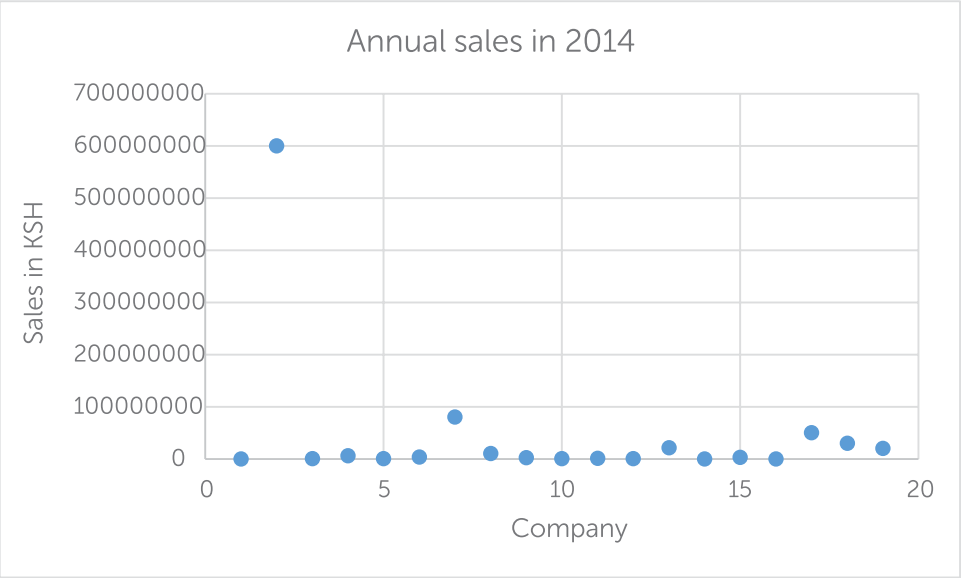
12. Price Range per product



NOTE: The unit price of garments vary between Ksh 1,000 to Ksh 200,000 (haute couture)
Most of the garments are priced at less than Ksh 2000 per piece.
A few business specialise in speciality products with prices ranging between Ksh 5,000 to Ksh 10,000.

13. Annual Sales in KSH for 2013 & 2014





NOTE: The annual sales (Turnover) of most enterprises vary between Ksh 1 million (USD 10,000) and Ksh 2 million.

One company realised annual sales in excess of Ksh 5 million in both 2013 and 2014.

One company did a turnover of Ksh 60 million in 2014, down from Ksh 80 million in 2013. This company is engaged in export business and has its chain of retail outlets.

14. Market Readiness Score

	Strategic Orientation	Management Readiness	Market Readiness	Product Readiness	Operations /Production Readiness	Financial Readiness	HR Readiness	General Market Readiness
Nairobi								
Intrinsic Falconry Fashion	4	6.7	6.7	6.7	10	2.5	10	6.66
Katungulu Mwendwa	6	6.7	6.7	6.7	10	5	8	7.01
Oka Design Studio and Craft Community	0	0	0	0	4	0	2	0.86
House of Lydia	0	6.7	6.7	3.3	8	5	6	5.10
Suave Kenya Ltd	0	3.3	3.3	6.7	4	0	6	3.33
Ogake Mosomi GRP Ltd	10	3.3	3.3	10	2	2.5	8	5.59
Penfre Enterprises	6	3.3	3.3	10	8	2.5	4	5.30
Mia Mara Creations	4	3.3	3.3	6.7	6	0	6	4.19
Kipusa Clothing Ent. Ltd	8	10	10	6.7	8	5	8	7.96
Vivo Activewear Ltd	8	10	10	6.7	4	7.5	6	7.46
Fedix Designs Ltd	8	10	10	10	8	5	8	8.43
Denka Designs	10	3.3	3.3	10	8	5	8	6.80
Keri Fashions	4	3.3	3.3	6.7	8	7.5	4	5.26
Tichie Designs	4	3.3	3.3	6.7	6	0	8	4.47
Mefa Creations	10	10	10	10	8	10	8	9.43
Achera Designs	8	3.3	3.3	4	6	0	4	4.09
Kwale Textile Industry	10	10	10	10	8	7.5	8	9.07
Peggieo Fashions	6	6.7	6.7	6.7	4	0	8	5.44
Impact Makers International	4	6.7	6.7	6.7	6	0	10	5.73
Iquira By Kari	2	3.3	3.3	10	6	7.5	6	5.44
Macensal	4	3.3	3.3	6.7	10	0	8	5.04
Earthly Creations	6	3.3	3.3	6.7	10	0	8	5.33
Arua Designs	6	6.7	6.7	10	8	2.5	6	6.56
Upendo Textiles	8	6.7	6.7	6.7	8	0	8	6.30
Eunaul Enterprises	4	6.7	6.7	6.7	6	0	8	5.44
Closet 49	10	10	10	10	4	2.5	8	7.79
B'Afritude Fashion Accessories	4	10	10	6.7	8	2.5	8	7.03

