Ministry of Trade

# KENYA NATIONAL AGOA STRATEGY

## SUPPORTING THE ABILITY OF KENYAN FIRMS TO SUCCESSFULLY SELL INTO THE U.S. MARKET, LEVERAGING EVERY OPPORTUNITY THAT AGOA PROVIDES

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# Contents

## Executive summary

The preferential market access granted to Kenya and other African countries through the Africa Growth and Opportunity Act (AGOA) has played a critical role in spurring Kenya's exports with the US. This has been most dramatic in the case of the textiles and apparel sector, which grew at 44% a year in the few years after AGOA's passage. In effect, AGOA has created an apparel industry in Kenya on a scale that the country would unlikely have achieved without preferential access to the US market.

However, the strong trade regime-based advantage that AGOA offers has meant that Kenya has developed an industry whose competitive edge is based on policy advantages and not firm-level advantages. The proffering of such policy-based advantages is based purely on the largess of US policy makers, leaving the textile and apparel sector very vulnerable. It needs stronger foundations.

Outside of textiles and apparel, AGOA has not had as dramatic an impact on Kenya's non-textile and apparel exports, perhaps with the exception of nuts. Most other sectors are trading more with the US, but this is on the back of a general rise in exports to all trading partners. Therefore, while Kenya's exports to the US peaked at about 8% of total exports, they have now settled to about 5-6%.

However, AGOA offers Kenya opportunities that it cannot afford to pass up. The US is a huge market that offers Kenyan firms great opportunities for business growth. Therefore, the government and the private sector must go what it can to push for AGOA's extension beyond 2015, when it is set to expire. Preferential market access is particularly critical for the textile and apparel sector.

Supporting the growth of other sectors' exports to the US will require specific sector support to address barriers to US market entry, from market knowledge, to buyer linkage, to addressing non-tariff barriers such as US sanitary and phytosanitary requirements. Support of this kind will require considerable resources to deliver, therefore the sectors to which it will be directed will have to be carefully selected.

Finally, all businesses in Kenya face business barriers that make doing business difficult and costly. These are not unique to firms that are doing business with the US, but they are too fundamental to leave unaddressed. Therefore, the AGOA strategy will actively focus on the general business barriers faced by Kenya's entrepreneurs, and specifically the ones that disadvantage its firms that export to the US.

<table>
<tr><td colspan="3" align="center">Objective: Support the ability of Kenyan firms to successfully sell into the US market,<br>leveraging every opportunity that AGOA provides</td></tr>
<tr><td align="center">Strategic priority 1<br>Trade policy</td><td align="center">Strategic priority 2<br>Business support: US market focused</td><td align="center">Strategic priority 3<br>Business support: General</td></tr>
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# Part I: Situation analysis

## Background

### The AGOA deal

The Africa Growth and Opportunity Act (AGOA) passed as part of the Trade and Development Act of 2000, which provides beneficiary countries in Sub-Saharan Africa (SSA) with the most liberal access to the United States' (US) market available to any country or region with which the US does not have a free trade agreement.

The thinking behind AGOA was based on the existing Generalized System of Preferences (GSP), used in the international trade regime since 1971. This is a non-reciprocal concession under which developed countries allow duty-free or low-duty entry of imports from selected developing countries up to a certain limit or quota, covering 4600 products. However, in the case of the US, it excluded critical developing world exports, such as textiles, clothing and footwear. It was also subject to political influence, and could be withdrawn.

AGOA built on the same idea but expanded product coverage by an additional 1800 product lines (which have since increased further), and included many critical developing world exports, in particular textiles and apparel. Local content restrictions were also subsequently eased for particular products.

A major thrust of AGOA has been to support the ability of African economies to use the textile and apparel sectors as potential engines of economic growth, in much the same way as historically happened in South and South East Asia. A 'special rule' permits lesser developed AGOA beneficiary countries to utilize fabric manufactured anywhere in the world, unless the fabric is designated as being in 'abundant supply' from within Sub-Saharan Africa. All apparel-eligible countries qualify for the special rule, except Gabon, Seychelles, and South Africa.

*Table 1: Summary of different AGOA acts*

| Date | AGOA act | Summary |
|---|---|---|
| 2000 | AGOA | Provided beneficiary countries in Sub-Saharan Africa with the most liberal access to the US market available to any country or region with which the US does not have a free trade agreement |
| 2002 | AGOA II | Botswana/Namibia included as LDCs; additional textile provisions |
| 2004 | AGOA III | Extended AGOA until Sept. 2015 and the third country fabric provision until Sept. 2007; increased emphasis on US technical assistance in agriculture; Mauritius also included as an LDC |
| 2006 | AGOA IV | Extended third country fabric provision until 2012 and adds abundant supply provisions |

### *Results to date*

AGOA has had a clear impact in stimulating Africa-US trade: exports from AGOA-eligible countries have grown over 300%, from $21.5 billion in 2000 to $86.1 billion in 2008. It has created over 300,000 jobs, many of which are in the apparel sector which provides employment opportunities for women.

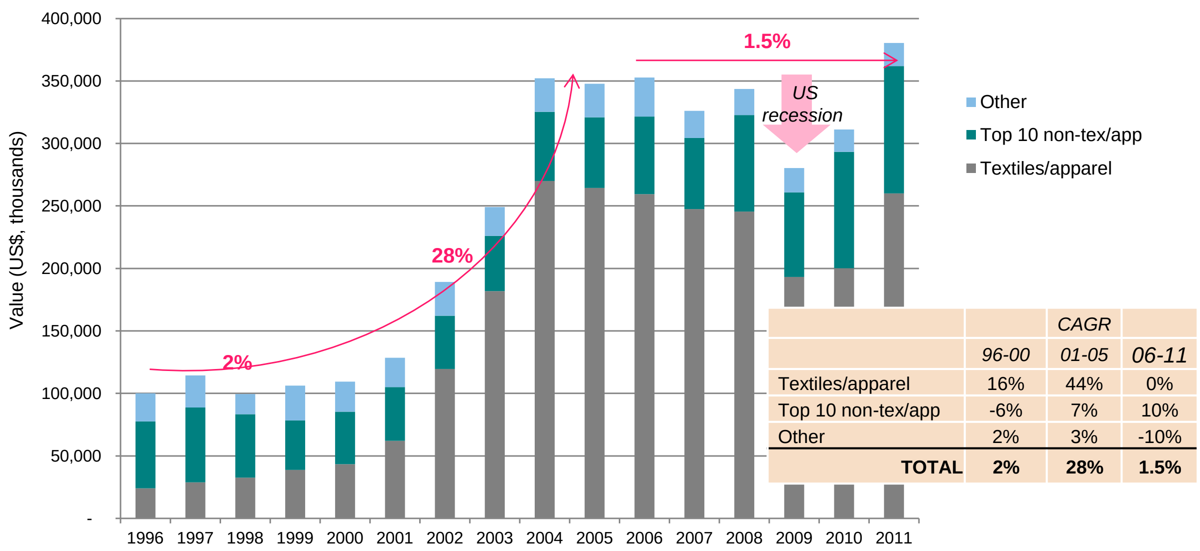
AGOA's impact on Kenya's exports has been nothing short of impressive. Growing at an average of 2% a year before AGOA's passage, Kenya's exports to the US exploded to a growth level of 28% a year until 2005.

Most of this growth was fueled by the textiles and apparel sector, which grew annually by as much as 44% between 2001-05, with the number of garment factories jumping from six in 2000 to 35 in 2003. Employment grew 500% in the Kenya's export processing zone (EPZ) to about 36,000 jobs during the same period.

However, the end of the MFA in 2005 led to a collapse in growth, culminating in a full-on decline in textile and apparel exports with the onset of the US's recession in 2009. Fortunately, leading non-textile and apparel exports softened the decline in total exports by steadily growing at between 7-10% over the same 2006-11 period.

*Exhibit 1*

Kenya's exports to the US (Value; CAGR % over period)




| | CAGR | | |
|---|---|---|---|
| | *96-00* | *01-05* | *06-11* |
| Textiles/apparel | 16% | 44% | 0% |
| Top 10 non-tex/app | -6% | 7% | 10% |
| Other | 2% | 3% | -10% |
| **TOTAL** | **2%** | **28%** | **1.5%** |

Source: US International Trade Commission (USITC) data; AAC analysis.
Notes: Top 10 exports based on average of 2007-11 values; CAGR – Cumulative annual growth rate; CAGR periods: 96-00, 01-05, 06-11.

### *Rising concerns*

Despite these achievements, there have been concerns. In general terms, the advantages of AGOA – as with all preference systems – are eroding over time, as they are relative to a most-favoured nation (MFN) tariff that will likely decline with further multilateral liberalization. Leading trade economist, Jagdish Bhagwati, refers to such preferences as a "wasting asset."

More specific concerns relate to:
1. How much benefit Africa is capturing
2. How sustainable is the newly developed apparel sector
3. Why non-apparel sectors' response (other than petroleum-related products) has been so weak.

### *Benefits capture*

Of 18 garment makers in Kenya's EPZ, only one is Kenyan-owned, and it was recently launched. Lesotho's garment sector is similar, with most of its approximately 40 firms being Taiwanese owned. New investors there are from China and South Africa.

While these firms employ and skill a lot of people, it is not clear to what degree profits are reinvested in Africa. In many instances, Africa is being used as a staging post for what are fundamentally foreign businesses, little different from their foreign counterparts against which AGOA is supposed to offer African firms a competitive edge. In these instances, AGOA is more a way around quota and import caps for firms from countries that have anyway traditionally been strong in apparel than a means to growing a local textile and apparel sector.

### *Sustainability*

In 2005, the end of the global multi-fiber arrangement (MFA), which allowed countries to impose varying restrictions such as duties and quotas on textile-related imports from specific countries, meant that the US market became open to increased apparel imports from China, India and Southeast Asia. Many of Kenya's budding garment makers found they could not compete, even with a duty-free advantage. Garment jobs in the EPZ dropped to 26,000 as a result.

While the effects of the opening have been reduced somewhat by increased US restrictions on Chinese exports, how long these will last is uncertain. Plus benefits being offered only to African countries are not WTO-rule complaint, meaning that they may have to be extended to other lesser developed countries (LDCs), such as Cambodia and Bangladesh, which are more competitive than African producers.

In addition, the special rule on local content is set to expire in September 2012, having been extended multiple times. Yet Africa has still not developed a textile sector able to meet its demand, with only some capacity in Mauritius and Madagascar. Should the special rule not be extended, the majority of the sector will no longer be eligible for duty-free access to the US market, rendering most exporters useless against their more cost-effective competitors.

### *Diversification*

In light of strong global competition and the uncertain future of trade advantages in textiles and apparel, Africa cannot rely on this sector alone. However, with the exception of petroleum-related products, Africa's non-apparel sectors have shown limited response to the market opportunities that AGOA offers.

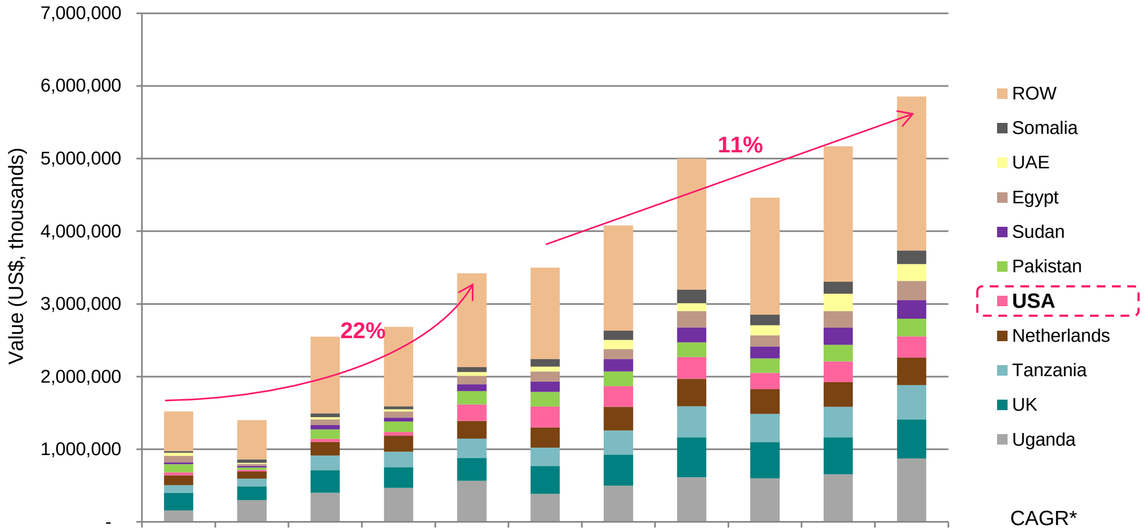
## AGOA in a global context

While AGOA has led to impressive gains in Kenya's trade with the US, particularly in the first few years after its launch, this growth needs to be put in context of general increases in Kenya's exports across the board.

