



African Cotton & Textile Industries Federation (ACTIF)

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FINAL REPORT

IMPACT OF AGOA ON

THE TEXTILE AND APPAREL INDUSTRY OF KENYA

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Acronyms

ACTI- African Cotton & Textile Industries Federation
AGOA- African Growth and Opportunity Act
BRRU - Business Regulatory Reform Unit
COMESA- Common Market for Eastern and Southern Africa
DFQF- Duty free Quota free
EAC- East African Community
EDP- Export Development Program
EPZ- Export Processing Zones
ERS- Economic Recovery Strategy
FDI- Foreign Direct Investment
GDP- Gross Domestic Product
GOK- Government of Kenya
GSP - Generalized System of Preferences
JKIA- Jomo Kenyatta International airport
KAM - Kenya Association of Manufacturers
LDC- Least developed Countries
MFA- Multi Fibre Agreement
MTP- Medium Term Plan
NSE- Nairobi Stock Exchange
SAP- Structural Adjustment Programme
SSA - Sub-Saharan African
TMA - Textile Manufacturers Association
TREQ- Tax Remission for Exports Office Scheme
UNDP- United Nations Development Programme
VAT- Value Added Tax
VSAT- Very Small Aperture Terminal
WTO- World Trade Organization

EXECUTIVE SUMMARY

Background

The African Growth and Opportunity Act (AGOA), United States Trade Act, is a unilateral trade programme that significantly enhances U.S. market access for (currently) 41 Sub-Saharan African (SSA) countries. The Act originally covered the 8-year period from October 2000 to September 2008, but amendments signed into law further extend AGOA to 2015. Duty-free quota free access to the U.S. market under the combined AGOA/GSP program stands at approximately 7,000 product tariff lines, including the roughly 1,800 product tariff lines that were added to the GSP by the AGOA legislation.

Objective of study

With the expiry of Multi- Fiber Agreement (MFA) provisions, the SSA textile and apparel trade has declined substantially, and the net beneficiary has been China and Asian LDC countries. Since each of the participating SSA signed onto the AGOA agreement individually, ACTIF has found it prudent to consolidate the voice of the SSA textile and apparel producers to lobby the US Congress to:

- (i) Extend the period of AGOA and AGOA IV beyond 2015 to promote SSA cotton sector as originally intended;
- (ii) Extend the period of the “third country fabric” provision;
- (iii) Defer/postpone the introduction of duty free quota free (DFQF) status to Asian LDCs as it would undermine the purpose of AGOA and AGOA IV.
- (iv) Prove that failure to guarantee AGOA (i-iii above) shall:
 - Negate the intention of AGOA to alleviate poverty via “Trade not Aid”.
 - Inadvertently remove the motivation to build an African Fibre, textile and apparel value chain.
 - Not only discourage new investments, but reverse the development of apparel manufacturing capacity of SSA that has resulted from AGOA.
 - Create unfair competition if DFQF status is extended to Asian LDCs.

The review of the textile and garment industry in Kenya after the expiry of the MFA in 2005, is expected to benchmark the country’s textile competitiveness Vis a vis other SSA countries and competitors in the market place with a view to building consensus on the position of the African cotton, textile and apparel sectors to facilitate better negotiations at the national, regional and international trade and development forums; identify actions to be dedicated to the specific concerns of the industry; and to promote improved competitiveness in both the regional and global market place.

Impact of AGOA on Kenya

- **Business environment**

Like many governments in the region, Kenya has introduced reforms to quicken and simplify the process of starting a new business in order to remain competitive in attraction and retention of investment. One common approach to this challenge has been establishment of a one-stop –shop (OSS), expanding the range of incentives to cover a wider spectrum of the business community, strengthening the regulatory environment, enhancing private sector involvement in policy formulation and implementation; and enhanced investments in infrastructure. The political reforms to be ushered in by the new constitution are business friendly with regard to guarantee of title, governance and right of investments.

- **Trade and Investment Performance**

In spite of the diversification of Kenya's destinations, in particular into the regional markets (EAC, COMESA), US remains the key destination for the textiles and apparels. Investments in garment manufacturing industries post AGOA rose from 10 in 2000 to 40 in 2003, but declined thereafter with expiry of MFA in 2005 to stand at 19 enterprises in 2008, in part because of the relocation of foreign companies out of Kenya with corresponding job losses amounting to 5%. Investment also decreased from 8.6 billion in 2004 to KShs 7.6 billion in 2008, an average annual decline of 3.04%. The exports of finished goods and imports of raw materials declined by -2.8% and 2.2% respectively. The situation will get worse when the use of 3rd country fabric also expires. The cotton-textile chain which had begun to be rebuilt is likely to experience further declines.

- **Employment generation**

Direct employment rose from 10,000 in 2000 to 36,600 in 2004. It is expected that more than twice as many employees benefitted from the textile value chain as well as complementary services like transportation, banking, etc. With 8.9% decline in investment between 2007 and 2008, local employment contracted by 9.6 % to stand at 25,766 persons in 2008 from 28,506 persons in the 2007. Sadder still is the fact that those losing jobs are women with no other alternative sources of employment and income. This is against the spirit or governments' ambition to create 500,000 jobs annually. Instead the sector with the greatest potential to generate jobs is the one losing jobs.

Challenges experienced in the textile and apparel sectors

The critical challenges the textile and apparel sectors are currently going through include:

- Erosion of AGOA benefits with expiry of the Multi Fiber Agreement in 2005
- Competition from low cost producers, such as China and India,
- The impact of recession for the US economy and financial crisis is expected to affect consumer spending and generally affect demand for imports;

- Delayed re-establishment of the local/regional integrated textile chains to satisfy the AGOA requirement of local fabric sourcing.
- Low cotton production, ginning and textile manufacture means that lifting the provision of 3rd country fabric will render existing garment manufacturers idle;
- Stringent quality assessments in the US market –
- Lack of commercial representation in the US market to promote the Kenyan products and link producers with appropriate marketing chains.
- Lack of direct flights from Nairobi to USA which makes Kenya exports expensive compared to its competitors;
- High cost of production in terms of energy, water and infrastructure.

Implications of AGOA beyond 2015

The enactment of AGOA opened up the opportunity for growth and revival of the textile and apparel industry in Kenya. Investments in textile and apparel industry in Kenya are pegged to market assurances of AGOA. The short term extensions though welcome have not given adequate confidence to the private investors. This confidence has been exacerbated by the ongoing liberalization, globalization, and technological advancements which have simplified sourcing arrangements.

The MFA expiry in 2005 reversed the gains of AGOA in the Kenyan textile and apparel sector. In spite of the fact that the Kenya Textiles and Apparels Sector has had great potential to spur economic growth, the textile sector has been declining over the years from a high of 40 firms in 2003 to only 26 recorded in January, 2010¹. The number of people employed decreased by 5.6% over the period. Investment also decreased from 8.6 billion in 2004 to Ksh 7.6 billion in 2008, an average annual decline of 3.04%. The exports of finished goods and imports of raw materials declined by -2.8% and 2.2% respectively.

The AGOA benefits are likely to be eroded further with ultimate extinction of the textile and apparel industry in SSA if AGOA provisions are not ring-fenced and extended on a more permanent basis. The revitalization of the cotton-textile to garment chain which had started taking shape will be halted.

If AGOA is extended on short term basis, say 5 years, then the current decline shall continue with eventual impact of textile trade remaining minimal. Further very little investment in textile manufacture shall take place. There is also a likelihood of the disruption of the cotton-textile chain. The complementary (banking, logistics) and related sectors in the value chain (cotton growing, ginning, spinning, and weaving) will also experience declines. What is required is a more decisive arrangement where AGOA is extended on a more permanent basis.

In the event that AGOA is not extended, textile and apparel contribution to the manufacturing sector in Kenya, the full impact will be devastating given that Vision 2030 has prioritized textile and apparel in the manufacturing sector in propelling the economy to a 10 per cent growth rate and support the country's

¹ See Annex 3 in which out of 99 EPZ operating enterprises by January, 2010, 26 were Garment Manufacturers.

social development agenda through the creation of jobs, the generation of foreign exchange, and by attracting foreign direct investment (FDI).

Proposals on way forward

The combined effects of DFQF treatment of apparel from Asian LDC countries and termination of the 3rd country fabric by 2015 will destroy the SSA apparel industry revived through AGOA. USA imports from Asian LDC countries have risen sharply since 2005 while those from SSA have nosedived. Recommendations for the way forward are at two levels; country level and AGOA level. Priority is given to actions to be taken at AGOA level.

The future of AGOA in SSA

For AGOA to remain the cornerstone of US-Africa economic policy and trade relations there is urgent need to revisit the overall AGOA framework within the context of the global WTO commitments and proliferations of FTAs (Bedi, July 2010). In particular there is need to lobby the US government to:

- Sustain the original the intention of AGOA to alleviate poverty via “Trade not Aid”.
- Maintain the momentum and motivation that has picked up to re-build the African Fibre, textile and apparel value chain.
- Continue giving hope to the foreign new investments, and the development of apparel manufacturing capacity of SSA that has resulted from AGOA.
- Create unfair competition if DFQF status is extended to Asian LDCs.

In this regard, SSA governments in conjunction with through AACTIF should lobby and negotiate with the US government to:

1. **Extend the period of AGOA and AGOA IV beyond 2015 on a permanent basis** to promote SSA cotton sector as originally intended in order to incentivize investors and buyers to continue investing and sourcing from SSA; sustain the ongoing reforms in the cotton-textile chain that have continued to generate investment and prospects of employment opportunities, deepened the regional integration agenda at pan-African level and facilitate Kenya meets commitments under Vision 2030.
2. **Extend the period of the “third country fabric” provision beyond 2012** (for a minimum of 10 years); to allow SSA countries to continue producing same quality products for the American market while further developing the cotton textile sectors
3. **Extension of AGOA to non-sensitive Textile Products**-to diversify SSA product range exports
4. **Protect AGOA benefits from further erosion by the ongoing USA preference reforms** (TPP) and FTA arrangements through introduction of reform on AGOA along the EIAP provisions

given to Haiti and temporary quotas on Asian LDCs to allow SSA textile growth. This trading arrangement should nevertheless be secured with WTO by US jointly with SSA countries to seeking for waiver from WTO under SDT. This will provide special incentives for US buyers to continue to source from Africa. In this regard, there will be need to **defer/postpone the introduction of DFQF status to Asian LDCs** as it would undermine the purpose of AGOA and AGOA IV.