KikoRomeo / Kikoti / Kiko Corporate Kiro Ltd	10	3.3	3.3	10	10	5	6	6.80
Eldoret								
Emynet Tailoring	0	3.3	2	3.3	6	5	6	3.66
Nigerian Tailoring & Fashion Design	4	6.7	8	10	8	2.5	8	6.74
Sanabe African Fashions Ltd	10	10	8	10	8	5	10	8.71
Twins Fashion House	6	3.3	2	0	6	0	6	3.33
Ace Creations	6	10	8	10	10	2.5	6	7.50
Emperor's House of Fashion	8	6.7	6	10	10	5	10	7.96
Pikham Management and Suppliers Ltd	6	6.7	6	10	10	7.5	10	8.03
RIVATEX EA Ltd	10	6.7	4	3.3	4	0	10	5.43
Fantex Kenya Ltd	10	6.7	10	10	10	7.5	8	8.89
Isaiah Luora	8	3.3	5	10	8	7.5	6	6.83
Kreator Holdings Ltd	10	3.3	8	10	10	5	10	8.04
Kreator Holdings Ltd	10	10	8	10	8	5	10	8.71
Mombasa								
Impact Garments Enterprises	10	6.7	8	10	8	0	8	7.24
Kente Fashion Gallery	8	6.7	6	10	8	5	6	7.10
Nakuru								
Pretty Designs	6	3.3	8	6.7	10	5	6	6.43
Vafrique Ventures	6	6.7	8	10	8	0	8	6.67
Kwaruche Fashion Store	8	10	8	6.7	10	0	6	6.96
E n E Collection	4	6.7	8	6.7	6	0	4	5.06
Posh Baby Shop Fashion	6	10	6	6.7	8	10	8	7.81

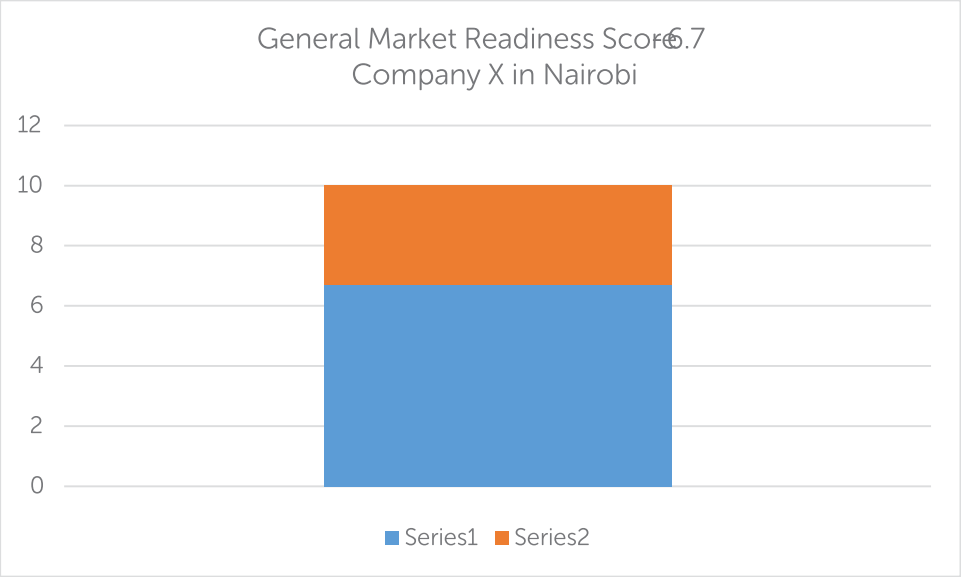
15. Market Readiness Index

Based on the methodology adapted from Quantel Test, an enterprise with a general score of less than 5 is not ready for the market. The company should build its capacity at various levels, namely enterprise, level, entrepreneurs level as well as product level.

