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WEST AFRICA TRADE AND INVESTMENT HUB PROGRAM FOR EXPANDING APPAREL EXPORTS, TECHNICAL ASSISTANCE PERFORMED, JUNE - JULY 2015

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WEST AFRICA TRADE AND INVESTMENT

PROGRAM FOR EXPANDING APPAREL
EXPORTS, TECHNICAL ASSISTANCE
PERFORMED, JUNE-JULY 2015

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CONTENTS

- Acronyms..... 2**
- Executive Summary 3**
- 1. Report of Activities..... 4**
 - 1.1 Key Issues Addressed 4
 - 1.2 Outcomes 7
- 2. Analysis and Recommendations..... 10**
 - 2.1 Ghana 10
 - 2.2 Benin..... 10
- 3. Follow up 12**
 - 3.1 Upcoming Activities..... 12

ACRONYMS

ACP EU – EPA – African, Caribbean and Pacific European Union Economic Partnership Agreement
ACTIF – African Cotton and Textile Industries Federation
AfDB – African Development Bank
AGAM – Association of Ghana Apparel Manufacturers
AGOA – African Growth and Opportunity Act
ANC – Africa New Confection
AVCS – Apparel Value Chain Specialist
AVCA – Apparel Value Chain Adviser
B&FT – Business & Financial Times
COP – Chief of Party
COTVET – Council for Technical and Vocational Education & Training
EDAIF – Export Trade, Agricultural & Industrial Development Fund
FAF – Finance Facilitation Team
FOB – Free on Board
GEPA – Ghana Export Promotion Authority
GFZB – Ghana Free Zone Board
GIPA – Ghana Investment promotion Authority
GoG – Government of Ghana
GM – General Manager
ITC – International Trade Center
MEXA – Mauritian Export Association
MiA – Made in Africa
MOTI – Ministry of Trade and Industry
STTA – Short-Term Technical Assistance
WATIH – West Africa Trade and Investment Hub Network
USAID – United States Agency for International Development
WRAP – World Responsible Apparel Production

EXECUTIVE SUMMARY

While the apparel industry appeared to have finally received the attention it deserved from the Government of Ghana (GoG) and its key institutions, progress appears once again to have slowed dramatically. To date, the Council for Technical and Vocational Education & Training (COTVET) has only disbursed a fraction of the grant allocated to one of the lead firms. Meanwhile, the Export Trade, Agricultural & Industrial Development Fund (EDAIF) is now requesting the full contact details of all the employees to be trained before disbursing its training grant. Rather than removing red-tape, some institutions are seemingly taking pleasure in adding more hurdles.

West Africa Trade and Investment Hub (WATIH) submitted its suggested apparel export strategy to the Ministry of Trade and Industry (MOTI) and raised problems that needed urgent attention in October 2014. WATIH warned that Lucky 1888 was experiencing problems such as reduced efficiency rates due to space, visas, drinking water and other issues, and that Lucky 1888 wondered how long they could continue without immediate MOTI interventions. WATIH's suggested interventions did not materialize and Lucky 1888 has since signaled their intention to withdraw their investment from Ghana before the end of the year.

It appears that the GoG and its implementing agencies, including MOTI, GEPA, GIPA, and GFZB are either not willing or not able to grasp the opportunity that increased exports presents – in particular through the African Growth and Opportunity Act (AGOA), which could offer rapid employment at a relatively low cost. Suggested interventions could help create 10,000 jobs within the next 3 to 5 years.

Despite the existing challenges, WATIH, in collaboration with Made in Africa (MiA), is making progress in preparing second tier companies (non-lead firms) to export. Three companies – Precious Textiles and Cadling/KAD in Ghana, and ANC in Benin – have produced their first set of samples for approval based on the tech-packs (garment specifications) provided by US buyers and MiA. MiA is continuing to provide technical and other support, such as factory lay-out changes to improve production flow, upgrading safety and security procedures for some of the incumbents. To speed up the process and increase leverage, WATIH is evaluating a Grant/Sub-contract for this. By the end of 2015, MiA estimates exports to reach \$75,000 from just two of the companies, and by end 2016 to reach approximately \$750,000 per month from the five companies they are working with.