- 5. Review of the AGOA rules of continued eligibility**, in particular those pertaining to terminal sanctions as was the case for Madagascar in 2009, since those paying the price have no voice. Further, regional and pan-African networks developed through inter-regional investments go to waste. With continued erosion of AGOA benefits, there is need for the US making provisions to penalize unfair trade practices such as subsidies which most African countries may not have the capacity to provide, so as level the field for competitiveness.

6. Continued TA to build the capacity of SSA textile industry through USA Trade Hubs

Country level

At the country level, Kenya has to address its competitiveness in the manufacturing sector and by extension to the specific sub sectors such as the textile and apparels in Kenya. The key factors to be addressed at national level include poor infrastructural conditions and high input costs; low productivity levels; inefficient flow of goods and services and unfavorable business environment. Other factors include:

- Establishing direct relationship between exporters, local garment makers and textile manufacturers
- Making proper US market survey on quality assessments
- Having enough stocks that satisfy demand before entering into contractual arrangements
- Establishing Kenyan distributors in the US
- Putting in place urgent policies and measures to boost local production of cotton and high quality fabrics for apparel manufacture
- Strengthening US/Kenyan textile trade associations links.

In this regard additional investments in infrastructure with a view to benchmarking subsequent rates to international rates; enhance the efficiency of the transport and relate service sectors of the ports, sustain technical skills trainings in order to increase productivity, investment incentives, and sustain reforms in the business environment and business climate including exploring the option of commercial representation in the US market. Further, the cotton-textile chain has to be developed in a wholesome way.

Conclusion

Like in all the SSA countries, Kenya has benefitted substantially from AGOA market opportunities especially in the textile and apparel sector. However, the socio-economic developments ushered in by AGOA have been eroded substantially from the MFA expiry which exposed the SSA countries to intense competition from the more efficient Asian LDC countries. But there is hope especially now that SSA countries are taking on pan-African approach to salvage AGOA. ACTIF should not tire in presenting SSA case to the US congress.

1.0 BACKGROUND OF ACTIF STUDY ON IMPACT OF AGOA ON SSA

The African Growth and Opportunity Act (AGOA), United States Trade Act, is a unilateral trade programme that significantly enhances U.S. market access for (currently) 41 Sub-Saharan African (SSA) countries. The Act originally covered the 8-year period from October 2000 to September 2008, but amendments signed into law by U.S. President George Bush in July 2004 further extend AGOA to 2015. At the same time, a special dispensation relating to apparel was extended by three years to 2007. On 20 December 2006, key changes to AGOA were signed into law, extending the garment provisions to 2012. In June 2007, a revised textile certificate of origin was published to give effect to the "abundant supply" provisions contained in the most recent legislative changes. These changes were repealed in 2009. A new Bill was recently published.-

AGOA builds on existing U.S. trade programs by expanding the (duty-free) benefits previously available only under the Generalized System of Preferences (GSP) program. Duty-free access to the U.S. market under the combined AGOA/GSP program stands at approximately 7,000 product tariff lines, including the roughly 1,800 product tariff lines that were added to the GSP by the AGOA legislation. Notably, these include items such as apparel and footwear, wine, certain motor vehicle components, a variety of agricultural products, chemicals, steel and others.

Apart from a few SSA countries endowed with oil and minerals, the major beneficiary sector since the passing of the AGOA has been the textile sector until January 1, 2005 when textile quotas were phased out. Thereafter, the SSA AGOA beneficiary countries have faced substantive competition from the more efficient Far East countries of Asia, China among others (Bedi, 2010).

1.1 Objectives of ACTIF carrying out AGOA impact Assessment on Textile and Garment Industry

With the expiry of MFA provisions in 2005, the SSA textile and apparel trade has declined substantially, and the net beneficiary has been China and Asian LDC countries. Since each of the participating SSA signed onto the AGOA agreement individually, ACTIF has found it prudent to consolidate the voice of the SSA textile and apparel producers to lobby the US Congress to:

- (i) Extend the period of AGOA and AGOA IV beyond 2015 to promote SSA cotton sector as originally intended;
- (ii) Extend the period of the "third country fabric" provision;
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- (iv) Prove that failure to guarantee AGOA extension (i-iii above) shall:
 - Negate the intention of AGOA to alleviate poverty via "Trade not Aid".

- Inadvertently remove the motivation to build an African Fibre, textile and apparel value chain.
- Not only discourage new investments, but reverse the development of apparel manufacturing capacity of SSA that has resulted from AGOA.
- Create unfair competition if DFQF status is extended to Asian LDCs.

As stated in ACTIF's mandate, the textile and garment performance review across SSA, in particular after the expiry of the MFA in 2005, is expected to collate success stories with regard to local conditions, markets, policies in place that yield or inhibit specific innovations of the cotton and textile industry. Consequently, ACTIF shall consolidate and build consensus on the position of the African cotton, textile and apparel sectors to facilitate better negotiations at the national, regional and international trade and development forums; identify actions to be dedicated to the specific concerns of the industry; and to promote improved competitiveness in both the regional and global market place. Towards this end, ACTIF in championing the sectors interests will also benchmark the operations of the industries in the continent with contemporary competitions at the market place, with specific reference to the Asian countries, in order to address any gaps where feasible or request for preferential treatment in accordance with WTO provisions. For a start ACTIF is targeting the AGOA initiative in the American market as part of its wider initiative to revamp the cotton and textile industry.

1.2 Methodology

Since there has been substantial research carried out in the cotton and textile industry including impact of AGOA on Kenya's economy, the principle methodology of carrying out the assignment shall be that of literature review. This will be complemented by comparative analysis, internet searches and limited interviews with key stakeholders from the public and private sector organizations representing the value chain to validate findings.

2.0 OVERVIEW OF THE KENYAN ECONOMY

2.1 Country Background

Kenya's development agenda since independence has principally been driven by market based policies in which the private sector plays a relative key role in resource allocation. The market policies were boosted by SAPs of the 80s and the major liberalization and privatization reforms of the 90s. The market policies have further benefitted from the enhanced liberalization under WTO and regional integration. Towards this end export led growth remains a key strategy for enhancing growth, employment generation and poverty reduction while integrating Kenya into the global economy.

The National Trade Policy is founded on the principle that promoting trade is key to Kenya's development in an environment characterized by rapid technological progress and globalization. In line with the country's Vision 2030, the theme of the trade policy is to develop private sector-led, globally competitive trade through value addition and diversification of goods and services for improved quality of life for all Kenyans.

2.2 Socio-Economic Profile

Table 2.1 summarizes the socio-economic profile of Kenya

Table 2.1: Kenya's Social Economic Profile, 2010

Indicator	Numbers
Population (No):	38,610,097
Area:	582.7 sq Km
Annual Pop. Growth:	2.7%
TFR (2009):	4.56 children/woman
CBR ():	36.6 births per 1000
Life Expectancy:	57.86 years
Urbanization:	4% annual rate of change
GDP:	Kshs 2,099,798 Million
Poverty Index: (UNDP Human Development Report 2009)	29.5
Inflation:	5.51%

Source: Economic Survey (Various)

2.3 Trends of Economic Development- 1997-2010

Tracing Kenya's economic growth prior to Kenya's accreditation to AGOA in 2000 and post AGOA accreditation up to June, 2010, it is evident that the economy registered mixed performance. In the period immediately prior to AGOA, the economy registered low growth rates of 0.3% in 1997 to 0.5% in 2000. In 2001, immediately after accreditation to AGOA, the economy recorded an impressive growth of 4.5 % (**Table 2.2 and Graph 2.1**). This improvement may not be solely associated with AGOA as the growth declined to 0.6% in 2002, apparently due to the uncertainties of the general election which led to lower demand for imports and credit; among others. Nevertheless, strong growth in horticulture, EPZ related textile exports and the expanded market from COMESA region in subsequent years contributed to overall good economic growth and the substantial increases in total exports. The 7.1% growth rate in 2007 is the highest that the Kenyan economy has registered since 2000.

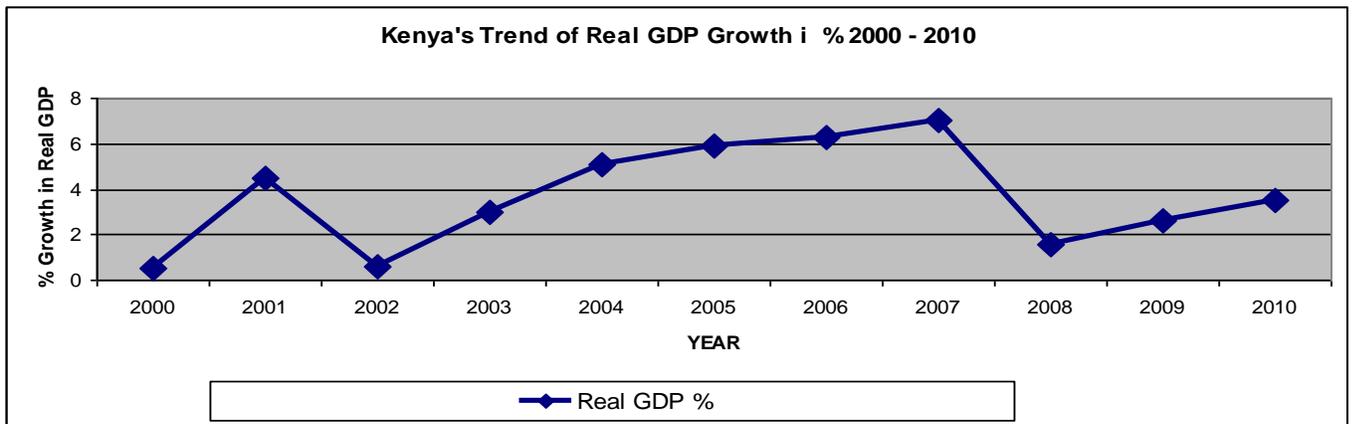
During the same period, employment in the Export Processing Zones (EPZ) accounted for 14.9 per cent of total employment in the manufacturing sector. The number of EPZ manufacturing companies increased by 15 to 69; Investments by the EPZ to the sector increased by 23.6 per cent from KSh 12.7 billion in 2002 to KSh 15.7 billion in 2003. Per capita incomes (Graph 2.2) registered steady growth from 2003 but started a downward trend from 2007.