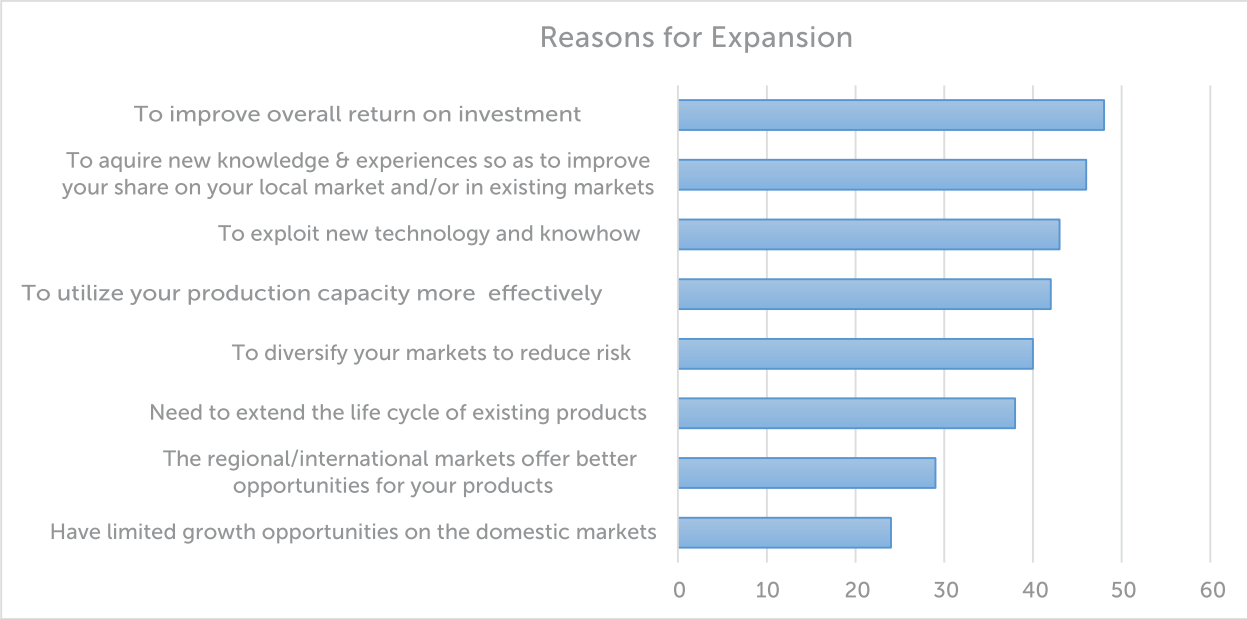
Companies with score between 5 and 7 need to revisit its product structure, pricing, senior management and meeting customers' requirements.

Companies with score of 8 and 9 have some structural issue to settle with regards to quality, price, and customer care.

Example of a company in Nairobi with General Market Readiness Score



16. Reasons for Expansion



NOTE: All participants want to increase their production to improve return on investment.

Over 80% want to improve production to penetrate the domestic market, diversify markets and reduce risks.

More than 60% participants want to extend the life of their present product range.

Some 50% are keen to explore export opportunities in the regional markets, mainly in EAC.

.

17. Products manufactured by companies surveyed

- African wear
- Office wear
- Vintage costumes
- Ladies wear
- Baby & Children's wear
- Menswear
- Bags & Accessories
- Bridal-wear, Corporate Uniforms, Fabric & Leather bags
- Corporate wear
- Denim bags and shoes, Khaki and corduroy Clothing
- Made to measure
- Designing Prints and Apparel
- Curtains, bedcovers, Floor-mats
- Sweaters, socks, Shoe lining, embroidery
- School uniforms casualwear
- Safety & Protective wear
- Overalls, Dustcoats.