Despite the unfortunate demise of Lucky 1888 – which will reduce Ghana's per annum garment exports by \$2 million – DTRT, despite its own set of challenges, managed to attain \$2.5 million of apparel exports between December 2014 and June 2015. Even without acquiring additional factory space, this should grow to close \$7 million by end 2015 and exceed \$10 million in 2016. With additional factory space, DTRT could double their current number of employees (1,300).

I. REPORT OF ACTIVITIES

I.1 KEY ISSUES ADDRESSED

The following is an outline of the key activities performed with the Apparel Value Chain Adviser (AVCS), during AVCA's Short-Term Technical Assistance (STTA) trip:

- A meeting was convened with Gideon Quarcoo¹, CEO of the Ghana Export Promotion Agency (GEPA) at the Trade Hub offices. He was interested in obtaining more information about the potential for Ghana to be present at **Origin Africa (OA)**, an Investment and Trade Fair being organized by the African Cotton and Textile Industries Federation (ACTIF) in Addis Ababa, Ethiopia in November. However, GEPA and the Ghana Investment Promotion Authority (GIPA) have their trade fair schedules set almost a year in advance. According to the CEO of GEPA, the event in Ethiopia is of major interest as a means to showcase Ghana's investment potential as a sourcing destination. He planned to discuss with other Government stakeholders the possibility of rescheduling trade fairs and repurposing any money that may be "freed-up" for OA in the process. As of time of departure, AVCA did not receive any confirmation that Ghana would be present at OA.

At that same meeting, the **Capacity Building Workshop** was discussed, and Gideon Quarcoo indicated that the GEPA staff members are unsure of the terminology and processes related to the textile and apparel industry, without which it is difficult to gain the confidence of prospective investors and buyers. The CEO asked whether a glossary of the key textile and apparel terminology could be made available to his department after the workshop to ensure capacity could be built within GEPA going forward (including following staff changes).

This meeting was followed up two weeks later by Mrs. Adwowa Tagoe, in charge of Arts & Crafts at GEPA, as they were now also looking to attend OA. The AVCA suggested that OA may not be the best trade fair for her purposes, as most of the US and EU buyers are looking to source apparel.

- **MOTI** (Ministry of Trade & Industry): To determine whether the invitation letter for the Minister for the Capacity Building Workshop had reached the office, various attempts were made to contact and visit key staff of MOTI, namely the Deputy Trade Minister, and Gerald Nyarko-Mensah and Foli Kuma, Technical Advisors in Trade and Development. However, all were traveling.

¹ Mr Quarcoo was the former Deputy Minister of Labor/Employment. He also sits on the Board (as Chairman) of EDAIF grant and loan disbursements and was embarrassed when tackled on why DTRT only had 30% of its grant request funded. He also sits on the Board that oversees the Chamber of Commerce, Manufacturing and inter-ministerial meetings that decides on which industry sectors the GoG should be promoting for export development and promotion.

NB: EDAIF is in the process of being absorbed by the new Ghana EXIM Bank

A meeting with the MOTI Director of Manufacturing, Kofi Afresah Nuhu, also took place to discuss OA and the Capacity Building Workshop. He lauded the idea of attending OA and would support attending the event. With regard to DTRT, Mr Nuhu was well aware of the company's factory space shortage, and of the space problems for Lucky 1888 before them. He was also well aware of the many other unresolved issues regarding investors – mentioning that there had been an edict to evict those who had not paid factory rentals. This was, however, temporarily blocked, indicating that it was not an easy process. Mr Nuhu indicated that many issues pertaining to the industry's well-being were outside his control.