The major impact of AGOA on Kenya's overall exports has been to increase the general relevance of US exports, making it Kenya's 5th largest export partner with between 5-6% of total exports. Kenya's exports to the US are important, but they are not of critical importance. Therefore, while exports to the US were almost flat since 2005, Kenya's total exports grew at a healthy 11% a year between then and 2011.

*Exhibit 2*

Kenya's global exports (Value; CAGR % over period)




| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | CAGR* 01-05 | CAGR* 06-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Annual growth, total to world | | -8% | 82% | 5% | 27% | 2% | 17% | 23% | -11% | 16% | 13% | 22% | 11% |
| Annual growth, US only | | -51% | 108% | 18% | 373% | 28% | -2% | 5% | -25% | 26% | 3% | 54% | 0.1% |
| **US exports as % of total** | **3%** | **1%** | **2%** | **2%** | **7%** | **8%** | **7%** | **6%** | **5%** | **6%** | **5%** | | |

Source: International Trade Commission (ITC); AAC analysis.
Notes: CAGR periods: 01-05, 06-11; ROW – Rest of World.
* USITC data based CAGR: 01-05 – 28%; 06-11 – 1.5%; see annex for explanation.

## Sector profiles

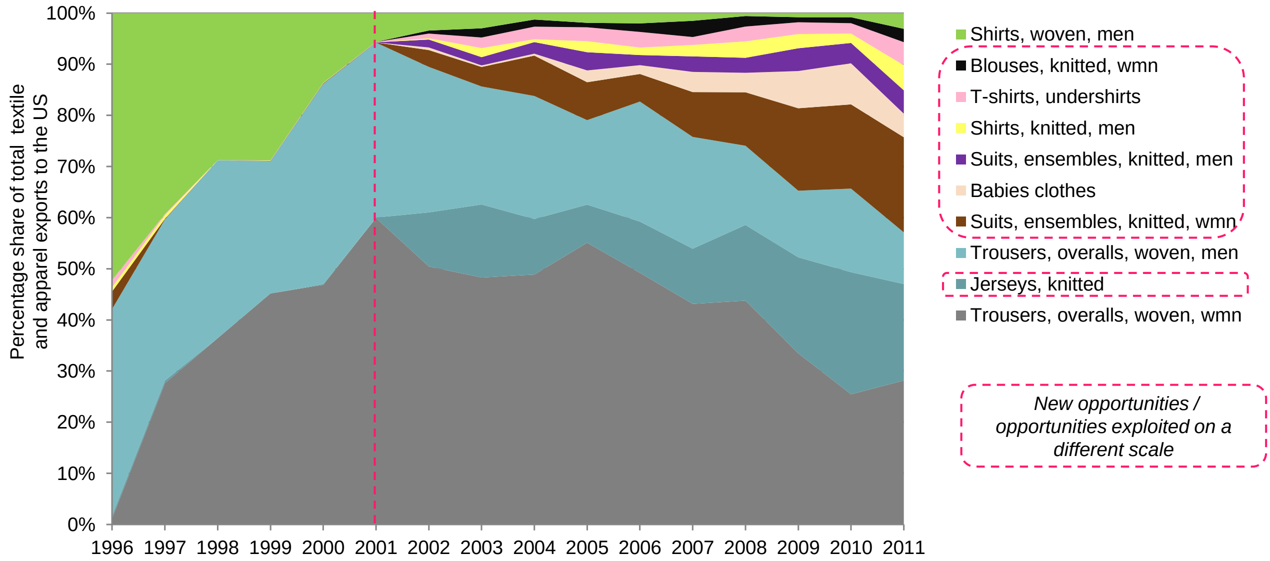
### Textiles and apparel

AGOA has had an unambiguously positive impact on Kenya's textile and apparel sector. The sector grew at 44% a year soon after AGOA's passage through a mix of much expanded growth in existing product lines as well as the launch of new products in which Kenya was not previously active.

This blossoming of new products has led to a diversification of the Kenyan textile and apparel sector into business opportunities that had not been tapped prior to AGOA's passage, such as knitted clothes as well as t-shirts and babies garments. Seeing as AGOA specifically sought to encourage Africa's movement into the textile and apparel export market, Kenya's response can be seen as a huge success.

*Exhibit 3*

Kenya's textile and apparel exports to the US (Product percentage share of total textile and apparel value)

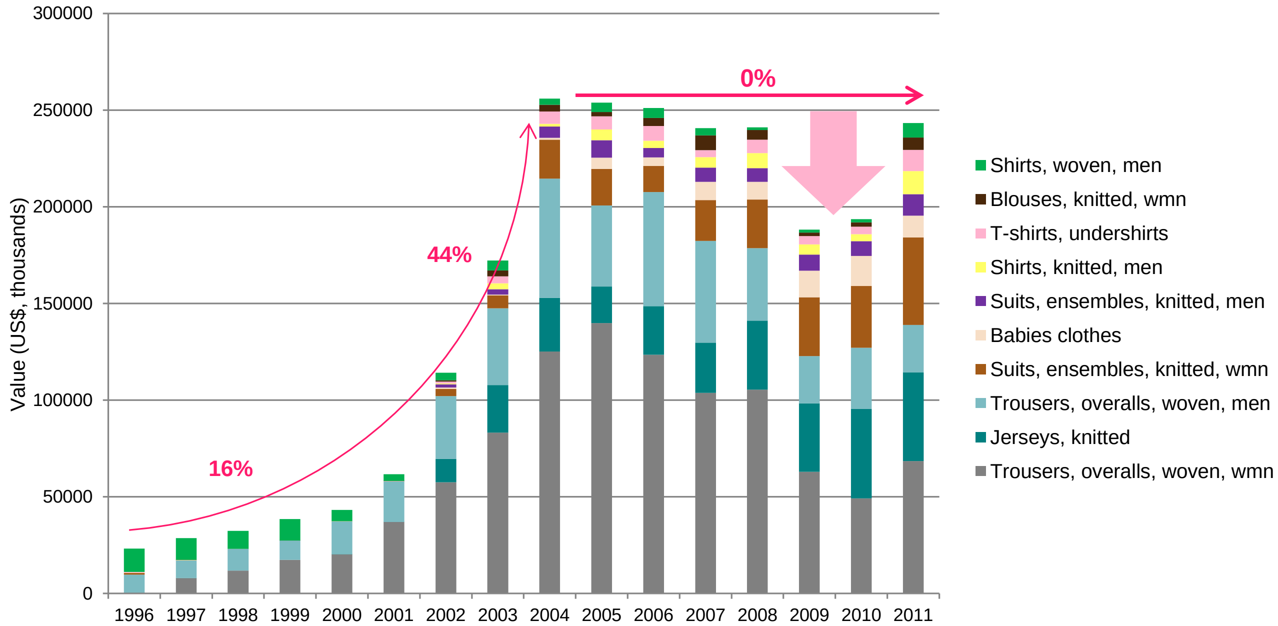



Source: USITC data; AAC analysis.

However, the textile and apparel sector's growth spurt was just that, a spurt. Within 3-4 years it had leveled off, remaining largely flat since 2005 when the MFA expired (with a substantial dip as a result of the 2009 US recession).

A leveling off of Kenya's exports at this much higher level would still amount to a substantial AGOA accomplishment. However, it is not certain that exports will level. The three products that dominated Kenya's pre-AGOA exports – namely woven women's clothes, knitted jerseys and woven men's shirts – have all been in decline since their 2004/05 peak (most dramatically so in the case of men's shirts), and though other products have come on line and grown well, this has not stemmed the sector's flattening out.

*Exhibit 4*
Kenya's textile/apparel exports to the US (Value; CAGR % over period)




Source: USITC data; AAC analysis.
Notes: CAGR periods: 96-00, 01-05, 06-11

What the future of Kenya's textile and apparel sector will be is not certain. It is difficult to assess whether the sector will grow but at a low rate, level off where it is, or whether it is actually in the early stages of a gradual decline.

There are fundamental structural issues that make the sector vulnerable, some to do with the international trade regime and whether advantages and exceptions currently offered to the sector will continue to be offered in the future. Other issues exist at the sector level, including textile supply concerns and issues with the competitiveness of the apparel sector as a whole.

### *Precarious trade politics*

Kenya's textile industry struggles to remain competitive against its global rivals. This became clear when its sales dropped as a result of the increased opening of the US market to China's exports in 2005. Since then the Chinese threat has been held at bay with imposition of restrictions, but should these not be renewed, the results will be very harmful to Kenya's industry.

However, China is not the sole threat. India, Bangladesh and Cambodia all have strong textile and apparel sectors. While India's sector may still be restricted in the same way as China's, it is increasingly difficult for US policy-makers to justify trade advantages offered to African countries over Bangladesh and Cambodia, which are equally poor.
As far back as 2007, The Economist magazine wrote about Africa's AGOA-fueled apparel industry:

> … the future is uncertain. American, European and South African quotas on Chinese exports are likely to be abolished within the next couple of years. The World Trade

> Organization has also decided that rich countries should extend preferential access to all poor countries, not just African ones…

Time is running out on AGOA, not so much in terms of its formal expiry in 2015 (AGOA will likely be extended beyond 2015, as has happened before), but more in terms of whether meaningful advantages can continuously be offered to African states.

Therefore, Kenya's textile and apparel exporters will need to develop a business advantage over their competition based on firm-level advantages, rather than advantages offered by US trade policy.

### *Lack of supply*

However, the sector faces considerable weaknesses aside from trade politics. The most immediate concern of the sector is the expiration of the special rule on local content, set to expire in September 2012. Without the extension of this the special rule, most of Kenya's exporters would not qualify for duty-free access to the US. But the sector is not new to this issue. The lack of sufficient textile supply in the region has been a concern for many years, but was left unaddressed. Some producers have started responding to this, but recently and not at levels sufficient to meet demand.

Again, the sector's success is subject to exceptions being made by US policy makers for them. However, how long will such exceptions be made?

Clearly developing a cotton and textile supply sector will not happen quickly, nor is it certain that Kenya can competitively develop such a sector. Prior to embarking on any major supply scheme, the country would need to assess whether it can competitively develop a sector able to serve apparel makers the right quality, quantity and product mix at globally competitive prices.

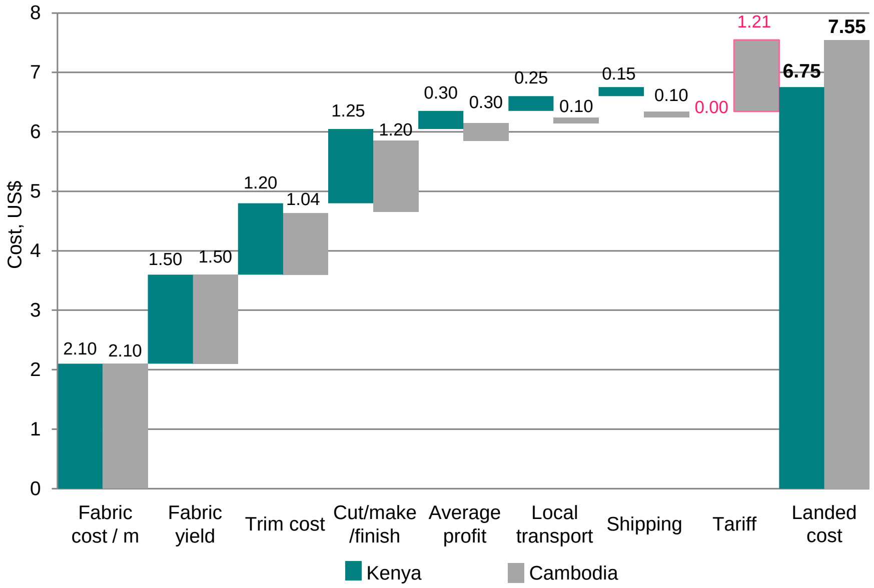
### *Apparel's competitive weakness*

Just as there are concerns with whether Kenya can support a cotton and textile supply sector, the same concerns apply to the apparel sector. Can Kenya's apparel exporters compete against other exporters without the tariff advantages that they currently enjoy? If yes, how long will it take to achieve this, and what in particular needs to be done to do so?

Currently, Kenya's apparel firms compete internationally based on the largess of US trade policy makers and not on firm and country-level advantages. Changing this requires carefully analysing where and how Kenya can develop business-based advantages, assuming a level international playing field, and then beginning to implement the changes required to compete.

If it appears that certain Kenyan apparel products will not likely be able to remain competitive against other exporters, then the industry must strive to maintain its policy-based competitive advantage for as long as possible, aware of the fact that this may be abruptly ended, and with that many Kenyan businesses.