NOTE: The above product list refers to products manufactured by the respondents.
A wider range of wearing apparel and home textile products are manufactured by other MSMEs engaged in the sector.

APPENDIX G

Trade statistics on kenya clothing & textiles

(Chapters 52, 60, 62, 6309)

HS 52: (US$ Million) *Source: UNCOMTRADE [Mirror Data]*

Cotton

COUNTRY/ REGION	EXPORT				
YEAR	2010	2011	2012	2013	2014
World	53,071	67,349	55,457	55,409	48,728
Kenya	5	18	3	2	3
	IMPORT				
World	56,056	68,602	64734	68,695	61,488
Kenya	100	106	109	118	127

HS 60: (US$ Million) *Source: UNCOMTRADE [Mirror Data]*

Knitted or crocheted fabrics

COUNTRY/ REGION	EXPORT				
YEAR	2010	2011	2012	2013	2014
World	19,958	22,689	22,666	24,381	24,847
Kenya	1	1	0	0	0
	IMPORT				
World	26,357	30,718	30,212	32,750	33,972
Kenya	69	84	72	99	115

HS 61: (US$ Million) *Source: UNCOMTRADE [Mirror Data]*

Articles of apparel and clothing accessories, knitted or crocheted

COUNTRY/ REGION	EXPORT				
YEAR	2010	2011	2012	2013	2014
World	178,328	207,738	199,764	219,463	221,223
Kenya	114	157	127	174	205
	IMPORT				
World	166,369	188,910	179,479	190,243	199,340
Kenya	85	87	111	172	255

HS 62: (US$ Million) *Source: UNCOMTRADE [Mirror Data]*

Articles of apparel and clothing accessories, not knitted or crocheted

COUNTRY/ REGION	EXPORT				
YEAR	2010	2011	2012	2013	2014
World	170,416	196,738	186,617	195,332	200,928
Kenya	109	131	149	160	219
	IMPORT				
World	168,164	196,617	179,442	194,577	212,604
Kenya	83	69	73	79	320

HS 6309: (US$ Million) *Source: UNCOMTRADE [Mirror Data]*

Worn Clothing and other worn articles

COUNTRY/ REGION	EXPORT				
YEAR	2010	2011	2012	2013	2014
World	2,290	2,622	2,915	3,179	3,315
Kenya	2	1	1	1	1
	IMPORT				
World	2,952	3,820	4,071	4,453	4,532
Kenya	100	103	119	142	155

APPENDIX H

A Pespective and Lesson: Value Chain Integration - Mauritius vs. Kenya

The Mauritian textile industry, started in the 1970s is characterized by strong vertical integration both upstream and downstream in the Fibre-to-Fashion value chain. It comprises:

- **Spinning:** Five state-of-the art spinning mills, four cotton spinning and one wool spinning, produce quality ring-framed and open-end yarns from materials imported from over 40 countries in the world. The bulk of the cotton is imported from Africa, while raw wool is imported from Australia, New Zealand, Brazil and Europe. Two spinners are sub-contracting cotton cultivation in Madagascar.

  Mauritian yarn is primarily used by the Export Oriented Enterprises (E.O.Es) to produce garments for exports to over 60 countries. Mauritian yarn is also exported to South Africa, Zimbabwe, Madagascar and even Kenya. The spinners produce a wide range of cotton and blended yarns.

- **Weaving:** Three state-of-the art weaving mills, two for denim and one for shirting and bottoms produce high quality woven fabrics, which are used by E.O.Es to manufacture garments for global retail clients as well by Domestic Oriented Enterprises (D.O.Es) which cater mainly for the domestic market. Some D.O.Es have now started exporting to the neighbouring markets in Africa under COMESA and SADC Rules of origin. Furthermore, Mauritian fabrics are also exported to Turkey , the Netherlands, and several countries in Africa .

- **Knitting:** Some twenty knitting companies, including 6 woollen knitters, produce high quality knitted fabrics using modern circular knitting machines. The knitted fabrics (jersey) are mainly used by E.O.Es for their global clients as well as by D.O.Es for the local market. Knitted fabrics are also exported to several African countries for garment making.

- **Dye & Finishing Houses:** There are 14 dye houses in Mauritius, both stand alone as well as integrated with the spinning, weaving and knitting plants. However, all finishing facilities are integrated within the weaving and knitting plants.