Table 2.2: Kenya's Real Gross Domestic Product Growth Rates: 1997 - 2010

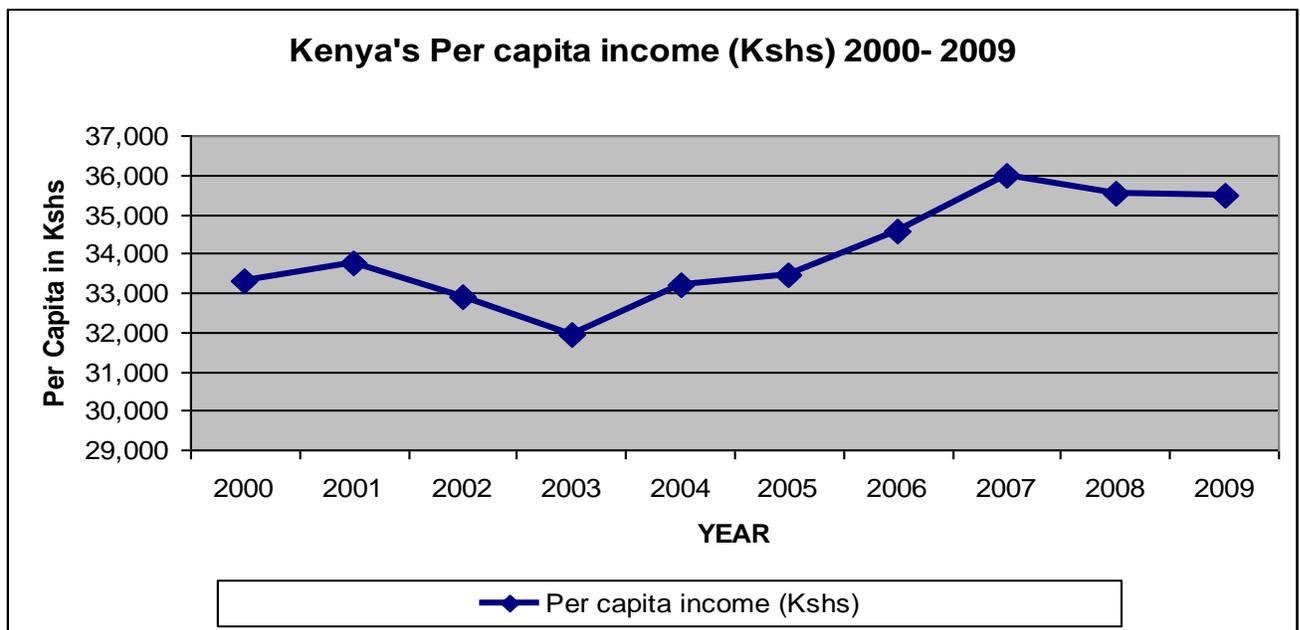
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real GDP %	0.5	4.5	0.6	3	5.1	5.9	6.3	7.0	1.6	2.6	3.5
Per capita income (Kshs)	33,283	33,735	32,907	31,925	33,180	33,442	34,570	36,000	35,553	35,461	

Source: Economic Survey (Various)

Graph 2.1: Kenya's Real Gross Domestic Product Growth Rates and Per capita Income: 2000 – 2010



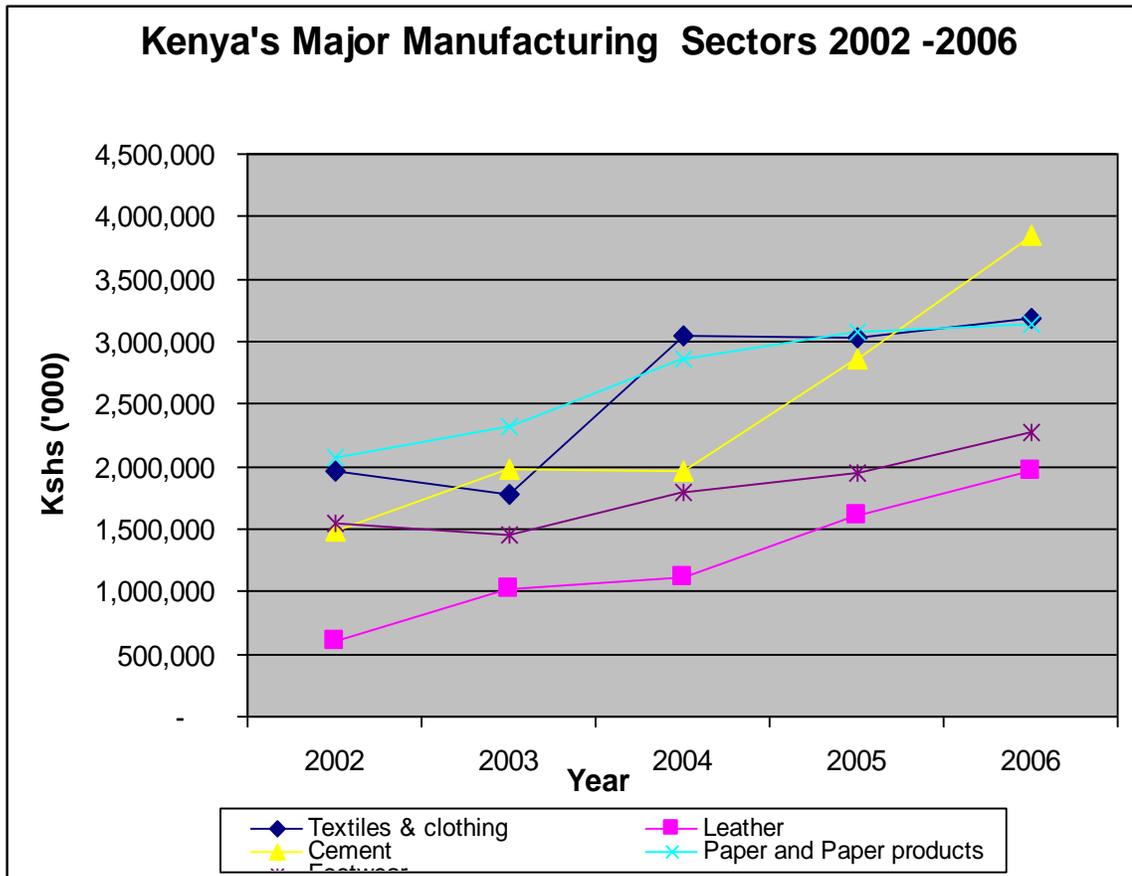
Graph 2.2: Kenya's per capita income, 2000-2010



Source: Economic Survey (various publications)

The key sources of Kenya's economic growth over the years include agriculture & forestry, manufacturing, transport and communication, and wholesale and retail trade among others (Graph 2.3).

Graph 2.3: Exports of Kenya's Major Manufacturing Sectors 2002 -2006



Source: Economic Survey (Various)

2.4 Trade Performance

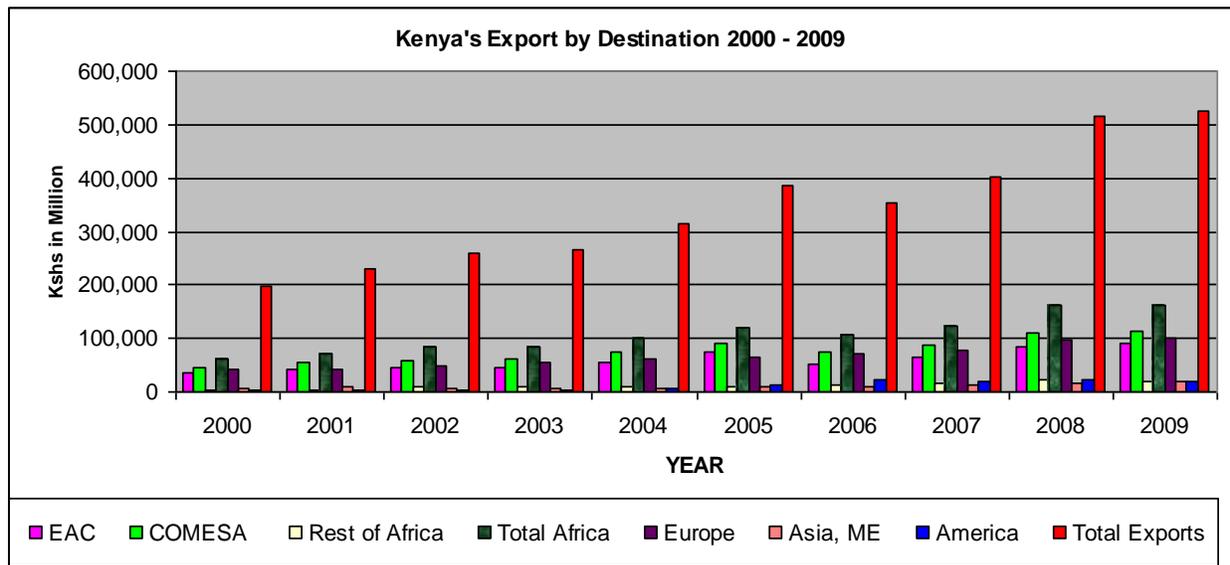
According to data compiled by UN COMTRADE for the period 2006 and 2008, Kenya's top export products were tea, cut flowers and flower buds and petroleum oils, which accounted respectively for 18.6, 8.9 and 3.5 percent of exported goods in 2008. EAC (49%) and COMESA (12%) remain the preferred export destination for the manufactures while Europe is the export destination for the bulk of the commodity products (Table 2.3). Exports to the USA are predominantly textiles and apparel.

Table 2.3: Kenya's Export Performance, 2000 – 2009 (Kshs Million)