C&H China: The apparel team was informed that C&H, a Chinese manufacturer with investments in Ethiopia (footwear) and Rwanda (garments), had visited Ghana seeking investment opportunities. The AVCA checked with contacts to see whether these investments in Ethiopia and Rwanda were in good standing. The feedback was exclusively positive, and indicated that C&H will invest in a third factory in Rwanda as soon as the new 11,000 m² factory shell is completed, which will support up to 2,500 employees. WATIH was on the list of invitees for a meeting with C&H and the GoG. However, the invitation was misplaced. Apparently, an investment MOU between C&H and the Ghana Government was signed. However, according to one of MOTI's staff, Ghana had no investment incentives to offer. Shortly thereafter, a Senegalese media outlet published an article stating that C&H is investing in a clothing factory in Senegal, with the potential to employ 1,000 people, with an investment in Nigeria to follow.

- **Made in Africa (MiA):** Meetings were held to update the Apparel Team on progress to-date with the four Ghanaian companies and one Beninois company. Two companies, Cadling/KAD Manufacturing and ANC, had been provided with samples from two smaller brands and are anticipated to be able to export approximately \$75,000 by December 2015. Sampling continued with the other companies where changes in production flow/layout were still in progress. Two of the companies (Precious and Rim Artex – more geared to the larger volume/uniform orders) are anticipated to be able to meet MiA's goals of exporting between \$ 500,000 and \$750,000 Free on Board (FOB) per month (approximately 85,000 units per month) by December 2016. One of the companies MiA is targeting may also outsource to an existing factory – an idea which took shape back in early 2015. The apparel team originally envisioned this trickle-down effect would take one to two years, where dedicated exporters (lead companies) outsource to second-tier apparel manufacturers.

In discussing MiA's finances, the AVCA suggested MiA approach WATIH for a grant (which later became a possible cost-sharing sub-contract). This is in the process of being evaluated by WATIH and Abt Associates. MiA has sent WATIH a description of its needs, and WATIH has described the deliverable requirements for MiA under the project's overarching apparel strategies; both sides' needs complement one another.

An additional meeting was held with Leora Kelman, an MiA intern, regarding the apparel industry's development and some of the lessons learned in Ghana and other African countries. The lack of investments in textiles (spinning, weaving, dyeing and finishing) with the exception being Ethiopia, was also discussed. Similarly, the lack of garment production for local markets, in light of the second-hand clothing, was also addressed.

Discussions were also held with Costa Mavrolen, another MiA intern, regarding funding options for solar energy as an option for the ANC factory in Benin. At the same time, information was

provided on the ACP EU-EPA deal to enable duty free exports to the EU utilizing third country fabrics.

- **Global Mamas:** Since the Ebola outbreak, a Fair Trade NGO that has been producing batiks and ladies and children's dresses for years (direct exports and exports via the tourism trade), has been struggling with sales. They were interested in meeting with MiA regarding the possibility of producing for the smaller, more niched brands MiA was involved with. They are being put in contact. Additionally, Global Mamas was making inquiries about the new Apparel Association and will be put in contact with the Association of Ghana Apparel manufacturers (AGAM) executive for membership.
- **Capacity Building Workshop:** The apparel team held a number of discussions regarding the agenda and whether it should be over two days rather than one, and whether to narrow down to the audience to only MOTI and its agencies (namely, GEPA, GIPA, and GFZB), rather than adding in Customs, and AGAM. There was not confirmation of the final attendance by the time AVCA departed. These discussions were in part also motivated by the lack of availability of two key speakers, after changes in the original workshop dates. The workshop is being narrowed to a one-day seminar regarding the apparel value chain (locally and globally), how they work, terminology, what investors and buyers are looking for and what the Government/Ministry of Trade & Industry (target audience) needs to do to provide a much more enabling environment in Ghana to take advantage of the opportunities AGOA presents for their apparel industry, especially after its 10 year extension.
- **Business & Financial Times (B&FT):** On July 13, an article in the B&FT appeared that stated that the GoG's National Export Strategy would cost \$500 million. Embedded in the article was a small section pertaining to AGOA, but with no explanation of what opportunities AGOA and its 10 year (incorrectly described as 15 year) extension means for the Ghanaian manufacturers. To set the record straight, the journalist was invited to attend a meeting at DTRT, to see first-hand the impact AGOA and its access to third country fabrics extends to the Ghanaian apparel industry. The resultant article was not fit for publication and DTRT took it upon themselves to prepare a press statement that would outline what opportunities AGOA offered and how DTRT had taken advantage of this and could potentially more than double the current 1,300 employees if MOTI provides the enabling environment.
- **DTRT Apparel:** This company recently celebrated having produced its 1 millionth garment export over the December 2014 – June 2015 period, with an Free on Board value of \$2.5 million. Should MOTI help address the company's urgent need for extra factory space and assist with their training program, DTRT could ramp up export production to approximately 350,000 to 400,000 units per month and add another \$4 to \$5 million in exports before the end of the year. DTRT's exports would then equate what the entire garment industry exported (\$6 to \$7 million – more than 70% stemming from one FDI company) per annum in 2006/07, before the industry collapsed.