- **Garment Making:** Some 250 medium and large companies manufacture a wide range of weaving apparels both woven and knitted for the export and domestic markets. The top 100 manufacturers operate as Export Oriented Enterprises (exporting over 80% of their total production). The others are Domestic Oriented Enterprises, which are also doing direct export, albeit in smaller quantities to Europe, South Africa and other COMESA and SADC countries. Last year Mauritius exported textiles and garments to the tune of the USD 900 million to over 60 countries. E.U is Mauritius's main export market (60%) followed by U.S.A and South Africa. Other export destinations include Scandinavia,

Switzerland, Austarlia, Canada, Japan and even India.

- The top 20 Mauritian exporters operate under the ODM structure, where they provide the designs, do the garmenting, ensure quality control, handle export logistics, with some even providing financing facilities. Several of them offer Full Package Service and OBM, including monitoring global sales with quick replenishing at different points-of-sale, in different cities and at different branches within a city. While most of the other E.O.Es do CMT jobs and in most cases using local yarn, fabrics and accessories.

- The large E.O.Es, employing over 1000 workers have their own design houses where Mauritian designers work closely with foreign designers, on real-time time through video conferencing and screen sharing. The largest semi-integrated company, employs over 10,000 workers in Mauritius (18,000 globally with productions in India, Bangladesh and Sri Lanka) employs over 200 designers to service its global client base. Several of the top companies have their own brand label for both export as well as domestic markets.

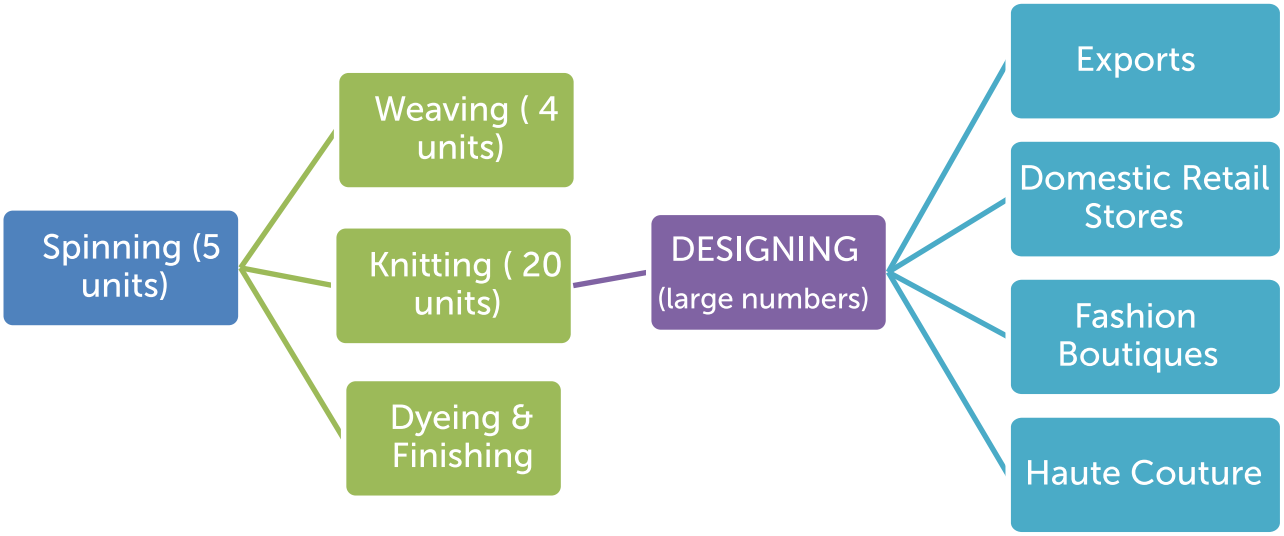
- **Fashion Designers:** Most of the Mauritian Fashion Designers are employed by the local textile and clothing companies, designing garments for global clients. Several designers work from home (design studios) to design clothing, footwear and accessories for clients in Europe, mainly for Italian and French brands. Several designers of haute couture have their studios for made to measure garments. They regularly showcase their products at international fashion shows in Fance, UK, Germany and South Africa. Three of them regularly dress Miss India, Miss U.K and Miss Mauritius at international pageant competitions. Several designers have their own boutiques in the hotels and shopping malls to cater for the local and tourists. Mauritius welcomes over 1 million tourists a year. The Fashion and Design Institute (FDI) operates under the aegis of the Ministry of Industry, Commerce and Consumer Protection and has strong linkages with both E.O.Es and D.O.Es. FDI offers degree, diploma and certificate level courses. And acts as a nursery for the local T&C companies.