*Exhibit 5*
Comparative production and delivery costs of women's jeans (US$)




*Without a tariff advantage, Kenya cannot compete against Cambodia for women's jeans.*

*Both countries source their fabric at the same prices, though Cambodia is able to source trims from China cheaper. Kenya is at a particular disadvantage in terms of local transportation costs, and also pays more to ship by sea than Cambodia.*

*In the end Kenya lands it jeans at $6.75 compared to Cambodia's $7.55, but only because Cambodia pays 19% duty. Without duty, Cambodia would land its jeans at $6.34, 6% cheaper than a Kenyan pair.*

Source: USAID-COMPETE, "US Apparel End Market Analysis," July 2011.
Notes: Product: women's jeans with studs and garment wash, 13-ounce 100% cotton (rigid) 5-pocket.

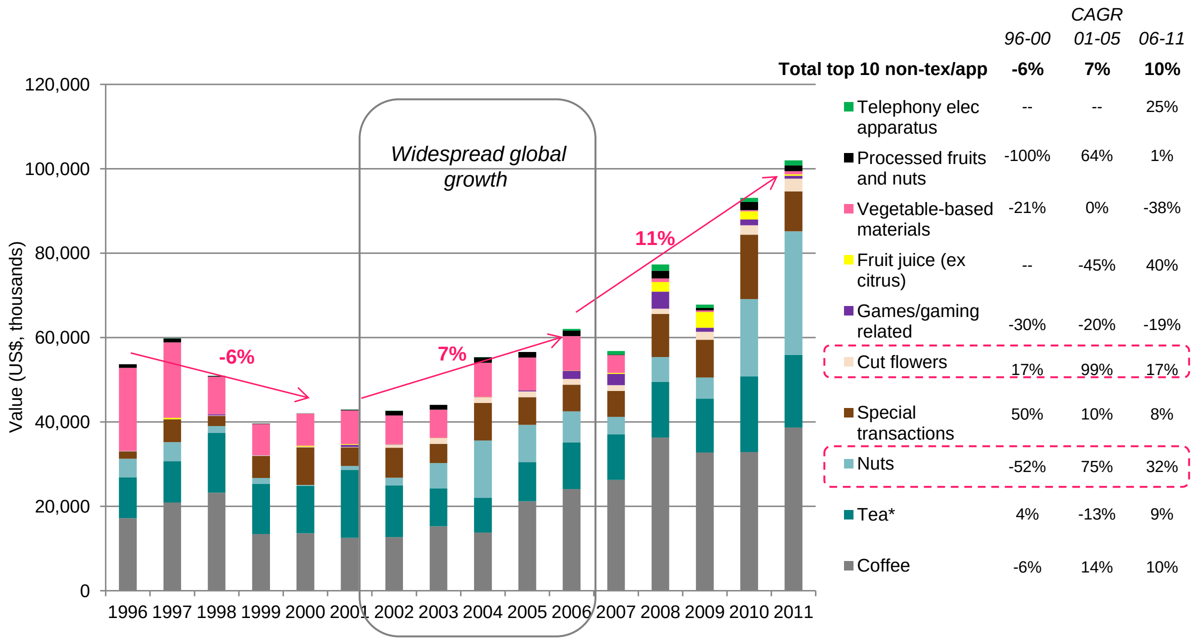
## Other sectors – Overview

The overwhelming focus and advantage for AGOA to exporting countries has been – and was intended to be – in textiles and apparel. However, Kenya has also seen growth in exports to the US in other non-textile and apparel sectors. However, the results are less dramatic, and it is not certain to what degree the growth is AGOA-fuelled or part of the general trend of Kenya's growing exports.

Coffee, which formed the base of pre-AGOA exports, has continued to do well, while tea has actually declined. The fastest growth has been in nuts and cut flowers, which averaged over 50% a year since AGOA's launch. Fortunately, non-textile and apparel exports have generally weathered the storm of the US recession reasonably well.

*Exhibit 6*

Kenya's top-10 non-textile/apparel exports to the US (Value; CAGR % over period)




Source: USITC data; AAC analysis.
Notes: Top 10 exports based on average of 2007-11 values ; CAGR periods: 96-00, 01-05, 06-11
* Tea data is based on tea and tea derivatives. This combined number is closer to ITC figures for tea exports.

## Coffee

Sub-Saharan Africa has seen good growth in coffee export value across the board. Kenya has been no exception to this. The growth has been driven by:

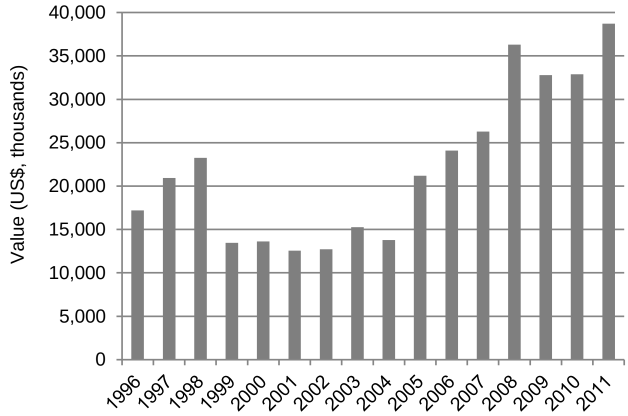
- Rebound in world coffee prices since 2002
- Better incentives as a results of liberalization of the coffee sector in Kenya (and elsewhere) since the 1990s, including a 'second window' policy in 2006 that allows for coffee sales outside of Kenya's coffee auction
- Success in enhancing demand by differentiating coffee by superior quality, better processing, and geographic origin.

The final trend bodes well for Kenya, with its widely grown Arabica bean (90% of all output) and universal fully-washed processing, which enhances quality. While coffee value has been growing, export quantities have been growing less fast, indicating an increase in prices.

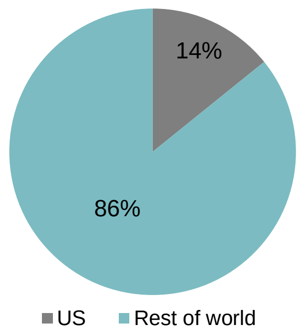
Starbucks, the US's most prominent coffee retailer, bought coffee from six SSA countries: Burundi, Ethiopia, Kenya, Rwanda, Tanzania, and Zambia, although such purchases accounted for less than 10% of its global purchases. In 2007, Starbucks announced plans to double its coffee purchases from East Africa. However, the bulk of Kenya's exports still go to the EU.

*Exhibit 7*

Coffee exports to the US (Value)




Coffee exports to the US as % of total Kenya coffee exports (Ave. value 2007-11)




Sources: USITC and ITC data; AAC analysis

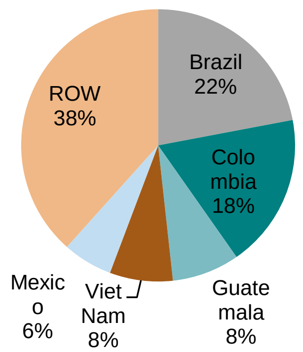
## *US coffee market*

The majority of the US's coffee comes from just 5 countries, 4 of which are from within its wider region. Much of this is for generic blends, particularly from Brazil and Vietnam. Brazilian and Colombian coffee come in tariff free under regional trading deals.
Yet the US also sources fairly diversely, with almost 40% of its coffee coming from a mix of countries. 1% of its total imports are from Kenya.

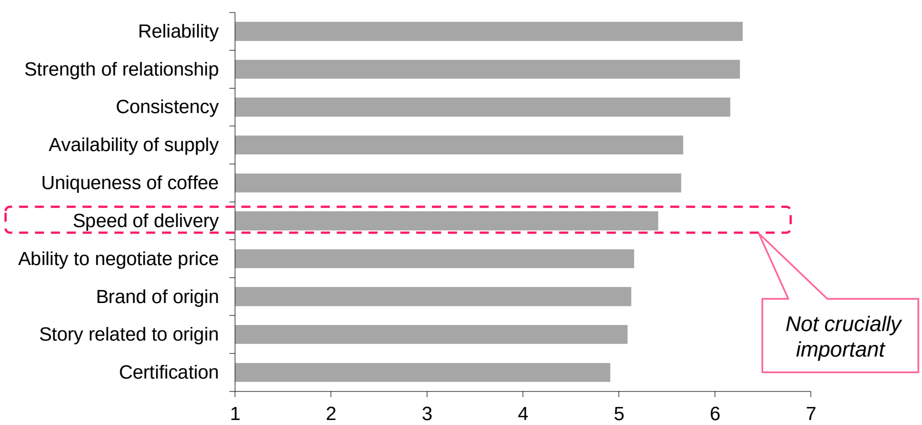
However, Kenya enjoys a high brand recognition within the US as a quality coffee supplier. A global survey of coffee buyers – of whom US buyers made up 40% – found that Kenya was highly rated as a supplier, second only to Colombia. The survey also found that as a non-perishable (unless roasted, which almost always happens in the end market), speed of delivery is not a top concern, meaning that fundamental business barriers, such as distance to market, are not an inhibitor to Kenya increasing its US coffee market penetration.

*Exhibit 8*

US coffee suppliers (Ave. value 2007-11)




Buyer rating of different supplier attributes (1 - not important, 7 – extremely important)




Sources: ITC data; AAC analysis; OTF Group Coffee Purchaser Survey, December 2006 - January 2007.
Note: Survey respondents mainly from the US (40%), followed by Canada (25%) and UK (20%). N=69.

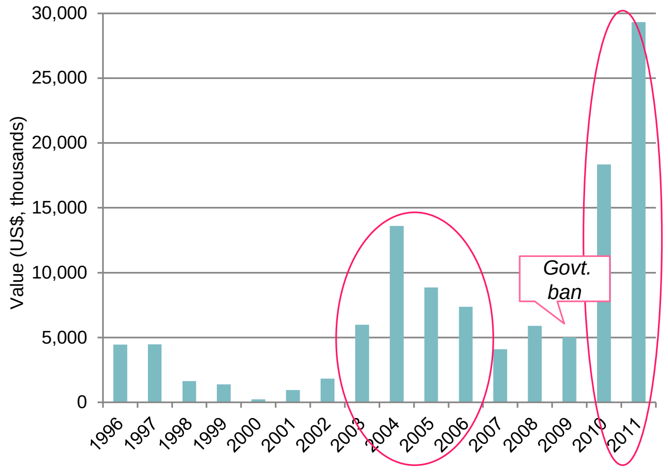
## Nuts

Nut exporters to the US were not immediately responsive to the passage of AGOA, remaining at historic export levels until 2002/3. 2003 saw an increase, with a 3-4 year surge in exports. However this pales in comparison to a recent surge, where the value of nut exports to the US overtook tea in 2010 and rivaled coffee in 2011. This increase has been in part fueled by lower harvests in Australia, a major macadamia nut exporter, which led to both more demand from Kenya and higher overall prices (pushing up value).

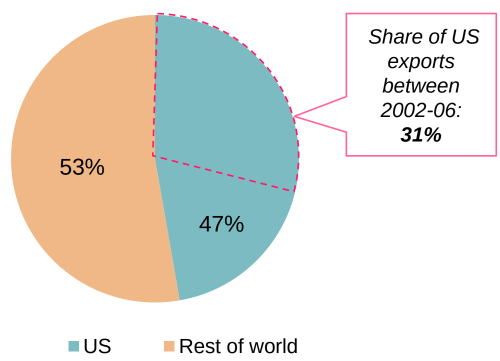
However, a major factor behind the spectacular increase has been a ban by the Government of Kenya on the export of raw, in-shell nuts. This has diverted exports from processing buyers, namely Hong Kong, China and India, to local processors. Like textiles and apparel, though to a lesser extent, the success of the sector is based on policy-level and not firm-level advantages over competitors. Minus the government ban, local supply may dramatically revert to other countries for processing and re-export to the US and other countries.

*Exhibit 9*

Nut exports to the US (Value)




Nut exports to the US as % of total Kenya nut exports (Ave. value 2007-11)




Source: USITC and ITC data; AAC analysis

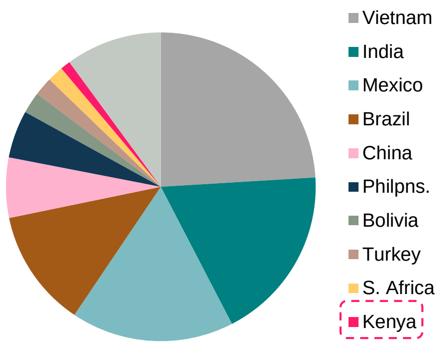
### *US nut market*

Growing at an average 13% a year, the US nut market has served its key suppliers well in recent years. The top 3 suppliers have all been experiencing good growth of between 16-18%. But this has not been the case for Brazil and China, the 4th and 5th largest suppliers, which have experienced low to negative growth.

Not a fast perishing product, the US imports nuts from farther afield, though Mexico and Brazil are still large suppliers. While Kenya's growth has exploded, particularly very recently, it is not alone in experiencing this. Both the Philippines and South Africa have also seen a fast rise in exports to the US, though not quite at a level to match Kenya's almost 90% annual increase over the past 5 years.