During the last week of the AVCA's STTA trip, DTRT was visited by the Minister of Labor/Employment, promising funding within 4 weeks to train 1,000 people to increase their employment. Without additional factory space, this will not materialize.

- **Lucky 1888:** As early as 2008, the former West Africa Trade Hub project was intimately involved in bringing Lucky 1888 to Ghana, with the actual investment taking place during late

2010. By 2014, Lucky 1888 employed 450 people, exporting some 200,000 garments per month to the US. Its problems (manufacturing and storage space², multiple entry visas for management/directors, lack of waste disposal, lack of potable water, factory maintenance and of late, out of the blue, union issues, among others) caused their productivity/efficiencies to drop below profitability levels. Only lip service was paid to their issues (in particular the lack of factory space, which is also the current constraint for DTRT), and Lucky 1888 decided to cease operations and pull their investment out of Ghana. Operations are currently winding down.

- **MEXA/Mauritian Minister of Finance visit to Ghana Ministry of Finance:** AVCA was emailed by MEXA (Mauritian Export Association) that a delegation was due to visit the Minister of Finance of Ghana. MEXA requested information on the Ghanaian apparel industry and the reason it had not taken advantage of AGOA to the same extent as other countries had in Africa. Discussions at WATIH indicated it would be best to enter in to discussions with MEXA after they meet, as this was a Ministerial meeting. No further information was received from MEXA after initial correspondence. Third party inputs revealed that a MEXA delegation had already visited Ghana and that a Ministerial meeting was to follow. No further insight by any of the parties concerned could shed more light on this event.
- **FY 2016:** The apparel team discussed items and activities that should be on the agenda of the 2016 work plan and will be shared with those tasked to draft the FY 2016 WATIH apparel work plan.
- **Benin Trip:** The apparel team visited Benin to update itself on ANC progress with the sample order for MiA and provide additional support and advice as required. This was followed by meetings with the Chamber of Commerce to discuss increased interest and support by Government to provide training assistance for ANC. This visit is reported in more detail in the WATIH Cotonou, Benin, Trip Report of 8-10 July, submitted by Emmanuel Odonkor.

1.2 OUTCOMES

- The GEPA CEO reacted positively³ to the upcoming Capacity Building Workshop, given the need for his staff to know proper talking points when engaging with potential investors, and in particular, potential buyers. However, he was certainly more interested when it came to Origin Africa, the possibility of exhibiting at the Trade Show and the possibility of WATIH contributing to their expenses to participate. No obvious apparel companies were put forward as potential exhibitors. Yet the manager of the Arts & Craft sector was told to get more information for their sector to attend OA if they can accommodate the trade fair in their pre-determined trade fair schedule.

² This while the three factories adjacent to the two Lucky 1888 occupies are effectively warehouses of sewing machines for factories that closed 4 to 5 years ago.

³ The GEPA CEO would like the apparel industry to succeed and has strong Government connection. WATIH should cultivate Mr Quarcoo's positive attitude to the industry and work with him as much as possible to get a point man to propel Government's backing of the apparel industry.