- **Small Tailoring Facilities:** A large number of small manufacturing facilities, usually employing less than 10 people operate throughout the island. As per the last survey of Small Enterprises in 2012 by Statistics Mauritius, over 1000 (employing less than 10 workers) were registered in Mauritius. They work closely with local designers and pattern makers to manufacturer a wide range of ready to wear garments for local textile speciality shops. Several of them have their own factory-shops to cater for the local and tourist customers. Many of these small units also do sub-contracting jobs for E.O.Es and large D.O.Es. A few of them have succesfully developed export markets to Reunion Island, South Africa, Zimbabwe, Kenya, Uganda, Rwanda and Tanzania.

- Thus, designers and small taliors are important links in T&C industry and are well integrated within the Fibre to Fashion value chain in Mauritius.

The figure below shows the Mauritius Fibre to Fashion value chain

Figure 1: Fibre to Fashion value chain



- Mauritian top exporters, both E.O.Es and D.O.Es, use the local design capabilities and sub-contact capacity of small talioring operators, and their financial strength, to offer ODM, Full Package Service Providers and OBM services to their regional and global clients, some of whom and very exigent in quality and speed of delivery.
- The Mauritian T&C industry is undergoing profound changes with more and more large firms setting up production facilities overseas (Madagascar, India, Bangladesh, Sri Lanka, China and in emerging African countries). The SME sector is slowly filling in the gap thorugh higher value-added products. These SMEs are very active on the African markets notably in South Africa (Mauritius's 4th largest market) and the COMESA and SADC markets, including Kenya. Several local designers are well etablished in the regional markets.

APPENDIX I

LIST OF ATTENDEES TO WORKSHOPS

Fashion & Textile SMEs Stakeholders Engagement

Eldoret Workshop

	CONTACT	TELEPHONE	GENDER	INSTITUTION	EMAIL
1	Linet Akweny	0727 567003	F	Emynet Tailoring	linnakweny@gmail.com
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Nairobi Workshop

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45	Munya Vincent	0728 731171	M	AW News	

APPENDIX J

KENYAN TEXTILES AND FASHION INDUSTRY FIBER TO FASHION VALUE CHAIN

MARKET READINESS CHECKER

Carry out company diagnostic and business viability analysis and provide baseline data on the internal and external environment of the firms operating in the fiber-to-fashion value chain in the Kenyan textiles and fashion industry, with specific focus on SMEs, including women and youth entrepreneurs. The diagnostic will include the following:

- Ownership structure
- Business processes-operations, quality control, inventory management, sales management, raw material and finished products supply chains management
- Current capacity utilization
- Quality and availability of raw materials
- Current market need for the product(s)
- Market/customer perceptions of products
- Current market share (sales) of the selected firm on the local market
- Barriers for expansion
- Maximum /optimal quantity /quality for increased performance
- Potential market recapturing (reduced imports) and target markets
- Option/possibility of sub-contract manufacturing (CMT)
- Any Export market
- Design Capability

This self-assessment diagnosis survey provides an instant diagnosis of the firm with regards to the following:

(a) Key indicators:

a. Strategic Orientation
b. Management Readiness
c. Market Awareness
d. Product Readiness
e. Operations/Production Readiness
f. Financial readiness
g. HR Readiness

SURVEY QUESTIONNAIRE

1.0 CONTACT DETAILS

Name .....

Address.....

Tel.....

Fax.....

Email.....

Website.....

Details of person submitting info (Name & Status)

.....

2.0 COMPANY DETAILS

1. Is the company dully incorporated?

   Yes ☐ No ☐

   If yes, please give year of incorporation.....

2. What is the ownership structure of the company? (sole owner, partnership, etc..)

   .....

3. Please specify if the company is owned by a woman

   .....

4. Products manufactured/Services offered

   .....