*Exhibit 10*

US nut import market share (Ave. value, 2007-11)




Annual growth rates in nut exports to the US

| | 2007-8 | 2008-9 | 2009-10 | 2010-11 | *Average* |
|---|---|---|---|---|---|
| Vietnam | 30% | -4% | 39% | 17% | *20%* |
| India | 19% | -29% | 9% | 66% | *16%* |
| Mexico | 14% | 24% | -3% | 39% | *18%* |
| Brazil | -20% | 18% | -4% | 1% | *-1%* |
| China | 26% | -1% | 14% | -26% | *3%* |
| Philpns. | 11% | 1% | -8% | 123% | *32%* |
| Bolivia | 14% | -4% | 31% | 26% | *17%* |
| Turkey | 21% | -44% | 72% | -3% | *12%* |
| S. Africa | 20% | 19% | 75% | 19% | *34%* |
| Kenya | 44% | -15% | 266% | 60% | *89%* |
| ROW | 8% | -16% | 34% | 5% | *8%* |

Source: USITC and ITC data; AAC analysis

## Cut flowers

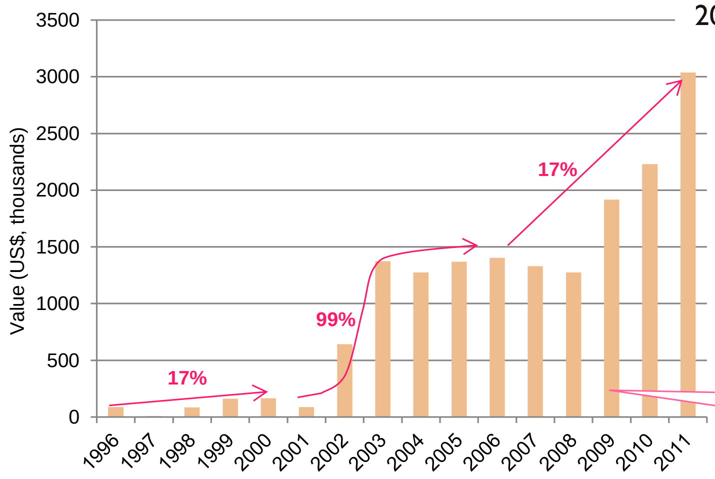
Cut flowers are ranked second to tea as Kenya's top global export product. However, few of these go to the US. The US is Kenya's 12th largest importer of cut flowers, but after the Netherlands – which buys over half of Kenya's exports – the UK, and Germany, all the rest of the larger importers each account for less than 2% of all cut flower exports.

However, growth to the US has been strong, booming in the first few years after AGOA at almost 100% a year between 2001-05 (albeit from a negligible base). AGOA was an important factor behind this, as it brought increased US government-funded technical assistance focused on the horticulture sector, with a particular focus on increased exposure to US markets. This led to higher participation at US flower shows (in Atlanta and Miami) and programs to support Kenya's compliance with the US government's Food Safety and Inspection Service (FSIS).

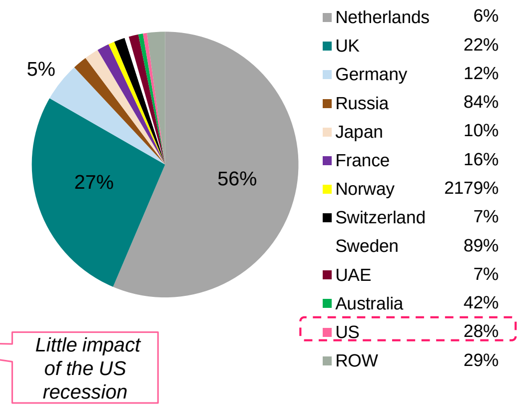
After this initial surge, growth plateaued to then rise again, but not to its early levels. Therefore while growth in US exports has been strong in recent years, it pales in comparison to other countries, notably Norway, to which Kenya's 2011 exports are more than double those to the US having been virtually zero in 2007.

*Exhibit 11*

Cut flower exports to the US
(Value; CAGR % over period)




Value of Kenya's exports by importing partner (Ave. annual growth %; both 2007-2011)




Sources: USITC and ITC data; AAC analysis.
Notes: CAGR periods: 96-00, 01-05, 06-11

### *US flower market*

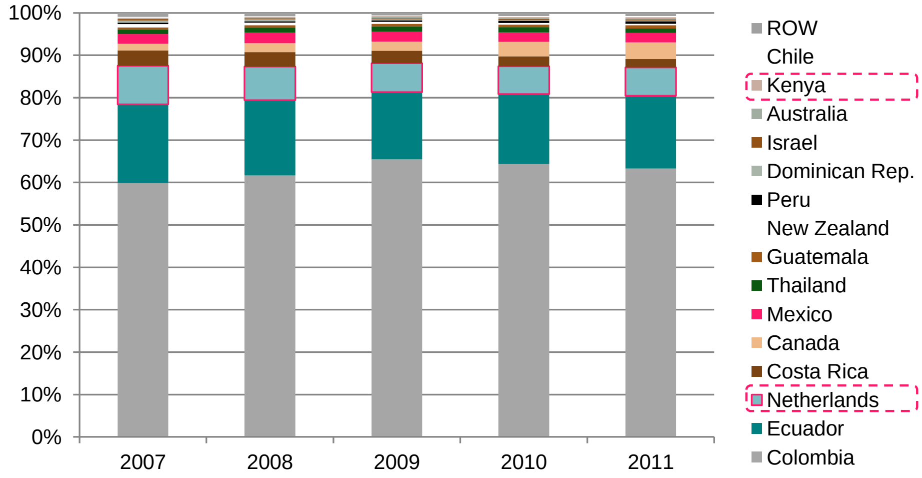
Time is everything in cut flowers. Therefore, predictably, what the US does not grow itself, it imports from its back yard, with just 2 countries – Colombia and Ecuador – accounting for about 80% of its imports. As Andean Pact countries, they enjoy duty-free access. However, in third place lies the Netherlands, whose exports include a large share of Kenyan flowers (industry experts cannot say how much).

Kenya's growth opportunities lie in increasing this share of product going to the US as well as direct supply. However, Kenya should be wary that it does not cannibalize its 'via-the-Netherlands' market as it grows its direct market, leaving it with more value chain hassles but no more of the market than it began with.

Up to 6 varieties of flowers and all rose varieties successfully pass entry requirements for the US. This will have to be increased, in particular to include fillers, so that Kenyan suppliers are able to provide pre-packaged bouquets to US customers.

*Exhibit 12*

US cut flower import market share (% by value)




Source: ITC data; AAC analysis.

*Box 1: Blazing the trail for fresh vegetables*

Fresh vegetables do not feature in Kenya's export data to the US, but are its 5th largest export globally. This has been largely because Kenyan fresh vegetables were not cleared for sale in US markets. However, this has changed with the recent clearance of French beans, runner beans, baby carrots and baby corn, on the condition that they are sold ready for consumption (so called "high care").

Cut flowers and fresh vegetables face similar challenges with regard to their expansion in the US, namely the importance of fast transportation links and the importance of product-specific clearance. Therefore, actions take to support the cut flowers sector will have many positive spillovers to fresh vegetables.

## Home and fashion accessories

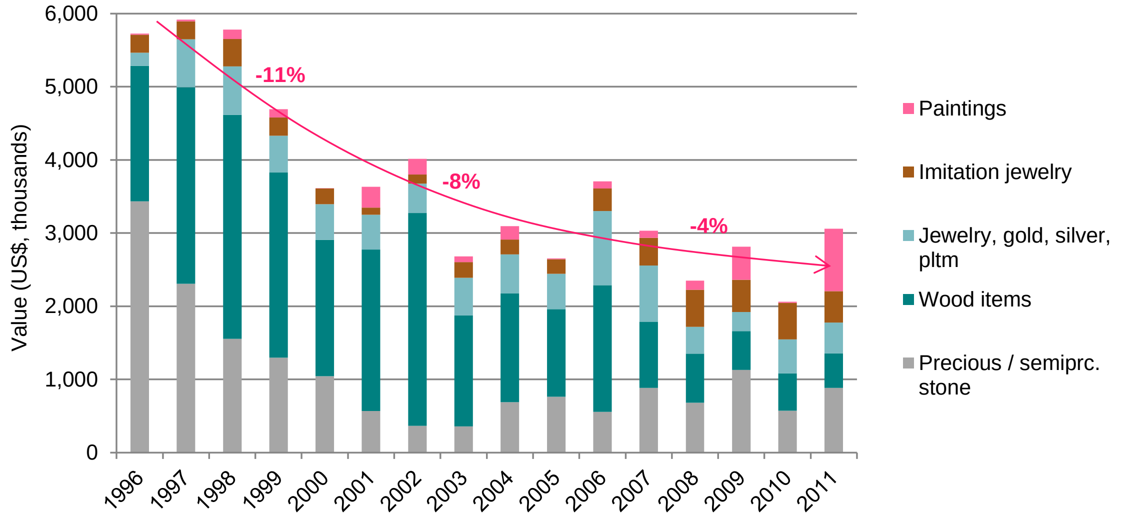
Home and fashion accessories (HFA) are a wide range of products that have high design and craftsmanship elements to them, ranging from gems and jewelry to wooden sculptures and art work. Highly visual items, they often get attention from consumers and policy-makers alike, and form a focus sector for all multi-sector support organizations (see below).

However, the sector has not been doing well, exhibiting signs of stagnation or decline, depending on the data source (see annex). However, since AGOA's passage, this decline has slowed, suggesting new opportunities opened up as a result of AGOA.
Most of HFA's fall is accounted for by the pre-AGOA decline in precious stones, which fell at 26% a year between 1996 and 2000.

A substantial concern is wood products. It remained largely flat before AGOA's passage, but at a healthy average export value of $2.4m. However, the product group since declined at 14% a year until 2005, and 23% thereafter. This fall has been cushioned only by a slight rebound in precious stones and jewelry.

*Exhibit 13*

HFA-related exports to the US (Value; CAGR % over period)




Source: USITC data; AAC analysis.
Notes: CAGR periods: 96-00, 01-05, 06-11.

*Box 2: HFA's FSIS equivalent*

Much of the HFA sector's ability to successfully sell into the US depends on the presence of agents that represent large, chain store buyers. These agents relay design requirements and quality check each shipment, in effect acting as the home and fashion accessories market access equivalent of FSIS.

Therefore, the closure in 2005 of the Kenya office of the Associated Merchandising Corporation, a major buyers' agent, did not bode well for many in the industry. Just as the fresh produce sector must cultivate ties with FSIS, the HFA sector must do likewise with major agents.

## Institutional support

There are a number of organizations that support exporters to take advantage of trade opportunities offered by AGOA. AGOA has in fact played a catalytic role in directing increased technical assistance toward export readiness for the US market. This has arguably been just as important in boosting trade to the US as the reduced tariffs that AGOA offers.

Below are summaries of some key AGOA export support institutions.

*Export Processing Zones Authority (EPZA)*

- State corporation under the Ministry of Trade and Industry that develops and manages export and special economic zones
- Launched a business incubator/accelerator to increase local business participation in exports, covering food/agro-processing, textile/apparel, crafts/jewelry, ICT.

*Export Promotion Council (EPC)*

- Recently launched UNCTAD-affiliated Trade Point to provide SMEs trade support services
- Links exporters to local service providers, including export specialists, trade finance, etc.
- Oversees international trade fair calendar and coordinates participation at particular fairs
- Provides export readiness training
- Provides support in sourcing potential buyers
- Focus sectors: horticulture and agriculturals, textile/apparel, commercial crafts and SMEs, fish and livestock, other manufactures, services other than tourism.

*The Kenya National Chamber of Commerce and Industry (KNCCI)*

- 47 branches across the country with a membership of over 20,000
- The Chamber has seen its activities substantially reduced as a number of its functions have moved to other agencies
- It sees its national reach as a major resource that can be mobilized in AGOA-related outreach activities.

*Fresh Produce Exporters Association of Kenya (FPEAK)*

- Focuses on fresh flowers, vegetables and fruits
- Approximately 100 members
- Recently launched practical training center with demonstration plots, classrooms and accommodation
- Leads trade fair delegations
- Limited participation in market research and analysis.

*African Cotton & Textile Industries Federation (ACTIF)*

- Regional association with 38 members in 20 countries
- Main thrust in advocacy – particularly around extension of third party fabric rule – and connecting trade partners through its 'Cotton Africa' website
- Supports apparel investment through participation at trade fairs and provides technical training in partnership with its member associations.

*East and Central Africa Global Competitiveness Hub (ECA Hub)*

- Provides support to take advantage of US/AGOA market opportunities at both the national and firm levels
- Arranges and leads delegations to trade shows, supporting firms in preparation and participation
- Conducts US-specific export readiness training with pre-vetted firms, with consultants based in the US for its focus sectors
- Leads inward US buyer delegations, developing buyer mentor groups
- Launched 'Origin Africa', a brand that promotes purchase of African products and builds a global African product identity
- Focus sectors: apparel, floriculture, specialty food, footwear, home decor/fashion accessories.