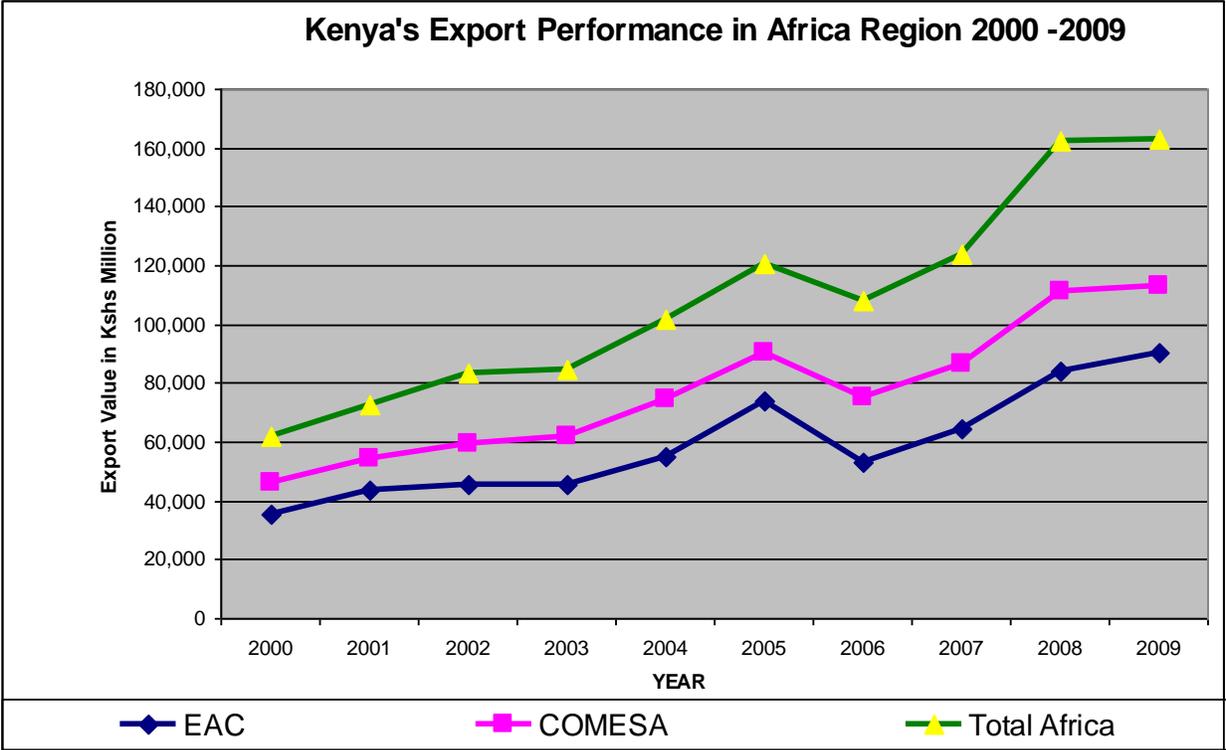
Year	EAC	COMESA	Rest of Africa	Total Africa	Europe	Asia, ME	America	Total Exports
2000	35,278	45,889	4,338	61,934	41,804	6,583	3,589	199,415
2001	43,551	54,188	4,391	72,513	42,498	8,937	4,257	230,335
2002	45,461	59,098	9,806	83,085	49,478	7,065	4,107	258,100
2003	45,256	61,769	8,296	84,653	56,579	6,604	3,880	267,037
2004	54,980	74,794	9,139	101,853	60,933	7,465	6,066	315,230
2005	73,630	90,026	11,271	120,790	66,451	9,016	13,259	384,443
2006	53,050	75,436	14,582	108,309	71,415	9,714	21,487	353,993
2007	64,122	86,838	14,865	124,029	79,277	13,734	20,520	403,385
2008	83,942	111,395	21,921	162,541	98,513	15,932	22,054	516,298
2009	90,460	113,093	19,552	162,732	100,321	19,300	18,890	524,348

Source: Annual Trade Reports – Customs & Excise Department, KNBS, Government of Kenya

Figure 2.4: Kenya's Exports by destination, 2000-2009



Graph 2.4 (a): Kenya's Export Performance within Africa, 2000-2009



Graph 2.4(b): Kenya's Export Performance with Asia and America, 2000-2009

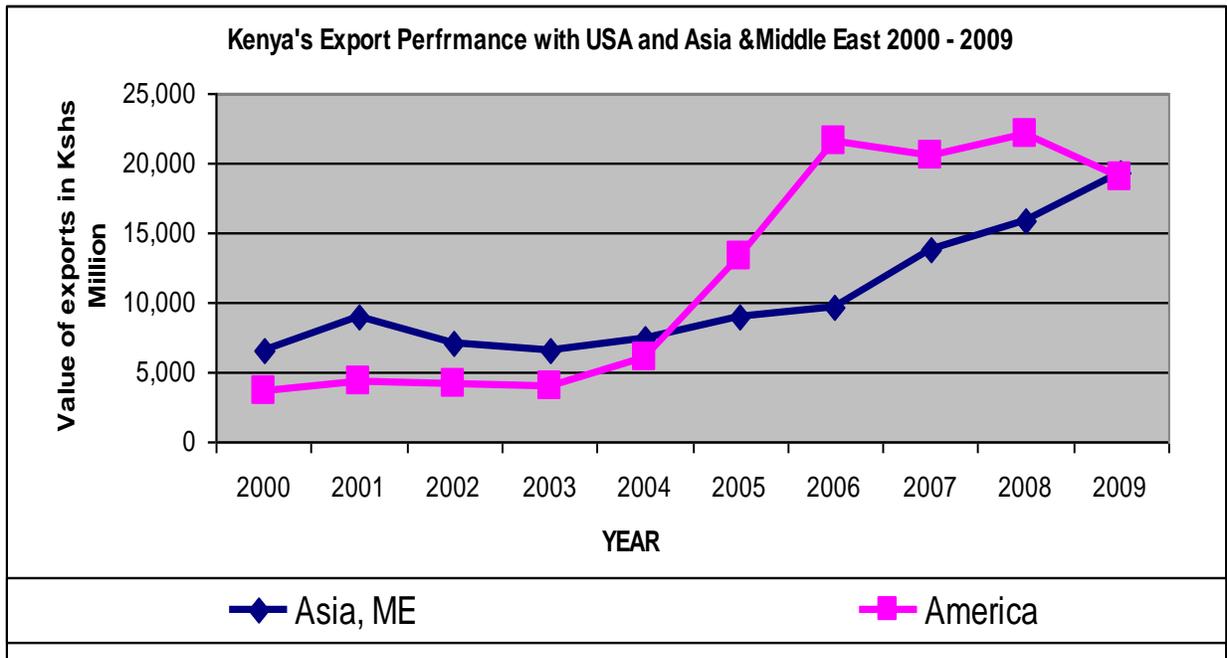
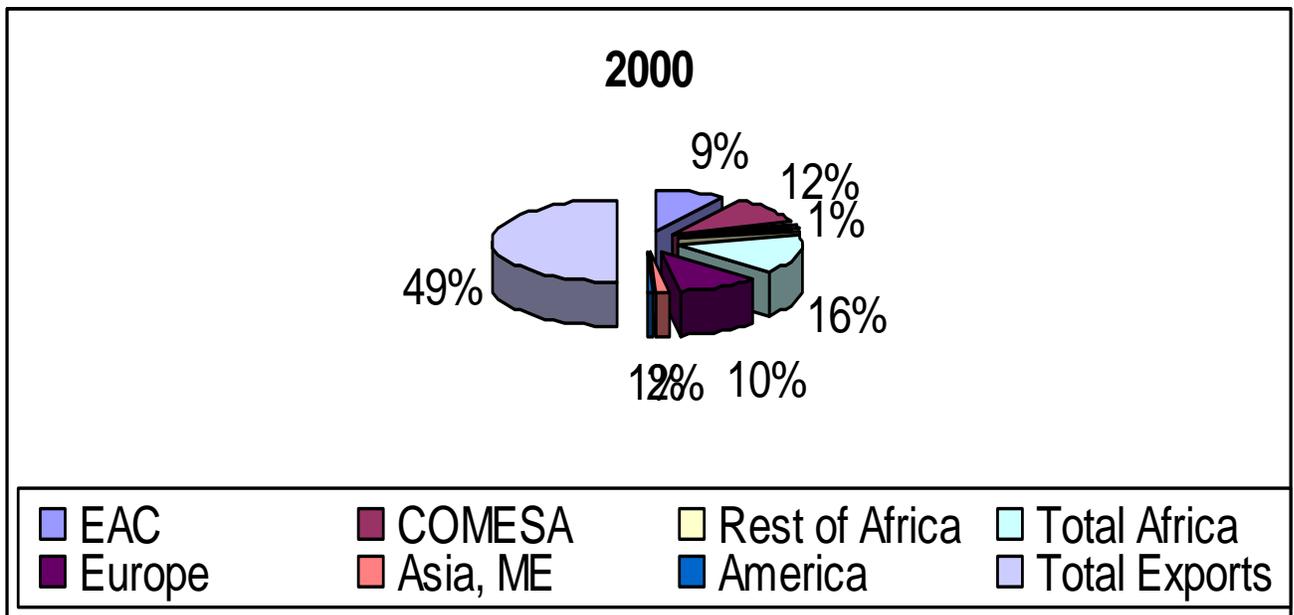
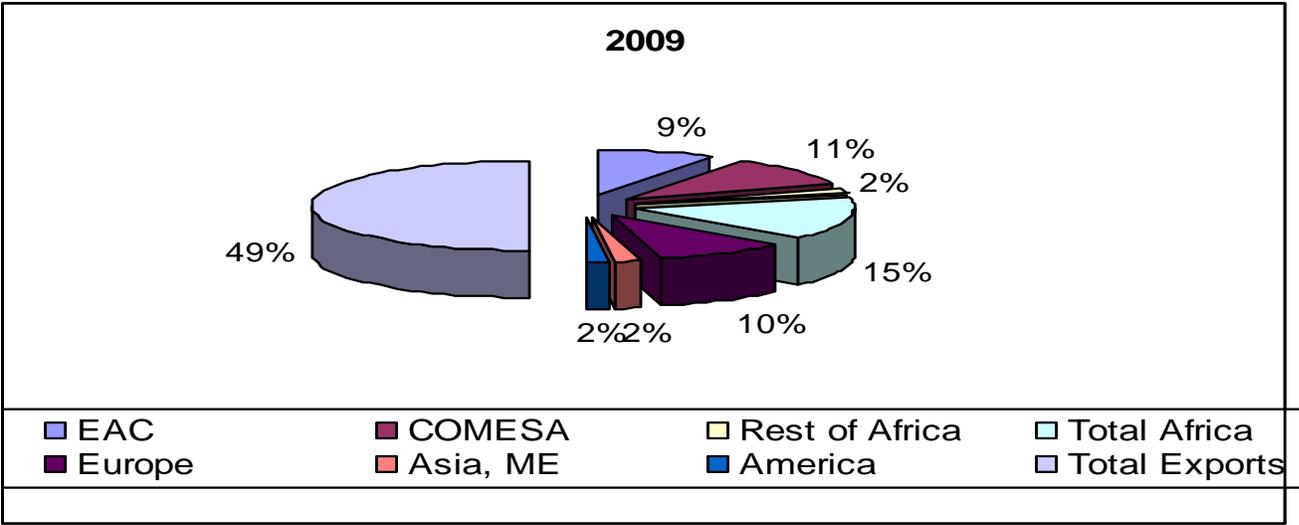


Chart 2.1: Pie Chart presentation of Kenya's exports for 2000 and 2009





2.5 Investment Trends

The Kenya Investment Authority (KenInvest) processed 22 projects cutting across the manufacturing sector in 2009 (Table 2.4). Total capital cost of approved projects dropped drastically from Kshs 23.6 billion in 2008 to Kshs 2.5 billion in 2009. This decline was further manifested in activity decline in the Export Processing Zone which is further attributed to adverse effects of global economic recession, especially in the United States (US) market which has been the prime destination of the EPZ exports.