- MOTI is attempting to evict Free Zone factory occupations without concomitant rentals. However, this has had the unintended consequence of incentivizing one company to temporarily re-start some sewing lines – which have been idle for years and could have been made available in one of their other factories – for the purposes of avoiding eviction. Similarly, another factory owner whose sewing machines have been in storage for years is now looking at re-starting, all in the effort to avoid machinery being evicted and having to pay for machinery removal and new warehousing facilities.
- The GoG has, for the time being, lost the opportunity to attract investment from C&H. This should be a wakeup call. WATIH will need to evaluate whether the GIPA and MOTI will work closely with WATIH to draw up a convincing investment road-map for future potential apparel investors. The apparel team has requested Abou Fall, Value Chain Team Leader, to “flesh-out” more information on C&H investment in Senegal and in particular the investment incentives they have been offered by the Government of Senegal.
- Although headway is being made with officials at MOTI and its various agencies regarding the apparel industry and the opportunities it presents, there is not yet one person who can be relied on to take charge with moving efforts forward. WATIH’s progress has thus been hindered.
- MiA, with the help of the WATIH apparel team, has been able to identify apparel manufacturers they can work with to entertain export orders for the US market and to embrace Fair Trade principals. By the end of 2015, two companies are anticipated to be in a position to have fulfilled initial export orders for the smaller US brands (approximately \$75,000). To ensure the momentum and traction MiA is creating continues, the apparel team requested MiA to put forward an action plan and budget for a possible WATIH Grant allocation and/or work hand-in-hand with WATIH on a subcontract basis, with potential deliveries in terms of well-functioning mass production export manufacturers with potential orders of between \$500,000 and \$750,000 per month materializing by the end of 2016. This has been set in motion and the necessary preliminary paperwork has been submitted.
- Global Mamas is expected to join the Association of Ghana Apparel manufacturers (AGAM), though the Association is yet not fully functional.
- The Capacity Building workshop was moved to August to ensure maximum exposure, as most of the people earmarked to attend the workshop were in Italy to attend an international trade fair.
- DTRT prepared a press statement, in light of poor journalistic efforts of the newspaper, to be published in the Business and Financial Times regarding the opportunities AGOA presents for the apparel industry and the strides they have made to date.
- WATIH will closely monitor the developments promised by the Ministry of Labor/Employment concerning the training funds for DTRT. Should DTRT then also get access to additional factory space, they will be able to meet their target of employing 2,500 people and exporting in excess of \$10 million in 2016.
- WATIH will monitor the closure of Lucky 1888 and the outcome of the factory buildings they will be vacating.

- The MEXA visit will be postponed until further notice/correspondence.
- A key outcome of the Benin trip is the fact that the Ministry of Trade & Industry and Chamber of Commerce have agreed not to pursue a very costly strategy to prop up their textile industry (which would have included establishing a textile institute, among other initiatives), but rather concentrate all their efforts on developing the apparel sector and assisting the sector with training where they can. After alerting Christine Nicolino of Atelier Competences International – www.atelier-aci.com, to the existence of Benin’s first commercial mass production apparel manufacturer, meetings have been arranged between the finance partners Orabank and ANC to discuss their financing needs. ANC managed to produce samples based on the US buyer’s tech-packs – which were delivered just in time for approval by the US buyer. The initial delay in delivering the samples was due to transport issues.

2. ANALYSIS AND RECOMMENDATIONS

2.1 GHANA

Despite a two-day event between MOTI, WATIH, and key buyers, investors, financiers, customs personnel, and apparel manufacturers in January 2012 to “re-launch” the industry, nothing has happened. It appears that there is no-one in the government willing to take ownership of the opportunities AGOA offers the Ghanaian apparel industry and the Government of Ghana.