The table below summarizes the different institutions relative areas of focus. This summary is based on the level of involvement specific to US trade, which for some institutions is only a part of that they do.

*Table 2: Institutional summary*

| Type | Organization | Activities | | | | Sectors | | Financing | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Information | Technical | Linkage | Other | Limited | Multiple | Govt. | Business | Donor/other |
| G | EPZA | | ◑ | | ● | | x | ◕ | ◔ | |
| G | EPC | ◑ | ◕ | ◑ | | | x | ◕ | | ◔ |
| G | KNCCI | | | | ◔ | | | | ● | |
| B | FPEAK | ◑ | ◕ | ◑ | | x | | | ◔ | ◕ |
| B | ACTIF | | | ◕ | ◕ | x | | | ◑ | ◑ |
| D | ECA Hub | ◕ | ● | ● | ● | | x | | | ● |

| ● | ◕ | ◑ | ◔ | ○ |
|---|---|---|---|---|
| **High** | | **Medium** | | **Low/none** |

Source: AAC interviews; organization's web sites, annual reports, newsletters.
Notes: Assessment rating of level of involvement is specific to US trade and relative to other institutions. It is only indicative. G – Government; B – Business Membership Organization (BMO); D - Donor/other.

## Summary

A 2003 UNCTAD report stated that: "The overall thesis of this analysis can be summarized as follows: tariff preferences in general offer a relatively small and declining margin of preference to developing countries, and the additional benefits of the AGOA preferences represent a modest expansion over the preferential treatment that sub-Saharan countries already enjoyed under the GSP." It continued to state that: "the non-tariff aspects of the program may ultimately be much more important to the beneficiary countries than are the tariff preferences per se."

This is too ungenerous a reading of the advantages of AGOA to Africa, and may be a result of the fact that it was an early assessment. Particularly with regard to the textile and apparel sector, AGOA has created an apparel industry in Kenya on a scale that the country would unlikely have achieved without preferential access to the US market.

However, the strong trade regime-based advantages that AGOA offers have meant that Kenya has developed an industry whose competitive edge is based on policy advantages and not firm-level advantages. The proffering of such policy-based advantages is based purely on the largess of US policy makers, leaving the textile and apparel sector very vulnerable. It needs stronger foundations.

That Kenya and its firms have done little to address this is not a fault of the architects of AGOA. However, the constant extension of AGOA and the third party fabric provision has created a moral hazard situation, where Kenya's firms do not make the necessary investments required to participate on a level global playing field and instead bank on the constant roll-over of existing advantages.

Outside of textiles and apparel, the above UNCTAD analysis begins to ring more true. AGOA has not had a dramatic impact on Kenya's non-textile and apparel exports, perhaps with the exception of nuts. Most other sectors are trading more with the US, but this is on the back of a general rise in exports to all trading partners. It is also the result of the increased focus on export-oriented technical assistance by the US government that accompanied AGOA.

In the final analysis, despite some strong growth in particular product lines, Kenya's exports to the US are substantial but not more than that. AGOA has managed to lift Kenya's exports to the US, but they have leveled at about 5% of all exports and not risen above 8%. The ending of AGOA would be a bad thing, and Kenya should do what it can to ensure its extension. But AGOA's benefits are being eroded year on year, and one day it will have to end. If it ends in time, and if Kenya uses this time to develop competitive advantages based on true firm and national-level competencies, all the better. If it ends abruptly, it will be painful, but not devastating.

## Part II: Defining strategic priorities

## Challenges

The overwhelming challenge faced by Kenya's private sector is to meet the requirements of the US market, which is a comparatively new large market. Buyers' needs must be understood, products adapted to them, transportation and logistics systems established and entry regulations complied with. Supporting private firms in this process can do much to increase Kenya's exports to the US, increasing the volume of non-textile and apparel exports to provide wider opportunities for Kenya's private sector.

But focusing on US market entry alone is not sufficient. The business environment in Kenya puts Kenyan firms at a disadvantage to their international competitors who are also pursuing US opportunities. Addressing high transportation costs, erratic and costly electricity supply and burdensome customs and trade regulations is also necessary to bolster US trade.

However, AGOA itself should not be overlooked. It provides great advantages to Kenyan firms, and is pivotal to the current competitiveness of the Kenyan textile and apparel sector, which has grown to maturity under the protection of AGOA preferences. However, AGOA is scheduled to soon come to an end. Therefore, Kenya (and many other African countries) should do what it can to extend the advantages AGOA offers for as long as possible.

### Trade policy

Little about the future of AGOA is certain. It may expire in 2015 or it may be further extended. However, one thing is certain about AGOA: it will one day be ended. It is only a question of when. Therefore, Kenya must do what it can to develop a US market-focused export sector that competes globally based on firm and country-level competitive advantages and not trade regime-based advantages.

This means that though Kenyan firms will be differently affected depending on the route which AGOA negotiations take, what Kenya does from this point on will not be substantially different.

Regardless of what happens with AGOA negotiations, Kenya must work to put its US-focused firms on strong competitive foundations. If AGOA is extended beyond 2015, the time available for this task will be longer, improving the chances that more Kenyan firms will successfully transition to a post-AGOA global trade economy. If it is not extended, there are only 3 years available for Kenyan firms to build their competitive profile, meaning that fewer firms will survive the transition to a more level global playing field.

While the action that Kenya's government and firms must take will be largely the same regardless of AGOA's expiration timetable, the impact of different expiry dates will vary: the sooner AGOA expires, the fewer Kenyan firms will survive the transition to the post-AGOA economy.

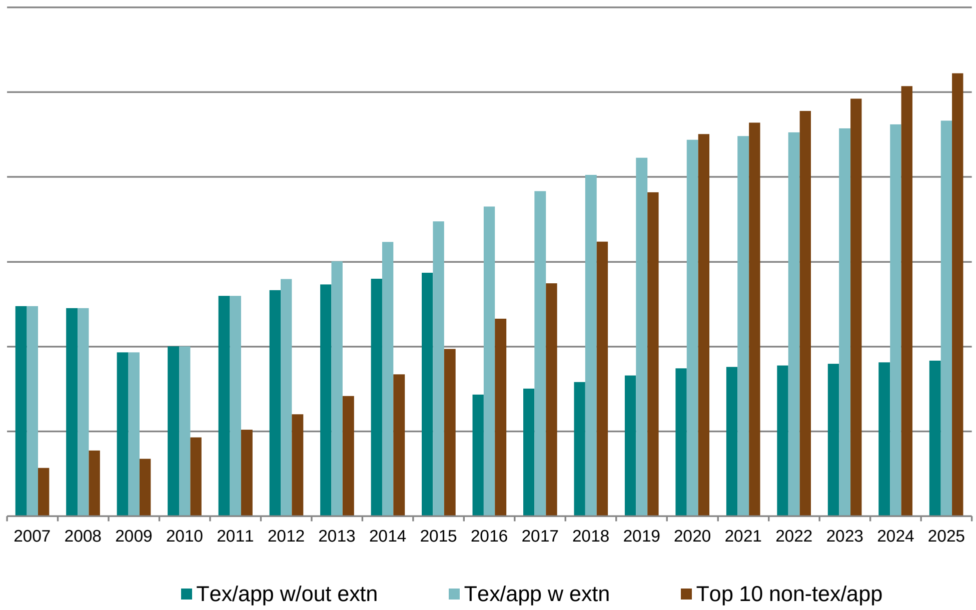
*Table 3: Summary of different AGOA scenarios and potential actions and outcomes*

| *Scenario* | *Action* | *Outcome* |
|---|---|---|
| 3rd party fabric provision expires in 2012; AGOA expires in 2015 | • Develop local textile sector and ties with regional suppliers<br>• Build the firm-level competitiveness of US-focused exporters<br>• Ensure a supportive business environment | • Many apparel firms (those that cannot source from the region) close down in 2012<br>• Many apparel firms (those that cannot compete without duty-free advantages) close down in 2015<br>• Most other product exporters continue with similar advantages under GSP as AGOA |
| Both AGOA and 3rd party fabric provision expire in 2015 | | • Many apparel firms (those that cannot compete without duty-free advantages) close down in 2015<br>• Most other product exporters continue with similar advantages under GSP as AGOA |
| 3rd party fabric provision and AGOA extended | | • Few apparel firms (those that cannot compete without duty-free advantages) close down in 20XX when AGOA expires<br>• Most other product exporters continue with similar advantages under GSP as AGOA |

Therefore, rigorous action should be taken to ensure the extension of AGOA. This begins with extension of the third party fabric provision and extends to AGOA in general.

That said, not enough has been done in the time that AGOA has been in force to wean Kenyan firms off AGOA-based preferences. More time is required to do so, but a real commitment to doing so has to be made. Kenya's arguments for AGOA extensions will be strengthened if the country makes genuine commitments to wean itself off AGOA-based advantages, as was the intention of AGOA's original architects.

*Exhibit 14*
Indicative growth paths for different scenarios (Relative value; actual data only until 2011)




The extension of AGOA will affect the textile and apparel sector in two ways:
1. Growth will be higher between now and 2015 as investors and buyers have more confidence
2 . It will give the sector more time to prepare for the onslaught of global competition.

Other major exports should continue to grow well, doing better than before due to increased policy focus on their needs, and a commitment to addressing exporters' business constraints.

Without an extension, Kenya's textile and apparel sector will almost certainly take a substantial hit, though how much is not certain. Other sectors should continue much as before, but again benefitting from increased policy focus on their needs.

## US trade-specific challenges

All export businesses face challenges. In the context of AGOA and exporting to the US, some are general and faced by many businesses in Kenya while others are more specific to trading with the US.

US-specific challenges include:
1. How to build the competitiveness of the textile and apparel industry so that Kenyan firms can compete in the eventuality of a level trading environment
2. How to manage transportation to a distant market
3. How to manage entry into a comparatively new market.

## Competing in a non-AGOA distorted international textile and apparel market

### *Apparel*

| US tariffs on non-AGOA exports into the US | |
|---|---|
| Cotton products | 19% |
| Cotton/polyester mix | 29-31% |

AGOA distorted the international textile and apparel market to give African firms a special advantage over their competitors. This opened up space in the market for Kenyan firms. However, the choice of product was driven more by the cost of quotas – which were traded in international markets – than by a specific advantage that Kenya had in that product.

Therefore Kenya started in woven products, for which quotas were expensive. However, in time the cost of woven product quotas declined, and so this product moved back to its original producer countries. At the same time, demand for knitted products rose, and with knitted product investment costs being much lower than woven equivalents, Kenya saw an increase in knitted products and a decline in woven ones. However, with quotas playing such a pivotal role in shaping the textile and apparel sector, it is difficult to gauge to what degree this sector can compete in its existing mix of product lines against other global producers.

Kenya must compare its cost structures to its closest competitors, and assess whether it can remain competitive in the absence of the duty advantages that it currently enjoys. Where it is not competitive, it must decide how it can reduce costs so that it is, or whether it can migrate into different products where it can create a competitive advantage. Failing both, it will need to develop a plan for exiting that product market altogether.

### *Textiles*

In much the same way that the apparel sector needs to assess whether it can develop into a globally competitive sector without duty advantages, Kenya needs to assess whether it can develop a viable local textile sector to supply apparel makers with the necessary range of inputs at prices that are close to their current import prices.

This will play an important role in determining the competitiveness of the apparel sector. However, assessing and then acting on the competitiveness of the textile sector will be comparatively more complex than the apparel sector. Apparel firms are already active in the US market but will need to make changes to what they do to compete in the future. Addressing the textile sector is not a question of change, but of building a sector from a very low base. It will take massive investment and time, starting from the farm and working up through the value chain. It will also take high degrees of coordination among different actors, building relations and trust between them.

However, it may be determined that Kenya will struggle to build a viable local textile sector. In this case, the country will have to build ties to textile producers in the region so as to cultivate a reliable supply base. This may anyway be necessary as a transition strategy because of the time required to build a local textile supply chain.

### Transportation

Due to the distance between Kenya and the US, transportation costs to the US are relatively higher than other markets. This puts Kenyan suppliers of cut flowers at a disadvantage to their Colombian rivals. However, a large number of Kenyan flowers are sold into the US via Amsterdam, meaning that they anyway incur the transportation costs but still manage to land and sell at competitive prices. Therefore, cost disadvantages can be overcome.

However, more direct connections to the US would reduce transportation costs, as cargo will not have to be off and reloaded, and would reduce travel times.

Transportation by sea for non-perishables is less of an issue, as the increase in costs due to greater distances are marginal. Moreover, many competitor countries that export to the US do so from greater distances away than Kenya is to the US. That said, many further away competitor countries manage to transport to the US at much lower costs than Kenya, due to high transportation costs within Kenya. This issue is not unique to exporters to the US (and so dealt with below under general business issues), but is particularly relevant to them due their higher-than average distance to market.