Table 2.4: Kenya Investments, 2003-2007 (million)

Year	2003	2004	2005	2006	2007	2008
Value	99	177	86	1308	368	.....

Source: EAC Statistics, 2009

2.6 Economic Outlook

The Kenyan economy posted a real GDP growth of 2.6% in 2009 compared to a growth rate of 1.6% in 2008. The growth was attributed to the resurgence of activities in the tourism sector and resilience in the building and construction industry. The prospects for 2010 are apparently bright with economic recovery projected to be more assertive having achieved 3.5% in the first two quarters. The economy is likely to benefit from good rainfall experienced during the early parts of the year. Implementation of the key infrastructural projects by the government will also have positive impact. With the promulgation of the new constitution which has ushered renewed vigour to address governance related issues including the 2007 post election crisis, investor confidence is on the rise. This confidence coupled with the deepening of the EAC regional integration agenda, creates greater growth prospects.

3.0 BUSINESS ENVIRONMENT AND BUSINESS CLIMATE

3.1 Political environment

Except for the post election crisis of 2007, Kenya has generally been politically stable. This stability has endeared many investors to locate within Kenya for purposes of serving the region, continent and global markets.

Kenya's Vision 2030 is anchored on three key pillars: Economic; Social; and Political Governance. The transformation of the country's political governance system is expected to take place across six strategic areas: rule of law; electoral and political processes; democracy and public service delivery; transparency and accountability; and security, peace building and conflict management. For instance, under rule of law, the 2030 Vision is advocating "adherence to the rule of law as applicable to a modern, market-based economy in a human rights-respecting state". Specific strategies will involve: (i) aligning the national policy and legal framework with the needs of a market-based economy, national human rights, and gender equity commitments; (ii) increasing access and quality of services available to the public and reducing barriers to justice; and (iii) streamlining the functional capability of legal and judicial institutions to enhance inter-agency cooperation; among others.

The landmark promulgation of a new constitution in September this year (2010) has ushered in a new era of confidence in government characterised by strengthening of institutions, decentralization of executive authority and equitable distribution of resources. The new constitutional provisions also legalized dual citizenship in addition to further entrenching property rights, recognition of international treaties among others all of which will go a long way in boosting investment and business. The full impact of these changes is expected to be felt after 2012 once the necessary changes are fully implemented.

3.2 Public and Private Sector Profiles

There have been significant improvements in the business environment in Kenya within the recent years which is attributed to the continued collaboration between the Government of Kenya (GoK) and the private sector in supporting several business reform initiatives aimed at improving the investment climate in Kenya. The improvements have been achieved mainly through increased efficiency in the relevant regulatory agencies largely due to the continued implementation of Government Performance Contracting, currently under the leadership of the Prime Minister's office and the associated Rapid Results Initiatives.

The reforms which have been realized in business regulations in Kenya were informed by the realization that growth and competitiveness of the private sector was being hampered by many inefficient, ineffective and costly licenses, permits, and certifications. Long delays, complex and costly procedures to establish a new business entity are some of the obstacles to new investment and entrepreneur activities. Many governments have introduced reforms to quicken and simplify the process of starting a

new business in order to remain competitive in attraction and retention of investment. One common approach to this challenge has been establishment of a one-stop –shop (OSS).

3.3 Legal and Regulatory Environment

In the Doing Business 2010 Report Kenya is ranked 95 globally, that is out of the 183 economies. Over the last six years the government has initiated a number of policies and efforts aimed at improving the legal and regulatory business environment and Investment climate; particularly targeting the ten (10) Doing Business Indicators namely: Starting a business; Dealing with Construction Permits; Employing workers; Registering Property; Getting Credit; Protecting investors; Paying taxes; Trading across Borders; Enforcing contracts; and Closing business.

With specific regards to Doing Business indicators, the Government of Kenya has formed a Doing Business Reform Team that has been mandated to pay special attention to fast tracking specific reforms in six out of the ten indicators namely: Starting a business, Registering Property, Getting Credit, Dealing with Construction Permits, Paying taxes and Trading across Borders. Performance improvements in these indicators are mainly as a result of the continued elimination and simplification of more licenses, administrative efficiency resulting in time savings, consolidation of procedures and the attendant reduction in administrative costs of compliance. In addition to the current implementation of business regulatory reforms, crosscutting and comprehensive business licensing reforms initiated in 2005 set the pace for the country's top performance in Doing Business indicators.

The Business Regulatory Reform Unit (BRRU) for instance is continually engaging regulators on the possible administrative and legal mechanisms to simplify and eliminate the deferred licenses as the government undertakes to consolidate multiple licenses, in an effort to make the licensing regime efficient and appealing to investors.

3.4 Trade Policy Environment and Market Access

Kenya's trade policy takes cognizance of its commitments to the multilateral, regional and bilateral agreements. In particular, the EAC and COMESA regional integration agenda anchored on African Economic Commission (EAC) goes a long way to influence Kenya's future trade policies. . In line with the country's Vision 2030, *the theme of the trade policy is to develop private sector-led, globally competitive trade through value addition and diversification of goods and services for improved quality of life for all Kenyans*. Further, the private sector and civil society concerns for the country to remain competitive and institutionalize accountability respectively also feed into this trade policy.

The policy further prioritizes on policies that benchmark Kenya's trade development on current international market demands and requirements and diversifying into emerging markets. This trade policy is also consistent with that of the EAC partner states, which prioritizes sustainable economic growth and development and incorporates issues of poverty and unemployment reduction, rational use of natural resources; more equitable income distribution and full integration into the world economy.

The trade policy also places emphasis on SMEs as a vital source of job creation, export and economic development, production and distribution networks.

However, the policies are scattered in various policy documents, legislations and institutions. Some of the policies include import/export management, taxation, trade facilitation and promotion, licensing and registration, production and productivity, skills development and labour laws impacting on trade, investment and privatization incentives, Government procurement, intellectual property rights, competition and consumer protection, financial services, ICT, trade in services, governance (arbitration, bankruptcy etc.). The key Acts which operationalized these policies include Local Government Act/By-laws, Companies Act, Customs and Excise Act, EAC Customs Management Act, Weights and Measures Act, Trade Descriptions Act, Hotels and Restaurant Licensing Act, Investments Act, Standards Act, Environment Act, Industrial Property Act, Liquor Licensing Act and various consumer protection acts among others.

Kenya's export destinations are dominated by the regional markets (EAC and COMESA), EU, US and the rest of Africa. Diversification of exports into the east is beginning to take shape though there are no formalized trade frameworks similar to those of USA, EU or the region.

3.5 Investment Climate and Incentives

Kenya employs liberal fiscal and monetary policies that enhance the investment environment. These include pricing of goods determined by market forces; no exchange control; rationalized trade licensing; no discretionary clauses in the tax laws; and a host of other measures that allow an investor to recover the value of import duties on capital goods for a project against his/her income tax liability, where expenditure on productive physical assets is in excess of a certain value over a period of time. The GOK has introduced market-based reforms and provided more incentives for both local and foreign private investment. Foreign investors seeking to establish a presence in Kenya generally receive the same treatment as local investors.

To make the country more attractive to investors, the Government of Kenya (GOK) reviewed its investment policy and launched a private sector development strategy in 2007. The legal framework for FDI is provided by the Companies Ordinance, the Partnership Act, the Foreign Investment Protection Act, and the Investment Promotion Act 2004. To attract investment, the GOK has enacted several reforms, which include abolishing export and import licensing, except for a few items listed in the Imports, Exports and Essential Supplies Act, rationalizing and reducing import tariffs, revoking all export duties and current account restrictions, freeing the Kenya shilling's exchange rate, allowing residents and non-residents to open foreign currency accounts with domestic banks, and removing restrictions on borrowing by foreign as well as domestic companies.

A relatively recent investment code, articulated in the Investment Promotion Act of 2004, is designed to streamline the administrative and legal procedures to achieve a more effective investment climate. It came into force when published in the Kenya Gazette Supplement No.87 on January 3, 2005. The

Investment Promotion Act of 2004's objective is to attract and facilitate investment by assisting investors in obtaining the licenses necessary to invest and by providing other assistance and incentives.

The GOK is granting the following fiscal incentives to encourage growth of capital markets: (1) exemption from income tax on interest income accruing from cash flows of securitized assets; and (2) exemption from income tax on interest income accruing from all listed bonds with at least a maturity period of three years. The fiscal incentive targets institutions that are involved in the provision of infrastructure services such as roads, water, power, telecommunication, schools, and hospitals; and expenditures of a capital nature by a company on legal costs and other incidental expenses associated with listing by introduction at the NSE are tax deductible. Incentives programs for export oriented investments include: Duty remission facility; Manufacture under bond and Export Processing Zones Program among others.

3.6 Physical Infrastructure

Improving the infrastructure is high on the development agenda. Recent policy actions in transport and communications have included privatization of Telkom Kenya, contracting-out management and operations of Kenya Railways, strengthening management of ports, modernizing container terminals, port equipment and facilities, and privatizing selected operations of Kenya Ports Authority. The Economic Recovery Strategy for Wealth Creation (ERS) contained proposals for updating road designs and specification, make roads and other civil engineering works more cost effective, deepen the control of the quality of roads during construction, maintenance and rehabilitation, dueling the Mombasa-Malaba highway, use an East African Road Network Project to develop internal roads, improve the quality of rural access roads by implementing the Roads 2000 program and construct by-passes to decongest traffic in the cities of Nairobi and Mombasa.

In the first Medium Term Plan (MTP) 2008 – 2012 in the implementation of Vision 2030, the government seeks to accelerate and consolidate gains made in the ERS on infrastructure development, focusing on quality, aesthetics and functionality of the infrastructure services. Aiming at “Deploying World Class Infrastructure Facilities and Services”, the MTP targets increased investments in the road network, water and sanitation services, and rail, sea and air transport and energy supply services.

Policies to improve rail transport have included privatizing Kenya Railways. In order to improve air transport, the government under the ERS sought to upgrade smaller airports to make them capable of accommodating medium range jets, privatize commercial and non-regulatory airport services and modernize the management of air traffic. On marine transport, the port of Mombasa is to be converted into a modern and computerized port and complemented with a range of new facilities.

On energy, the main recent policy step has been to strengthen of the Rural Electrification Program, and increasing private sector participation in generation, transmission and distribution. Kenya is also expediting the implementation of planned generation plants and explores alternative sources of power. Policy proposals targeting telecommunications included the restructuring of Telkom Kenya to improve

performance prior to privatization, licensing of four additional internet gateway service providers and a third mobile operator (in addition to Safaricom and Celtel) and liberalize use of VSAT services. A whole range of reforms were instituted to improve the water and sanitation services, including the encouragement of private sector participation in financing and management of water and sanitation services.