WATIH needs to urgently engage the GoG and MOTI once again to identify and formulate a hands-on Apparel Task Team that has a vision, cutting through all the existing bureaucratic tape, and prioritize the apparel industry as the GoG’s number one employment creation opportunity. The key will be to identify the right person with the necessary drive and political clout to carry it through. If not, WATIH and all its efforts to make the industry grow will have little, if anything, to show for its efforts.

The capacity building workshop should be seen as a start of this process. A key hall-mark of potential success of this workshop is to not only get the necessary backing of the GoG/MOTI and its agencies, but to try and shift the mindset to embrace Foreign Direct Investment (FDI) as the catalyst for growth of the industry, rather than trying to make the local Ghanaian companies the driving force. The latter, although desirable, has, for the last 12 years, not worked. FDI in the apparel sector has been neglected in favor of support for local companies, the consequences of which have been the demise of California Link (March 2007), Upan Wasana (late 2007), Liberty & Justice (early 2014) and Lucky 1888 (2nd half 2015 – one of the two lead firms).

One of the cornerstones of WATIH’s apparel strategy has been to support the lead firms – in this case, both companies were FDI and apparel exporters – with the knowledge that in two years’ time the trickle-down effect of increased buyer awareness of Ghana as sourcing and investment destination will draw in local companies (second-tier apparel manufacturers), be it in the form of Joint Ventures, sourcing or outsourcing.

The trickle-down effect is already taking place through WATIH’s collaboration with MiA. By the end of 2015, two companies will benefit from exports to the US and by the end of 2016, 4 or 5 companies are anticipated to be exporting approximately \$750,000 of garments per month. Additionally, the \$7 million DTRT is expected to export by the end of 2015 (excluding the option of additional factory space) and based on additional space in 2016, the total exports should reach over \$10 million. This excludes the \$2 million apparel exports Lucky 1888 had been generating.

2.2 BENIN

The Finance Facilitation Team (FAF) in Benin, acting on behalf of one of the new mass garment producers called African New Confection (ANC), indicated that there is a need for the advisor(s) to have at least some cursory knowledge of the textile and apparel industry. The assumptions behind the ANC advisor’s financing requests are not in line with the realities of the industry locally, regionally and internationally.

The WATIH apparel team will continue to support the Ministry and Chamber of Commerce & Industry in Benin with their more realistic strategy of supporting the apparel industry, rather than trying to revive an effectively defunct textile industry in Benin, with equipment and product portfolios not suitable for the apparel sector.

There is still, however, a continuous dialogue that needs to take place concerning some of their agencies trying to push SMMEs (with the micro portion being designers and designer studios). Similar to Ghana, too much of a focus on SMMEs can be to the detriment of the upcoming mass production entities, especially when it comes to financial backing.

Through MiA, WATIH will await the approval of the first set of samples produced by ANC and continue supporting and guiding the company to reach its ultimate aim of mass production for the US market, eventually with a Fair Trade certificate.

3. FOLLOW UP

3.1 UPCOMING ACTIVITIES

- Finalize presentations for Capacity Building Workshop and any additional topics to add-in.
- Follow up on MOTI's attendance (and part payment) at Origin Africa. Decide on whether individual companies should be exhibiting with MiA or to let MiA do so on their behalf.
- Monitor developments between Atelier-CAI, Orabank and ANC regarding financial options for ANC (Benin) going forward.
- Continue to pressure MOTI and its agencies to provide empty factory shells, to be vacated by exiting companies warehousing equipment and the two becoming vacant when 1888 has moved out, for DTRT to move in (another company is now also clamoring for a new factory shell).
- Follow up on MiA Grant/Subcontract funding request
- The apparel team to continue discussions regarding the FY 2016 workplan
- Solicit more information on C&H (Chinese apparel investment) in Senegal
- Monitor the Minister of Labor/Employments promise to provide funding to train 1,000 sewing operators at DTRT
- Assist Gelvenor (RSA synthetic fabric weaver) attending a defense force exhibition to meet with MiA regarding their synthetic apparel fabrics and any additional meetings with apparel manufacturers looking to source synthetic apparel fabrics.