   .....

5. No. of employees:

   Management: .....

   Workers: .....

1. What is your average monthly production?

.....

2. Do you sell on the:

Local market ☐

Overseas ☐

3. How do you sell your products/services: (please tick)

Directly to clients ☐

Through Agents ☐

Through Retailers ☐

Through wholesalers ☐

Others: (Please specify)

.....

4. Who does the designing of your products?

Own in-house designer ☐

Sub-contract designing ☐

Pick up designs from other manufacturers, internet, etc. ☐

5. Where do you source your raw materials from?

.....

6. 11 Do you have a quality control unit in place which checks every item?

Yes ☐ (If yes, what do you check for?) No ☐

.....

7. Does your company have any certifications (e.g Kenya Standards Bureau, ISO, etc)

Yes ☐ (please specify) No ☐

.....

8. What is the current price range for your products?

.....

9. What was the total annual sales for the following years:

	Quantity	Value
2010		
2011		
2012		
2013		
2014		

10. Which obstacles do you experience that prevent the expansion of your business?

.....

.....

3.0 THE AUDIT

Please put a score of 1 for Yes and 0 for No

3.1 Strategic Orientation

	QUESTION	ANSWER 0 or 1
1	Do you have clear understanding of the local market and the risks involved?	
2	Do you know the procedures for collecting market intelligence?	
3	Do have clear understanding of the resources required to venture into a business?	
4	Does your company have firm commitment to allocate resources required when needed?	
5	Do you have a sound domestic base to work from?	
	Total Score	

3.2 Management Readiness

	QUESTION	ANSWER 0 or 1
1	Are you/your management committed to expand the business?	
2	Do you have the appropriate management structure around the expansion projects?	
3	Has your company made provisions for resources (financial, manpower..etc) to support an expansion programme?	
	Total Score	

3.3 Market Readiness

	QUESTION	ANSWER 0 or 1
1	Do you have suitable promotion/publicity campaigns to establish a market presence?	
2	Does your company have a website to emphasize your company's ability?	
3	Can you customize the promotional materials to meet market needs?	
4	Do you know your main competitor (s)?	
5	Can you compete against the established competitors on the local /regional market (s)?	
	Total Score	

3.4 Product Readiness

	QUESTION	ANSWER 0 or 1
1	Is your product adapted to the market in terms of product attributes, standards and norms, packaging, size, etc..?	
2	Does your company possess the ability to do product development/ modify the products to meet the market requirements/demand?	
3	Does your company have firm commitment to allocate resources required when needed?	
	Total Score	

3.5 Operation/Production Readiness

	QUESTION	ANSWER 0 or 1
1	Can your company meet new orders with the existing production capacity?	
2	Can your company expand its production capacity in timely manner to meet new demand?	
3	Does your company have access to supply of materials and inputs?	
4	Can your company take direct orders?	
5	Do you have appropriate support system to handle queries from multiple clients?	
	Total Score	

3.6 Financial Readiness

	QUESTION	ANSWER 0 or 1
1	Does your company have sufficient funds (cash, working capital,) to expand?	
2	Do you have the capacity to raise capital to fund an expansion programme?	
3	Do you have access to credit/finance from local banks	
4	Does your company have provisions/ procedures to mitigate the credit risks?	
	Total Score	

3.7 HR Readiness

	QUESTION	ANSWER 0 or 1
1	Does your company have a dedicated team to oversee marketing?	
2	Are you ready to travel to attend trade exhibitions to meetings with potential buyers?	
3	Can you employ additional staff at short notice?	
4	Can you handle emergencies like delayed orders, handling claims, etc?	
5	Do you have facilities for sub-contracting?	
	Total Score	

3.0 YOUR REASONS FOR EXPANDING YOUR BUSINESS

	QUESTION	ANSWER 0 or 1
1	To utilize your production capacity more effectively	
2	Need to extend the life cycle of existing products	
3	To exploit new technology and know-how	
4	To acquire new knowledge and experiences so as to improve your share on your local market and/or in existing markets.	
5	To improve overall return on investment	
6	Have limited growth opportunities on the domestic market	
7	The regional/international markets offer better opportunities for your products	
8	To diversify your markets to reduce risk	
	Total Score	

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