Improved infrastructure is thus a major policy objective, but so far the results have been modest. A recent budget strategy paper (Kenya, 2008b) reports that there has been considerable progress in the development of roads and other infrastructure, but that very much remains to be done, not least when it comes to maintenance of existing infrastructure. This has been achieved in part through mobilization of domestic resources from the capital markets (infrastructure Bonds) for purposes of infrastructure development.

3.7 Cost of Doing Business and Economic Freedom

In the Doing Business (2010) World Bank Report Kenya is ranked 95 globally, that is out of the 183 economies. To reduce the cost of doing business the government has initiated policy measures aimed at improving the legal and regulatory business environment and Investment climate. From Tables 3.1- 3.2, the cost of doing business remains relatively high, making the Kenyan originating products uncompetitive.

Table 3.1: Ranking in Ease of Doing Business

	2006	2007	2008	2009	2010
Number of countries ranked	155	175	178	181	183
Overall Ranking	68	83	78	82	95
Starting Business	98	111	112	110	124
Registering Property		115	114	119	125
Getting Credit	58	38	13	4	4
Protecting Investors	84	60	83	88	93
Paying Taxes	110	126	154	159	164
Trading Across Borders	116	145	148	149	147
Enforcing contracts	....	67	107	110	126
Closing Business	....	128	76	79	79

Source: Various World Bank Reports

Table 3.2: Historical Data: Trading Across Borders in Kenya 2008 - 2010

Trading Across Border Data	Doing Business 2008	Doing Business 2009	Doing Business 2010
Rank	....	149	147
Cost of Exports (US\$ per container)	1955	2055	2055
Cost of Imports (US\$ per container)	1995	2190	2190
Documents to Export (number)	9	9	9
Documents to Import (number)	8	8	8
Time to Export (days)	29	29	27
Time to Import (days)	37	26	25

Source: World Bank Reports

3.8 Skills Level and Their Availability

Worker-level data suggests that the Kenyan workforce is relatively well-educated, with high returns to education. The workforce in the formal manufacturing firms is experienced, middle-aged and possesses a high level of education. Almost all workers have some schooling. There is a wide dispersion in earnings, driven largely by differences in education, experience, and industry.

Nevertheless, the level and quality of production and technical training in Kenya is low. This may be in part because the current training incentive system does not encourage firms to invest in enhancing production skills. Firms appear to invest more heavily in managerial and professional training than in developing production skills. Training deficiencies can be traced, at least in part, to structural problems in the technical and vocational training system. The current training levy system is financially troubled and appears to be inadequate to firms' needs, as it does not support in-house training in production skills. There is sufficient international evidence to indicate that incentives to firms to increase in-house training are vastly superior to public provision of training.

4.0 IMPACT OF AGOA ON KENYA-USA TRADE RELATIONS

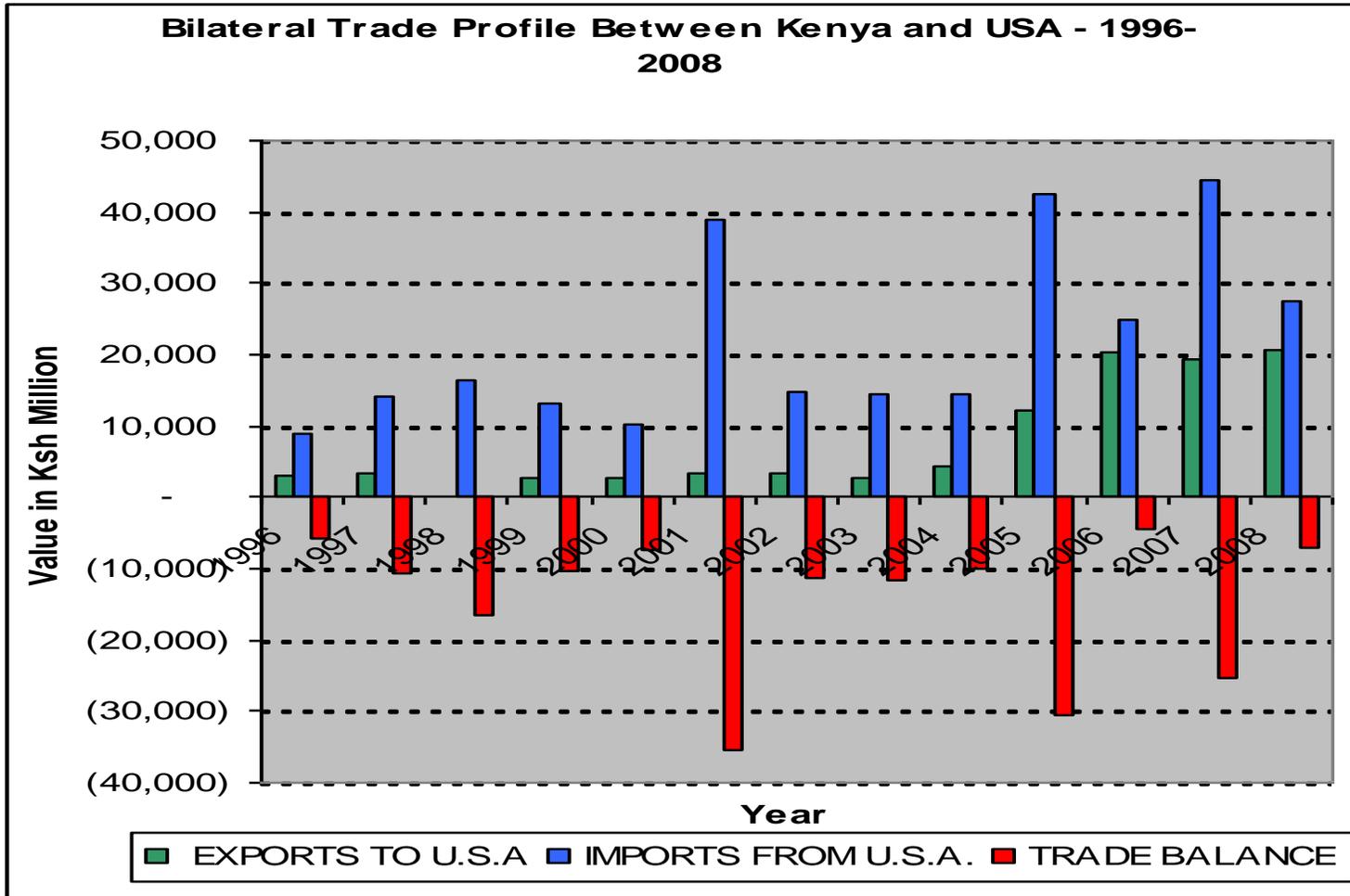
Trade between Kenya and USA picked up with the entry of AGOA in 2000 (Table 4.1). Trade balance remains in favour of USA. Trade deteriorated soon after the expiry of the MFA in 2005. The impact on Kenyan economy was more pronounced since the bulk of the Kenyan exports to the USA are predominantly textile based.

Table 4.1: Bilateral Trade Profile Between Kenya and USA: 1996 – 2008 (Value in Ksh Million)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<i>EXPORTS</i>													
<i>TO U.S.A</i>	3,200	3,401	27	2,761	2,804	3,414	3,377	2,796	4,502	12,053	20,326	19,218	20,512
<i>IMPORTS</i>													
<i>FROM</i>													
<i>U.S.A.</i>	8,802	14,110	16,509	13,190	10,084	38,967	14,648	14,388	14,425	42,558	24,731	44,523	27,549
<i>TRADE</i>													
<i>BALANCE</i>	(5,602)	(10,709)	(16,482)	(10,429)	(7,280)	(35,553)	(11,271)	(11,592)	(9,923)	(30,505)	(4,405)	(25,305)	(7,037)

Source: Kenya Statistical Abstract

Figure 4.1: Bilateral Trade Profile between Kenya and USA - 1996-2008



5.0 THE IMPACT AND RELEVANCE OF AGOA FOR TEXTILE AND APPAREL INDUSTRY IN KENYA

5.1 Export Performance

Of all sub-Saharan African countries that export textiles to the US under AGOA, the 6 main beneficiaries listed in **Table 5.1**, in which Kenya is included, constitute about 89% share of exports by volume and 91% by value. The total investment in the textile sector in Kenya as of December 2003 was Kshs. 9.7 billion. Most of the large investments were in the EPZ from foreign investors with a few local investors under the MUB scheme.

All these countries experienced declined in export trade with the expiry of MFA as demonstrated in graph 5.1.

Table 5.1: Exports to US under AGOA / GSP provisions for selected Africa AGOA eligible countries 2003 – 2008 (US \$ '000)

Country	2004	2005	2006	2007	2008	Growth % (2007 v/s 2008)
Lesotho	447,803	388,584	384,591	379,617	338,940	-10.7
Madagascar	316,817	275,466	231,611	283,807	279,293	-1.6
Kenya	286,688	278,267	272,911	255,012	255,655	0.3
Mauritius	160,468	152,591	157,502	119,906	101,742	-15.1
Swaziland	176,853	176,117	149,815	141,410	125,566	-11.2
Ethiopia	9,354	7,034	11,098	12,622	14,526	
South Africa	114,700	61,700	41,800	21,500	15,900	

Source: www.agoa.info/index.php

Graph 5.1: Kenya Textile Exports to US under AGOA / GSP Provisions, 2004 – 2008
(US \$ '000)