*Box 3: Direct flights to the US; no panacea*

There is considerable interest among Kenyan exporters in having access to direct flights to the US. This will reduce travel times and increase the ability to export perishable products. Though this sounds a highly attractive and necessary export support option, how useful it will be requires scrutiny.

As it is, Kenya's perishables – chiefly cut flowers – travel to the US. This means that current routes via Europe are viable from both a cost and time perspective. Direct flights to the US would certainly reduce travel time, but with substantially fewer carriers, and so less competition, costs would likely be higher. It may not prove a worthwhile tradeoff for exporters.

As there will be limited carriers flying the route – conceivably only one – this means that they will be landing into a single hub in the US. Kenya's exports will therefore anyway have to be reloaded onto other planes or trucks for transport to their final US destination. This will not be substantially different from similar transfers in Europe, from where direct flights to numerous US cities are available.

Finally, not all hubs are equipped to deal with the specific needs of particular perishable products. For example, Atlanta – the hub for Delta Airlines, the airline that recently considered direct flights between Kenya and the US – does not have cool storage facilities that can handle fresh flowers. Miami does, and Amsterdam certainly does. Therefore, in the eventuality of direct flights to the US, unless the carrier's hub is a city with the right infrastructure to handle fresh flowers, Kenya's cut flower exporters will likely continue to export to the US via Amsterdam.

### New market entry

As a relatively new large market for Kenyan products, there are key challenges that Kenyan firms face in penetrating the US. These include:

1. Understanding the market's needs and finding buyers

2. Complying with market entry regulations, particularly for plant and animal products
3. Setting up the infrastructure and relationships with other service providers to access the market, from banks to transporters.

Connecting exporters to buyers and helping to build knowledge and trust between them is crucial to expanding US exports. Trade shows are a good avenue for this, and considerable support has already gone towards this. In addition, actionable market data is also key. This has to move beyond generalities to product-specific details. This is still a gap.

US non-tariff barriers continue to be a barrier for Kenyan exporters, and will continue to be so particularly for new products. Support with regard to qualifying Kenyan products for entry into the US is crucial. Efforts to build ties between the Kenya Plant Health Inspectorate Services (KEPHIS) and their US counterparts are underway. These need to be built on further.

Finally, Kenyan exporters need to develop the experience and support systems to be able to efficiently get their products to their US buyers. Access to EU markets is relatively well developed, so as a well-trodden path it is easier for a new business that plans to begin selling to buyers in the EU to begin doing so. This is less the case with the US, which is a comparatively new market with less well established trade support infrastructure in place. Streamlining the ability by which firms can connect to service providers required to move their products – both in Kenya and the US – will do much to reduce the risks, costs, and time they face in trading with the US. This will encourage more firms to embark on US-focused trade.

### Economy-wide challenges

All private firms in Kenya face challenges in doing business, whether they export to the US or not. Addressing many of these are the responsibility of a variety of public institutions, with deeper economic implications than Kenya's trade with the US alone.

However, unless some of these fundamental business environment challenges are addressed, Kenya's exporters to the US will always be doing business with one hand tied behind their back. Therefore, some larger business challenges have to be highlighted and pressure brought to bear to have them addressed.

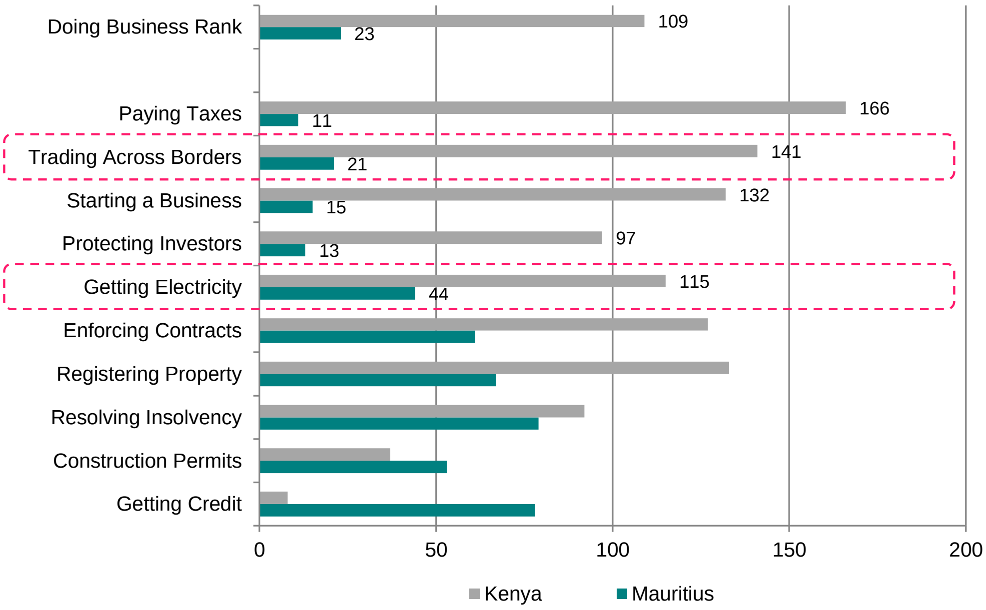
In understanding the scale of the challenges faced, it is useful to put them in context of other countries and the degree to which they face similar challenges. This gives perspective and shows what improvements should be pursued by public and private action.

Mauritius serves as useful comparator country because it is an AGOA beneficiary, has demonstrated success in private sector-led economic growth and is also active in the textile and apparel sector.

Ranked 23rd out of 183 by the World Bank's Doing Business survey, Mauritius outperforms Kenya by 86 places when it comes to an assessment of its private sector regulatory framework. Kenya performs better than Mauritius in two areas: getting credit (an overwhelming Mauritian barrier) and construction permits. However, two areas which are particularly troubling, both of which are in the top 5 in terms of the Mauritius-Kenya performance spread, are trading across borders and getting electricity, both of which are crucial for Kenya's exporters to the US.

*Exhibit 15*

Mauritius and Kenya's Doing Business rankings compared (Listed according to difference in 2012 rankings)



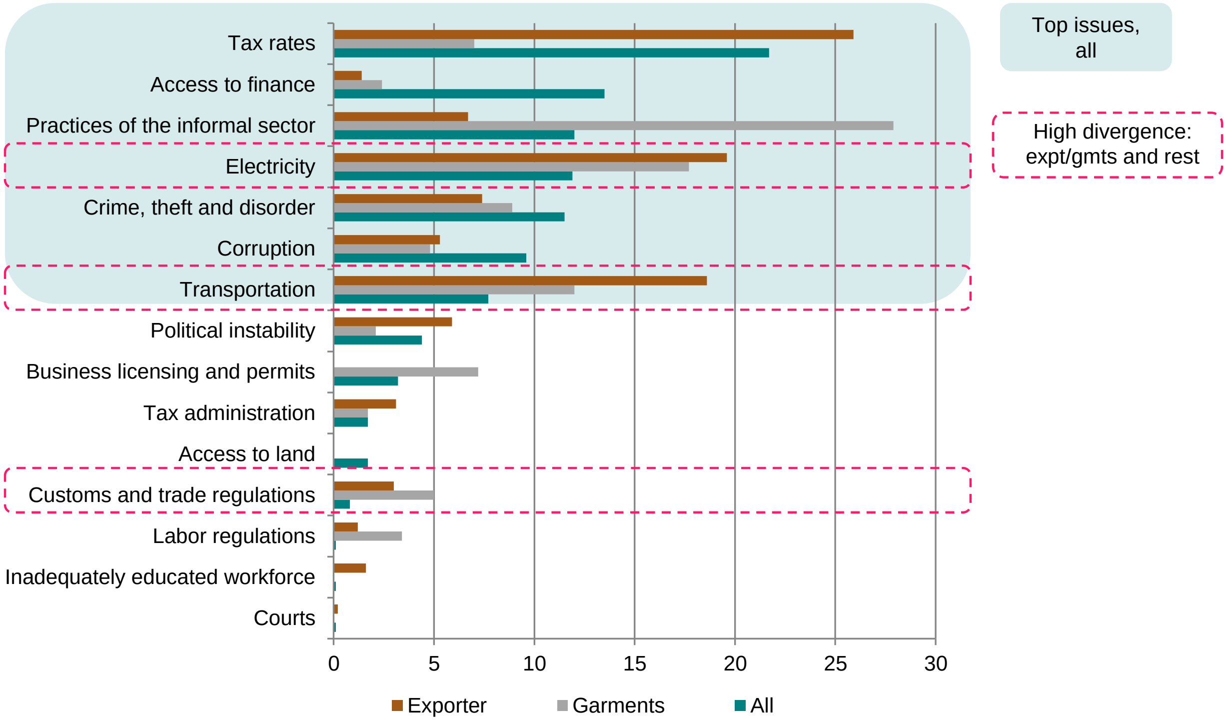

Source: World Bank data: www.doingbusienss.org; AAC analysis.

The business environment can also be looked at in terms of the issues faced by different types of firms. World Bank investment climate survey data for Kenya shows top issues faced by small and medium-sized enterprises (SMEs) in Kenya, mainly from the manufacturing and services sectors. The survey reports that the overriding concern of Kenyan businesses with the investment climate is the prevailing tax rate, followed by access to finance. These two issues are not of great concern to exporters and garment firms, and are the areas of greatest divergence between their rating of the investment climate and the Kenyan private sector in general.

However, exporters and garment firms share with all others infrastructure concerns regarding electricity and transportation, as well as issues with the informal sector. (The informal sector features particularly prominently for garment makers due to their concerns with the importation of cheap secondhand clothes, more a concern for regional market suppliers as opposed to exporters). While customs and trade regulations are not large concerns for all firms, they are more so for exporters and garment makers.

*Exhibit 16*

Investment climate concerns of SMEs (Listed according to largest issue for all businesses, 2007 data)




Source: World Bank data: www.wbginvestmentclimate.org; AAC analysis.
Note: Divergence assessment of top exporter/garment issues drawn from average difference between their scores and those of all firms. See annex for more. Practices of informal sector not highlighted as it is more relevant to the local/regional market.

## AGOA strategy framework

There are a range of actions that Kenya needs to undertake to respond to the opportunities that AGOA offers. A simple framework is required to help guide, focus and communicate these actions.

The overall objective of the AGOA strategy is to support the ability of Kenyan firms to successfully sell into the US market, leveraging every opportunity that AGOA provides.

Achieving this objective will entail action across three main focus areas, which between them address all important AGOA-related actions that Kenya must undertake. They relate to trade policy, business support that is specifically focused on exporting to the US, and business support that is relevant to all businesses. These comprise the three main strategic priorities of the AGOA strategy.

Actions under each strategic priority have different geographic focus areas: some are predominantly focused on the US, others on the cross-over point between the US and Kenya, and others mainly on Kenya. The bulk of the work will occur under the second strategic priority, which targets US-specific business support issues, but focused effort across all three strategic priorities is essential to address all major challenges to increasing Kenya's exports to the US under AGOA.

*Table 4*
Main actions for each strategic priority

| **Kenya National AGOA strategy objective:**<br>"To support the ability of Kenyan firms to successfully sell into the US market, leveraging every opportunity that AGOA provides" | | |
|---|---|---|
| ***Strategic priority 1***<br>*Trade policy* | ***Strategic priority 2***<br>*Business support: US market focused* | ***Strategic priority 3***<br>*Business support: General* |
| • Lobby for extension of 3rd party fiber rule<br>• Lobby for extension of AGOA beyond 2015<br>• Ensure commitment to sunset dates of AGOA preferences among industry and general public | • Prioritize key initial focus sectors<br>• Compile actionable market analyses/opportunity guides for priority sectors<br>• Participate in trade shows for priority sectors<br>• Ensure inward buyer visits for priority sectors and develop contact hubs<br>• Analyze feasibility of local cotton-textile sector<br>• Analyze direct flight opportunities<br>• Develop training programs to address non-tariff barriers for priority exports<br>• Develop horizontal cluster coordination strategies for priority exports | • Lower transportation costs<br>• Address electricity supply and pricing<br>• Streamline customs and trade regulations |

### Strategic priority 1: Trade policy

Actions under the trade policy strategic focus area are predominantly US-focused, mainly revolving around ensuring AGOA's extension. This is a pressing need, but once done will not have to be returned to. There are therefore few medium-term actions relating to it.

There are also Kenya-focused components to this strategic priority, namely, developing local commitment to building competitiveness profiles among its key US exports that are not trade regime dependent. Developing this commitment is not urgent, therefore work on this can be started at a later date.

The Policy and Advocacy sub-committee can lead these actions, with support from ACTIF which has already gained substantial lobbying experience.

*Table 5*
Trade policy actions

| *Output* | *Near term actions* | *Medium term actions* | *Implementation lead* |
|---|---|---|---|
| • Lobby for extension of 3rd party fiber rule<br>• Lobby for extension of AGOA beyond 2015 | • Ensure coordination across actors<br>• Develop common position<br>• Contract professional lobbyist<br>• Develop position papers<br>• Track progress | • Track results<br>• Close gaps as necessary | • Policy and Advocacy sub-committee<br>• ACTIF |
| • Ensure commitment to sunset dates of AGOA preferences among industry and general public | • Clarify outreach objectives | • Develop AGOA outreach program:<br>○ Industry-focused<br>○ Public focused<br>• Roll out and track progress | • Policy/advocacy sub-committee<br>• ACTIF |

### Strategic priority 2: Business support – US market focused

The first step in supporting Kenyan firms to further their exports to the US requires developing a short-list of priority sectors. This should be limited to about 5 as a start, and can then be expanded as progress is proven and resources made available.

As many sectors are relatively new to working in the US, they will need considerable support in identifying market opportunities, and then coordinating across a range of service providers to capitalize on these opportunities. This work is best guided by a strategy that locates key areas of sector weakness and develops means by which to address them, facilitating coordination across a range of different actors.

The market research elements of the work program will be mainly undertaken in the US, while buyer-seller linkage activities require a mixed focus on both the US and Kenya. Most of the industry analysis and coordination activities will occur mainly in Kenya.

All sub-committees with the exception of Policy and Advocacy will be involved in implementing this strategic priority. Because a number of activities revolve around market linkage, the EPC and COMPETE should be asked to play active guidance roles as they have the deepest experience in buyer-seller linkage.

*Table 6*
US-market focused business support actions

| *Summary* | *Near term actions* | *Medium term actions* | *Implementation lead* |
|---|---|---|---|
| • Prioritize key initial focus sectors | • Develop prioritization criteria<br>• Develop short-list of priority sectors<br>• Conduct review and finalize | • Review and revalidate priority sector list<br>• Adjust as necessary | • Non-agriculture sub-committee |
| • Compile actionable market analyses/opportunity guides for priority exports | • Confirm priority sectors<br>• Assess exporters' market intelligence needs<br>• Commission market reports | • Update reports as required<br>• Track usage | • Non-agriculture sub-committee<br>• EPC |
| • Participate in trade shows for priority exports | • Assess trade show circuit for each sector<br>• Assign coordination role to particular institutions<br>• Develop proposals for financial support for above<br>• Launch implementation | • Repeat annually<br>• Track implementation | • Non-agriculture sub-committee<br>• EPC |
| • Ensure inward buyer visits for priority sectors and develop buyer contact hubs | • Short-list relevant buyers for each sector<br>• Assign contact coordination role<br>• Develop proposals for financial support for above<br>• Launch implementation | • Repeat annually<br>• Track implementation | • Non-agriculture sub-committee<br>• EPC<br>• COMPETE |
| • Analyze feasibility of local cotton-textile sector | • Commission textile sector feasibility and benchmarking study | • Implement findings of textile sector study | • Textile/apparel sub-committee |
| • Analyze direct flight opportunities | • Commission direct flight feasibility report | • Begin negotiations with airlines for direct flights if deemed essential | • Agriculture sub-committee |
| • Develop training programs to address non-tariff barriers for priority exports | • Assess non-tariff barriers for priority exports | • Source funding to implement systems to address NTBs | • Agriculture sub-committee |

| | | | |
|---|---|---|---|
| • Develop horizontal cluster coordination strategies for priority exports | • Draft proposals for cluster coordination strategies<br>• Develop proposals for financial support for strategy formulation | • Develop cluster coordination councils<br>• Commission cluster strategies<br>• Implement cluster strategies | • Agriculture sub-committee<br>• … in coordination with leaders from specific sectors |

### Strategic priority 3: Business support – General

General business constraints faced by exporters – mostly revolving around infrastructure supply in Kenya – are almost too large for an AGOA-focused strategy to address. However, many of these constraints are also too fundamental to the ability of US-focused firms to succeed to ignore.

Many actions relating to larger business environment issues will revolve around understanding, quantifying and publicizing the challenges faced by exporters to the US as a result of environmental challenges, and advocating for change. Much of this advocacy will be focused on particular institutions that play a critical role in alleviating each particular business constraint. This work will almost exclusively be undertaken in Kenya.

This work will be led by the Policy and Advocacy sub-committee.

*Table 7*
General business support actions

| *Summary* | *Near term actions* | *Medium term actions* | *Implementation lead* |
|---|---|---|---|
| • Lower transportation costs<br>• Address electricity supply and pricing<br>• Streamline customs and trade regulations | • Map key efforts to address constraints in transport, power, and customs/trade regulations<br>• Develop short-list of key initiatives that would aid exporters to the US for above 3 areas<br>• Develop briefs on constraints and solutions | • Publicize briefs amongst counterparts and in media<br>• Monitor progress in addressing solutions and publicize results | • Policy and Advocacy sub-committee |

### Aligning for action

Implementing the AGOA strategy will require establishing explicit leadership and implementation teams. The structure used will tie in to the teams established under the National Committee on AGOA (NC AGOA) and its related sub-committees.

The institutional structure will be anchored around the main priorities of the strategy. The progress of the strategy will be overseen by the NC AGOA, with small coordination committees established for each strategic thrust to coordinate and share information across implementing teams. This ensures that learning is passed from one sub-committee to another, and reduces the risk of duplication of effort. This will be particularly important for the second strategic thrust – US-specific business support – because actions undertaken in this area involve a number of different sub-committees. Due to the fact that the Policy and

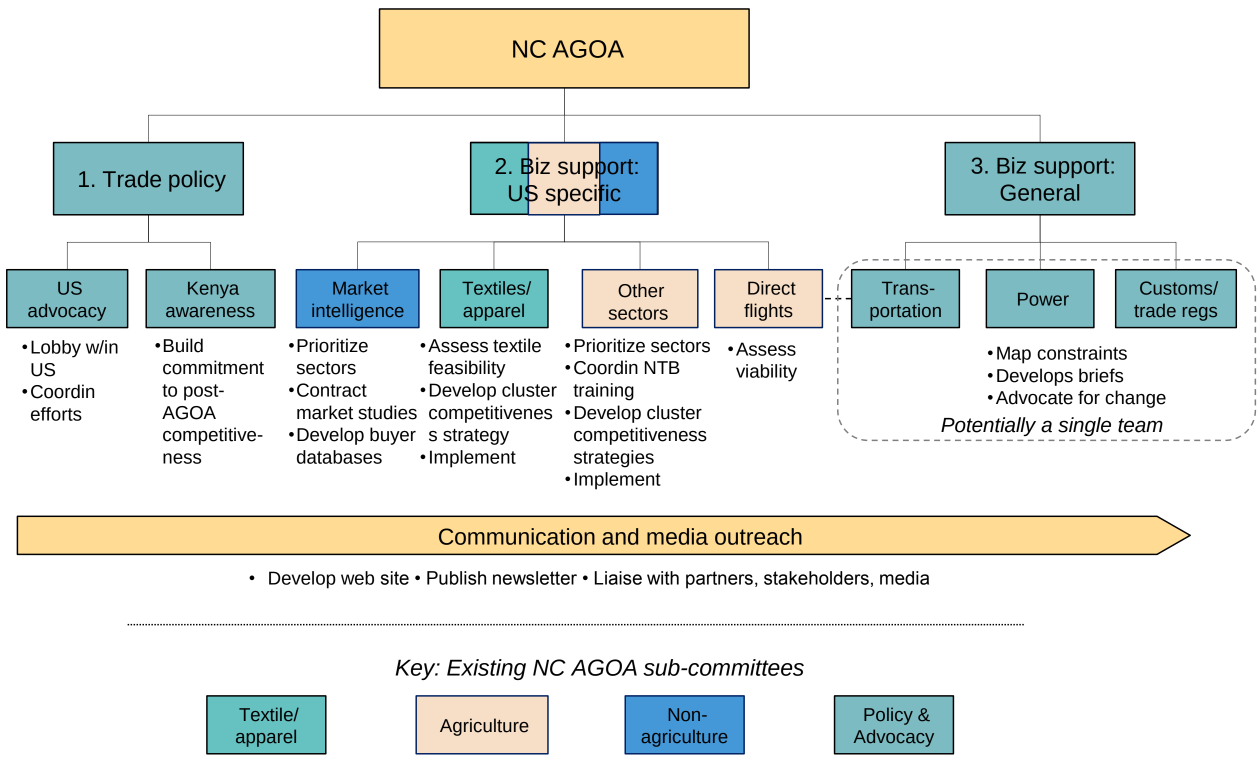
Advocacy sub-committee is overseeing two strategic priorities, the committee should consider designating different members to work on separate strategic priorities.

Each sub-committee must have a secretariat to support them and be comprised of people with the skills and time to ensure that the key actions outlined in the strategy are started and followed through on. The sub-committee members should have high degrees of expertise either in the functional or sectoral focus of the work, or both.

Finally, all teams will require support to communicate their work to the private sector, other arms of government and the general public. Therefore a team should be established with the skills required to help to get the word out on the work being done to support Kenya's firms take advantage of AGOA, which will include establishing and updating a web site, publishing newsletters targeted to certain groups of stakeholders, and linking sub-committees with representatives of the media.

*Exhibit 17*

Implementation structure for the AGOA strategy



## Annexes

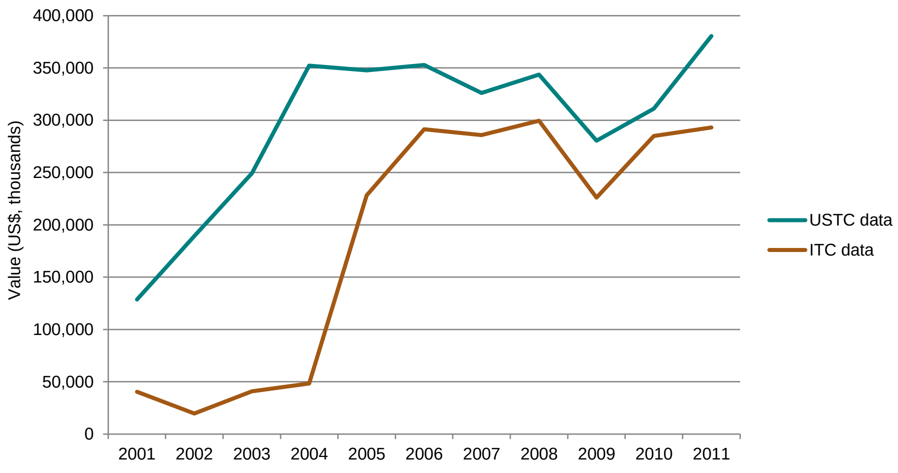
### Annex 1: Data discrepancies

Trade data from the US International Trade Commission and the UN/WTO International Trade Center show considerable differences in Kenya's exports to the US. (See below).

In aggregate terms, the main difference lies in the 3 year delay seen in the increase of Kenya's exports to the US after AGOA's passage. However, ITC data then show a much faster rate of growth than the USITC data.

By 2006 the two data sets track each other more closely, though the USITC data shows a higher total export value of roughly $50 m. However, the discrepancy gap widens again in 2011.

*Exhibit A*
Total Kenya exports to the US by data source (Value)




Source: USITC and ITC data; AAC analysis.