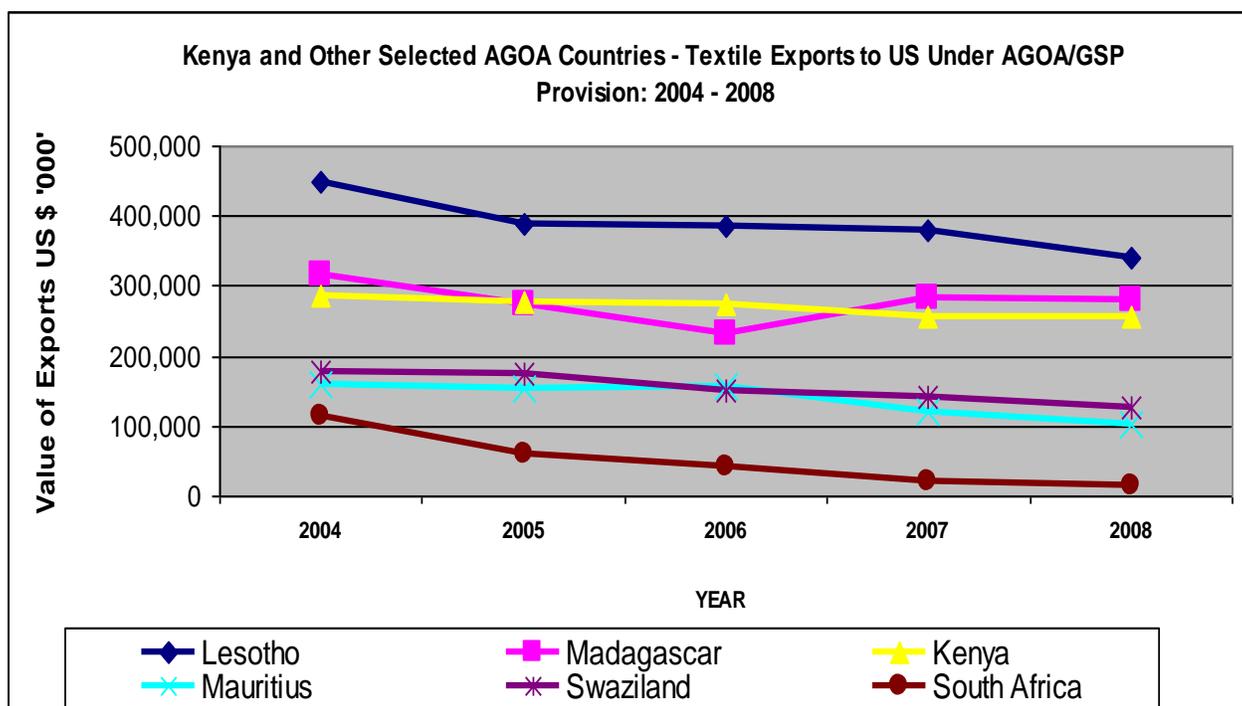


Table 5.1 and Graph 5.1 confirm that the share of textile and apparel industry in the leading textile/apparel exporters from SSA has been on the decline since 2005. The textile export sector in Kenya constitutes more than 15% of total exports (2005 and 2006).

5.2 Impact of AGOA on Kenya during the period 2000-2004 or before end of MFA

Kenya was the first African country to be accredited as an AGOA beneficiary in the sub-Saharan African region. The enactment of AGOA opened up an opportunity for growth and revival of the textile and apparel industry in Kenya. Bilateral trade between Kenya and USA expanded substantially with enactment of AGOA. (*Table 5.2*).

(a) Market Access and Competitiveness

AGOA preferences created market access for Kenyan textiles rising from US\$ 30 million in 2000 to US\$ 261 million in 2004. Foreign buyers getting their supplies at competitive prices from Kenya were able to place orders during the period 2000-2008 in which AGOA was assured to remain operation. Concurrently, competitiveness was also enhanced with unit cost declining from US\$ 4.82 in 2001 to 4.26.

(b) Investment Opportunities

As seen from **Table 5.2**, the number of textile enterprises in Kenya rose from 10 in 2000 to 40 in 2003 and decreased to 36 in 2004 and 19 enterprises in 2008. The confidence generated from AGOA attracted foreign investors to locate in Kenya. Investment also decreased from 8.6 billion in 2004 to Ksh 7.6 billion in 2008, an average annual decline of 3.04%. The exports of both finished goods and imports of raw materials declined by -2.8% and 2.2% respectively against the declining US market access.

(c) Employment Generation

Direct employment rose from 10,000 in 2000 to 36,600 in 2004. It is expected that more than twice as many employees benefitted from the textile value chain as well as complementary services like transportation, banking, etc.

Table 5.2: EPZ Garment Manufacturing Enterprises: Employment, Investment, Total Exports, Quantity Exported and Total Imports 2000 -2010

YEAR	No. of Factor ies/Firms	No. of Employee s	Quantity Exported (pieces)	Export Value (US\$)	Average Unit price (in US \$)	No. of Visas Issued	Investment Ksh (Billions)	Imports (Kshs Millions)
2000	10	10,000	6,050,000	30,000,000	....	.....	1.2-
2001	17	16,000	14,548,266	70,095,508	4.82	1,060	3.74-
2002	25	26,000	28,615,384	119,907,104	4.19	1,986	6.90	5,699
2003	40	37,000	41,463,230	178,384,135	4.30	2,980	8.595	7,121
2004	36	36,600	61,312,309	261,014,329	4.26	4,185	9.710	10,012
2005	25	34,000	59,958,104	263,109,630	4.39	3,337	9.977	8,592
2006	25	32,000	61,730,934	272,435,816	4.41	3,431	10.317	7,674
2007	22	29,000	63,322,416	241,630,196	3.82	2,720	8.314	8,439
2008	28	26,000	66,919,400	232,217,560	3.47	2,830	7.578	9,146
2009*	26	20,000*	19,607,260	194,641,000	3.08	755	....	.....-
2010 June	26	.....	....	....	....	....	....	.....-
* Data available up to end of April, 2009; .....Data not accessed								
** Estimates								

Source: EPZA Annual Reports of 2003 &, 2008 and 2010 KAM Policy Brief Vol. 3 No. 1

5.3 Impact of AGOA during the period 2005 – 2009 or after end of MFA

While Kenyan exports registered a marginal increase of 0.3% in 2008 to stand at US\$ 255.6 million, other SSA countries like Lesotho, Mauritius, Swaziland and Uganda saw their exports declining by as much as 10.7%, 15.1%, 11.2%, and 37.6% respectively (**Table 5.1**). EPZ garment exports were US\$ 261 million (Table 5.2) in 2004, constituting 89.4% of the national exports while during 2007 it constituted 80% confirming the decline of textile export performance that came along with MFA expiry..

Available statistics indicate that the performance of Kenya garments exports reached its peak in the year 2006 of US\$ 272 million and since then, it has been on a downward trend.

(a) Market Access

From Table 5.2, overall textile export performance from 2007 was characterized by downward trend in Kenya given that over 90% of the production is destined for the American market. Part of the decline can be explained by the impact of the 2008 global finance crisis and resultant recession which cut down Kenya's exports by more than 50%. This meant that some firms had to undergo restructuring in order to remain afloat, while others had to scale down their operations substantially. Kenya like other SSA countries faced stiffer competition with the liberalization of the global textile market with expiry of MFA in 2005. In particular, China and other Asian LDC countries with more efficient and competitive textile sectors have continued to displace the SSA from the American market.

(b) Investment Performance

The foreign investors in Kenyan EPZs relocated to their countries of origin with expiry of MFA in 2005 and the knowledge that AGOA was a temporary market initiative. No new investments in textile firms have been undertaken between 2005 and 2007. In any effect, the firms remaining in operations are basically local investors. In this regard sustainability of the textile could in part lie in the number of local investments.

(c) Employment

With 8.9% decline in investment between 2007 and 2008, local employment contracted by 9.6 % to stand at 25,766 persons in 2008 from 28,506 persons in the 2007. Sadder still is the fact that those losing jobs are women with no other alternative sources of employment and income. This is against the spirit or governments' ambition to create 500,000 jobs annually. Instead the sector with the greatest potential to generate jobs is the one losing jobs.

In spite of the fact that the Kenya Textiles and Apparels Sector has had great potential to spur economic growth, the textile sector has been declining over the years from a high of 40 firms in 2003 to only 26 recorded in January, 2010². The available statistics (**Tables 5.2.**) indicates that between 2008 and 2009 Kenya's Textile and apparels exports to the US under AGOA and GSP continued to decline by about 24% (\$232 million in 2008 \$195 million in 2009).

The persistent declining trend is indeed worrying with January to June, 2010 compared to the same period (January-June, 2009) having recorded a 24%. Without appropriate mitigation measures, it is apparent that the textile-apparel sector performance shall be worse in 2010 and subsequent years. The decline has been attributed to the un-competitiveness of the sector due to high production costs including cost of electricity.

² See Annex 3 in which out of 99 EPZ operating enterprises by January, 2010, 26 were Garment Manufacturers.

5.4 Projected impact if AGOA is extended on permanent basis (over 15 years) with LDC and without LDC status

According to export and import statistics in the **Table 5.2** it can be seen that from 2004 to 2008, Kenya's exports increased on average by 16.8 percent each year and amounted to about USD 5.0 billion. During the same period, imports increased on average by 25.0 percent each year to USD 11.1 billion. The trade balance therefore recorded a deficit of 6.1 billion US\$ compared to 1.9 billion US\$ in 2004.

Of interest to note however is the fact that textile and apparel related products constituted the basket of Kenya's top export commodities with an impressive US \$ 272.4 million in 2006, declining to US \$ 241.6 million in 2007 and US \$ 232.2 million in 2008. It is noteworthy that US have continued to be a principal export destination of the textiles originating from Kenya.

If AGOA benefits are extended for the SSA countries only, then the growth rates experienced in the first years of AGOA (2000-2004) shall be repeated. However, if AGOA benefits are opened up for other LDC countries outside SSA, then textile/apparel exports from SSA are likely to discontinue on account of lack of competitiveness both in price and quality. Going forward, the SSA should engage USA to sustain the AGOA benefits, limit its market access for the Asian LDC countries while facilitating investment in SSA to create the requisite domestic capacity in the textile and apparel industry. This is underscored by the fact that most of the Kenyan companies did not close shop and relocate on expiry of MFA. Instead they have committed more investment including working with the government to improve the investment climate.

5.5 Projected impact if AGOA is extended on short term basis (under 5yrs)

If AGOA is extended on short term basis, say 5 years, then the current decline shall continue with eventual impact of textile trade remaining minimal. Companies will continue to relocate to Asia and China. Further very little investment in textile manufacture shall take place. There is also a likelihood of the disruption of the cotton-textile chain.

5.6 Projected impact if AGOA is not extended

In the event that AGOA is not extended, textile and apparel contribution to the manufacturing sector in Kenya is set to be compromised, yet the manufacturing sector is expected to play a critical role in propelling the economy to a 10 per cent growth rate. According to the aspirations of Vision 2030, the manufacturing sector is expected to support the country's social development agenda through the creation of jobs, the generation of foreign exchange, and by attracting foreign direct investment (FDI).

In general the manufacturing sector makes an important contribution to the Kenyan economy and currently employs 254,000 people, which represents 13 per cent of total employment. The sector is divided into several broad sub-sectors with the top three manufacturing subsectorsⁱ accounting for 50 per cent of the sector GDP, 50 per cent of exports, and 60 per cent of formal employment. Nearly 50 per cent of manufacturing firms in Kenya employ 50 workers or less. The sector's current contribution to GDP is 10 per cent and recorded a growth of 6.9 per cent in value addition, and is expected to register a growth of 10 by selling to per cent that is driven by local, regional and global markets.