## Annex II: Top 25 non-textile and apparel exports – USITC and ITC compared

*Table A*
Top 25 non-textile and apparel exports to the US by data source

| | *USITC* | *Average 2007-11** | | *ITC* | *Average 2007-11** |
|---|---|---|---|---|---|
| 1 | Coffee | 33,404 | 1 | Coffee | 26,980 |
| 2 | Tea | 14,372 | 2 | Tea | 13,215 |
| 3 | Nuts | 12,537 | 3 | Nuts | 9,564 |
| 4 | Special transactions | 9,992 | 4 | Cut flowers | 1,958 |
| 5 | Cut flowers | 1,958 | 5 | Fruit juice (ex citrus) | 1,313 |
| 6 | Games/gaming related | 1,955 | 6 | Wood marquetry / cases | 1,040 |
| 7 | Fruit juice (ex citrus) | 1,687 | 7 | Fish fillets, incl frozen | 989 |
| 8 | Vegetable-based materials | 1,305 | 8 | Plants, bulbs, cuttings | 875 |
| 9 | Processed fruits and nuts | 1,156 | 9 | Fishing rods, hooks | 822 |
| 10 | Telephony elec apparatus | 1,064 | 10 | Sporting goods | 719 |
| 11 | Sporting goods | 1,057 | 11 | Precious/semi stones | 714 |
| 12 | Low valued items | 1,044 | 12 | Aircraft parts | 630 |
| 13 | Fish fillets, incl frozen | 981 | 13 | Essential oils | 441 |
| 14 | Precious/semi stones | 829 | 14 | Imitation jewellery | 390 |
| 15 | Wood items | 618 | 15 | Tobacco raw | 380 |
| 16 | Packing goods | 609 | 16 | Sculptures | 306 |
| 17 | Essential oils | 491 | 17 | Articles of stone / other | 305 |
| 18 | Jewelry, gold, silver, pltm | 456 | 18 | Extracts of coffee / tea | 303 |
| 19 | Imitation jewelry | 452 | 19 | Veg fats | 285 |
| 20 | Compasses and other | 445 | 20 | Vegetable saps / extracts | 252 |
| 21 | Fish, fresh or chilled | 433 | 21 | Tanning extracts | 151 |
| 22 | Veg fats | 401 | 22 | Beer | 146 |
| 23 | Plants, bulbs, cuttings | 394 | 23 | Trunks/bags of leather | 133 |
| 24 | Tanning extracts | 341 | 24 | Toys | 121 |
| 25 | Paintings | 309 | 25 | Telephony elec apparatus | 99 |

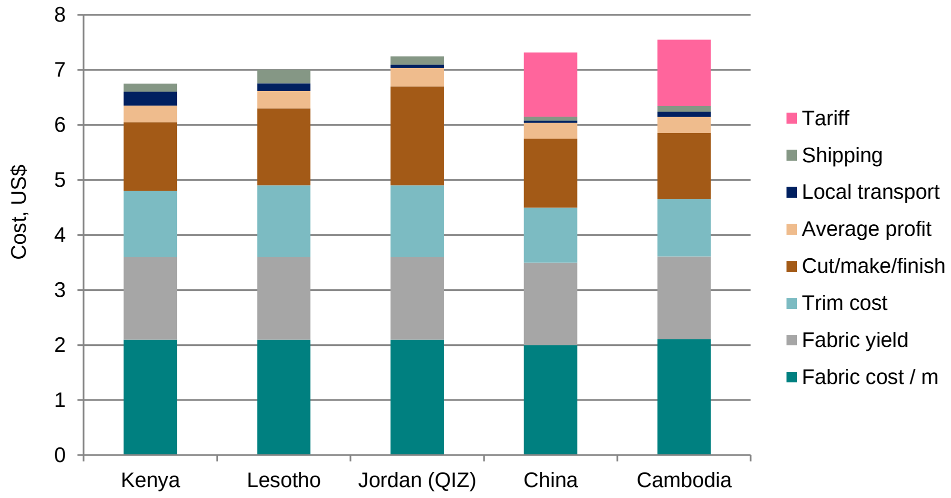
*In $US thousands
Source: USITC and ITC data.

## Annex III: Textile and apparel's competitiveness concerns

The graph below shows the production and delivery cost break downs of a number of countries for the same product, women's jeans. The study showed that Kenya is more cost competitive than Lesotho and Jordan, but is only able to compete against China and Cambodia because of the 19% tariffs that the latter two are obliged to pay. Kenyan firms pay the highest local transportation costs of all, including land-locked Lesotho.

*Exhibit B*

Comparative production and delivery costs of women's jeans (US$)




Source: USAID-COMPETE, "US Apparel End Market Analysis," July 2011.

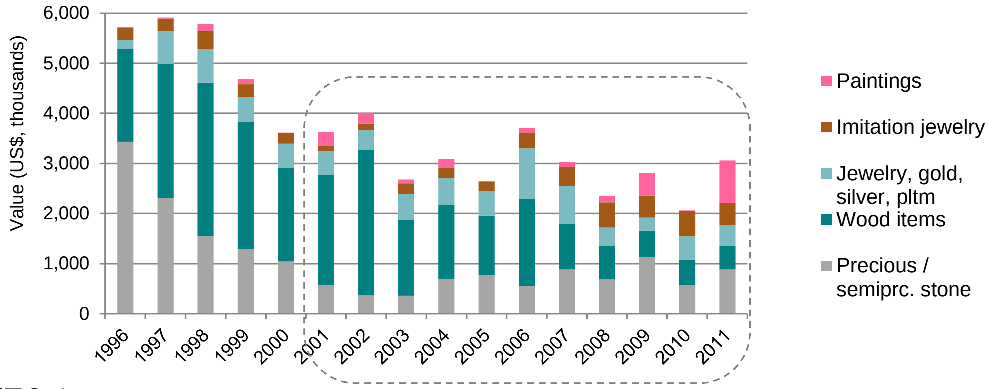
## Annex IV: Home and fashion accessories from different data sources

Different trade data sources list different HFA-related products. Regardless, the overall picture remains largely the same for the same period, excepting that a 2006 spike is higher from ITC-sourced data.

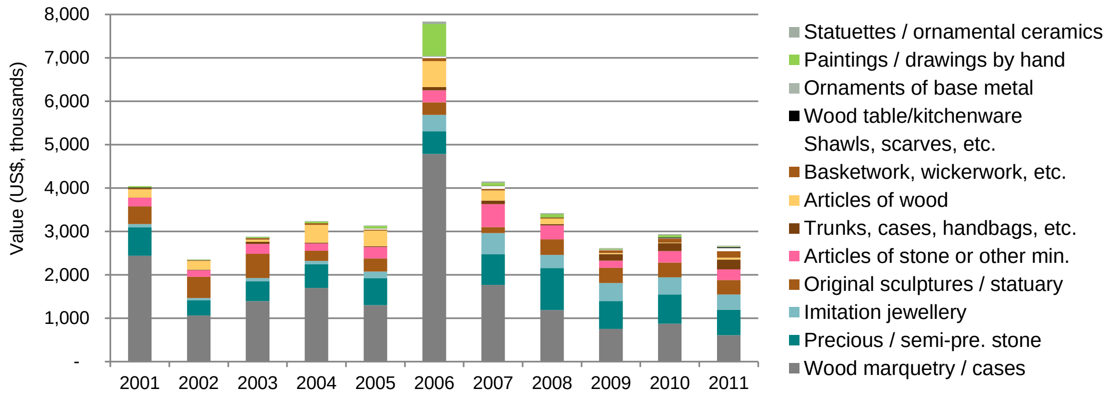
*Exhibit C*

HFA-related exports to the US (Value)

USITC data




ITC data




Source: USITC and ITC data; AAC analysis.

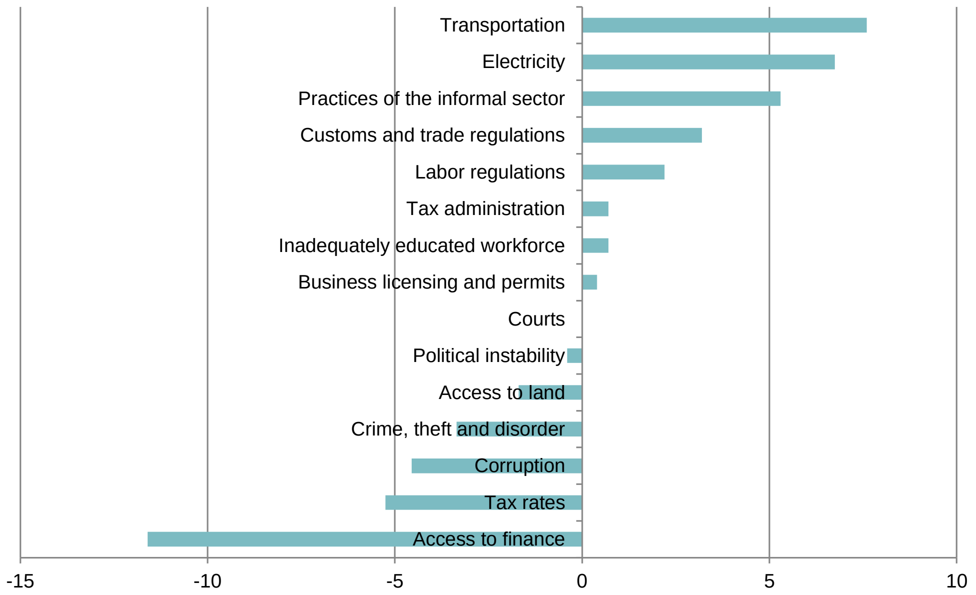
## Annex V: Concerns of exporters and the garment sector compared to all Kenyan firms

The graph below shows the difference in rating of key concerns between Kenyan exporters and garment manufacturers (average of the two) and the survey set of all Kenyan firms. This helps to set apart the issues that are of particular concern to AGOA-like firms, with the top ones being the issues to which they attach greater relative weight than other firms.

Informal sector practices feature highly; however, this is not likely to be a big concern for US-focused businesses but more for garment firms that focus on the local and regional market (who therefore skew the results).

*Exhibit D*

Difference between ratings of exporters/garment firms and all Kenyan firms on the investment climate (2007 survey)



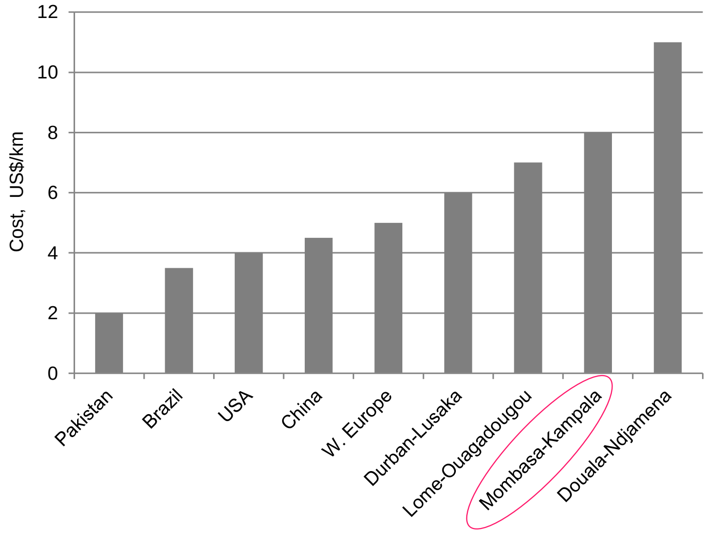

Source: World Bank data: www.wbginvestmentclimate.org; AAC analysis.

## Annex VI: Transportation costs compared

Transportation costs in the region are among the highest in the world, with the Mombasa-Kampala corridor out priced by only the Douala-Ndjamena corridor.

*Exhibit E*

Cost per km of transportation by land




Source: USAID-COMPETE, "Domestic border post integration and management at key East African borders," (presentation), 2012.

## Annex VII: References and consultations

The major sources of information for the situation analysis are trade data from the International Trade Center and the US International Trade Commission, and interviews with industry experts from the private sector, business associations and government agencies.

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Due to the project's compressed timeframe, stakeholder consultation could not be extensive. Meetings were solicited primarily with technical experts and the heads of the NC AGOA sub-committees.

However, as the research findings emerged and the strategic approach was being formulated, all stakeholders were kept updated and invited to submit feedback via regular email correspondence and a project blog (available at agoastrategy.blogspot.com).

The draft strategy was also presented to NC AGOA members for review and feedback during a half-day workshop at the end of May 2012.

*Meetings list*

| | | Met | Solicited |
|---|---|---|---|
| African Cotton & Textile Industries Federation | Rajeev Arora | x | |
| ECA Trade Hub (COMPETE) | Finn Holm-Olsen | x | |
| ECA Trade Hub (COMPETE) | JC Mazingue | x | |
| Export Processing Zones Authority | Evelyn Noah | | x |
| Export Promotion Council | Julius Bett | x | |
| Federation of Women Entrepreneurs | Nancy Gitonga | x | |
| Fresh Produce Exporters Association of Kenya | Francis Wario | x | |
| Kenya Horticulture Competitiveness Project | Grace Nyaa | x | |
| Kenya Horticulture Competitiveness Project | Sylvia Mbaabu | x | |
| Kenya National Chamber of Commerce and Industry | George Wangima | x | |
| Kenya National Chamber of Commerce and Industry | James Ndegwa | x | |
| Kenya National Chamber of Commerce and Industry | Raphael Omusi | x | |
| Kenya Plant Health Inspectorate Services | Dorothy Opondo | | x |
| Kenya Plant Health Inspectorate Services | Phillip Njoroge | | x |
| K-Net Flowers | Mike King'ori | x | |
| Ministry of Agriculture | Anne Onyango | | x |
| Ministry of Trade | Elizabeth Miguda | | x |
| Ministry of Trade | JN Kosure | x | |
| Mohazo | Zohra Baraka | x | |

## Annex VIII: Project background and scope

This strategy document was prepared as part of a strategy formulation process that ran from late April to early June 2012, comprising a 20-day level of effort. The strategy had to be undertaken in a compressed timeframe, to have initial thinking in place to guide the engagement of Kenya's delegation to the 11th AGOA Forum in the United States in June 2012.

The strategy was reviewed, discussed, and validated at a workshop held in Nairobi on May 29th, attended by the National Committee on AGOA.

This project was led by the Ministry of Trade, with support from USAID-COMPETE.