Despite a long tradition of manufacturing in Kenya there has however been a continued decline in investment and the overall lack of competitiveness have made it difficult for the sector to play a larger role in the economy. As a result, many manufacturing companies in Kenya have struggled to thrive and some key players have moved their operations to other countries.

5.7 Projected Impact of AGOA on sourcing of raw materials

The apparel sector has been importing nearly all its requirements for garment manufacture since the local textile manufacturers have as yet to produce the right fabrics in right quantities. The garment manufacturers have continued to benefit from the 3rd country provisions. Nearly all fabrics and accessories come from China and Asian countries currently, the same countries are the ones giving SSA countries stiff competition with expiry of the MFA. At present Kenya imports 30 million Sq metres of denim per year for use in the textile industry. This quantity is adequate to start a factory in the country whose multiplier effects will assist in the sustainability of the cotton-textile and apparel sectors.

6.0 TRENDS OF INVESTMENT IN THE TEXTILE AND APPAREL INDUSTRY

From **Table 6.1.**, the number of investors in textile and apparel manufacture increased from 10 in 2000 to 17 in 2001, an increment of 183% with a subsequent increment in terms of value of investment from Ksh.1.2 billion to Kshs 3.8 billion that is approximately US\$ 15 million to US\$ 47 million) another significant increment of 214%. The improved performance of the textile and apparel industry is in the majority attributed to the market opportunities made available through AGOA.

Table 6.1: Trends of Investment in Textile and Apparel Industry in Kenya, 2000-2010

Year	No of firms	Value of investment, US\$	Employment
2000	10	30,000,000	10,000
2001	17	70,095,508	16,000
2002	25	119,907,104	26,000
2003	40	178,384,135	37,000
2004	36	261,014,329	36,600
2005	25	263,109,630	34,000
2006	25	272,435,816	32,000
2007	22	241,630,196	29,000
2008	28	232,217,560	26,000
2009		194,641,000	20,000*

Source: EPZA Annual Reports of 2003 &, 2008 and 2010 KAM Policy Brief Vol. 3 No. 1

Due to the AGOA benefits, foreign investors came into the country particularly under the Export Processing Zone (EPZ) program to manufacture apparel for export to the US market. The AGOA initiative revitalized the textiles and apparel industry, which led to a substantial growth in investment and exports of apparel to the USA from Kshs 1.2 billion (investment) and 2.3billion (exports) in the year 2000 to Ksh 9.7 billion (investment and Ksh 17.6 billion (exports) in 2004.

According to the available statistics (**Table 6.1**), there was a steep rise in the level of employment with enactment of AGOA. In 2000 there were 10,000 direct jobs in the textile sector alone. This rose with the enactment of AGOA to form about 16,000 in 2001, over 37,000 in 2004. Since these were only direct jobs, more jobs were definitely created with the multiplier effect in areas like cotton fields, ginneries, suppliers of seeds and other farm inputs and other textile raw material suppliers.

7.0 THE IMPACT OF AGOA ON OTHER RELATED INDUSTRIES ACROSS THE VALUE CHAIN

7.1 Overview

Since the government adopted market liberalization in 1991, the cotton-to-textile/garment market structure has lacked the kind of market and institutional dynamics required to remain competitive with global players like China, or even with regional competitors such as South Africa and Lesotho. Though Kenya's garment sector successfully recovered in 1994 after the United States banned several products alleging transshipping goods from Asia, the cotton-to textile/garment sector is far from realizing its true potential.

The cotton-to-garments supply chain can be divided into four major sectors and a number of sub sectors. The principal sectors are smallholder cotton farmers, ginners, textile and spinners, and garment and apparel manufacturers.

The textile and apparel firms in the country produce a large variety of products. For instance the Spinning firms produce yarn (including industrial) and sewing thread while integrated mills produce a wide variety of products including yarn, fabrics (knitted and woven), canvas, school and traveling bags, blankets, sweaters, shawls, uniforms, towels, baby nappies and knitted garments.

Garment manufacturers on the other hand, produce various types of men's' wears or garments both for the local market and for export. Other products include woven chemise and robes, pants, Kaunda suits (for men), knitted and woven garments.

The textile and apparel industry has made a sizeable contribution to income generation in rural areas by providing a market for cotton growing. In fact the cotton sub-sector has a number of significant linkages. In addition to its close touch with the rural farmers, it has linkages with the textile processing and manufacturing industry, manufacturers of soaps and detergents, animal feeds, chemicals, fats and oils. These direct linkages with the textile and apparel processing and manufacturing firms are particularly important for the exploitation of the market opportunities presented by AGOA.

The impact of AGOA on textile and apparel industry may be disintegrated into the production and manufacturing of cotton growing and ginning; yarn and thread production; fabric manufacture; and apparel manufacture.

7.2. Cotton Growing by Small Scale farmers

Cotton in Kenya is mainly grown by small-scale farmers in marginal and arid areas, on small land holdings averaging about 1 hectare. It is estimated that Kenya has over 140, 000 small-scale cotton farmers compared with over 200,000 in the mid-1980s when the industry was at its peak.

The Cotton Board of Kenya estimates that countrywide, 350,000 hectares is suitable for rain-fed cotton production with the potential to produce about 260,000 bales of lint annually, and 34,500 hectares for irrigated cotton with the potential to produce 108,000 bales of lint annually. However, only about 25,000 hectares is currently under the crop, and the total annual lint production stands at only about 20,000 bales.

7.3. Cotton ginning:

Ginneries are a focal point in the cotton industry, and their location, efficiency and organization are critical to it. There are 24 ginneries in the country with an installed capacity of approximately 140,000 bales annually. But the utilized capacity is a meager 20,000 bales (about 14%), meaning that if the cotton production capacity were increased by 400% the ginneries would still be able to handle the production.

Out of the 24 registered ginneries, some have been leased to the private sector. In total there are only about 10 ginneries that are working currently. Some of the ginneries like Hola ginnery ceased operation as a result of the collapse of the Hola Irrigation scheme, after River Tana which was supplying water changed course and left the pumps dry. Some of the major ginneries that are privately owned include Kibos & Nyanza Ginneries in Nyanza Province and Tharaka Ginnery in Eastern Province.

7.4. Yarn, Thread production, Fabric manufacture and Apparel manufacture:

Spinning operations in Kenya are all large scale and locally owned. The spinning firms produce yarn, industrial yarn, and sewing thread while integrated mills produce a wide variety of products including yarn, fabrics (knitted and woven), canvas, sweaters, shawls etc.

7.4.1 Textile Manufacturers:

The textile sector can be divided into at least two sub sectors, namely spinners and integrated mills. Spinners principally produce yarn which is supplied to both textile manufacturers and the garment/apparel sectors. Currently, spinners do not have a separate institution representing their interest, but generally fall under the domain of the Textile Manufacturers Association (TMA) under the Kenya Association of Manufacturers (KAM).

In addition to the spinners, there are integrated mills that produce yarn, woven, knitted, and finished fabrics which are either sold directly to local markets or to garment/apparel manufacturers for further processing. Integrated mills represent a bulk of the activities in the textile sector, and are represented by the TMA.

Prior to the decline of the textile industry in the early 1990s, there were 52 textile mills devoted to fabric and yarn production and over 110 large-scale garment manufacturers registered with the Registrar of Industries. The mills had an installed combined capacity of 115.0 million square meters of fabric whilst the garment manufacturing sector had a combined installed capacity to process fabric into garments equivalent to 85% of the total national demand i.e. (141.3 million square meters). It is estimated that the total annual fabric requirement is at least 225.0 million square meters.

7.4.2 Garment/Apparel Manufacturers:

It is estimated that there are 170 large scale and 74,576 small and micro garment/apparel manufacturers operating in Kenya today. Of these 37 are exports oriented and generate a bulk of the revenue for the country.

7.4.3 Other Textile related Production

All the synthetic materials are imported. These include dyes and polyester (imported as granules), which has to be heated and then extruded into fine threads (filaments) for synthetic yarn production. The average annual imports of synthetic fiber for years between 1998 and 2002 are about 13,600 tonnes.

7.5 Impact on Banking Industry

The textile export sector handles all its transactions through the banking sector. The value of raw material imports to the textile industry and export of finished textiles averaged between US\$ 200-250 million per year during 2003-2008. In addition to institutionalizing links of local banking industry with external global networks, the financial sector benefitted with added benchmarked capacity development. This capacity and networks stand to be lost with declining textile export performance in particular with reduce access to the US market.

7.6 Impact on the Logistics Industry

Both inland and shipping industry has reaped benefits from AGOA. At the height of textile exports between 2003-2008, 2000 inward/outward bound containers were handled at the port of Mombasa per week. This figure has declined substantially to 1000 containers per week in 2010.

7.7 Impact on Governance

The requirement of democratization and respect for human rights which is anchored on continued eligibility of AGOA has to a large extent served to undertake requisite political, economic and social reforms. Further, the private sector accountability has also been enhanced given that trans-shipments lead to discontinuation of AGOA. In all AGOA entrenched stakeholder participation at all levels.

8.0 INCENTIVES AND SUPPORT TO THE TEXTILE AND GARMENT INDUSTRY

The majority of the textile firms are located in EPZ designated areas. However, with entry of AGOA in 2000, a number of textile industries were located outside EPZs but enjoying the same status as those firms located in EPZs. Besides the fiscal benefits due to tax exemptions and income tax waivers, the textile firms operating within the framework of EPZ also enjoy one stop approvals and fast tracking of customs clearance.

Export Processing Zones (EPZ) -Kenya inaugurated Export Processing Zones (EPZ) program in 1990 as part of the Export Development Program (EDP) undertaken by the Government to transform the economy from import substitution to a path of export led growth.

The following are the incentives enjoyed by the EPZ investors:

Fiscal incentives

- 10 year corporate income tax holiday and a 25% tax rate for a further 10 years thereafter;
- 10 year Withholding Tax holiday on remittance of dividends;
- Duty and VAT exemption on raw materials, machinery and other inputs;
- Stamp duty exemption;
- 100% investment deduction over 20 years on initial investment.

Physical Infrastructure Benefits

- Ready factory buildings for rent or purchase
- Serviced land for construction of buildings
- Office premises
- Water, sewerage and electricity supply
- Landscaping, garbage disposal, street cleaning services
- Illuminated perimeter fence and 24-hour security
- Accessible Customs offices

Duty drawback

The EA Customs Management Act provides for drawback of import duty on goods imported for the manufacture of goods which are to be exported transferred to a free port; and transferred to an Export Processing Zone.

Manufacture under Bond (MUB)

This facility was introduced in 1986 as an export drive policy measure. It aims at promoting industrial production for the export market. The facility allows manufacturers to import plant, machinery, equipment and raw materials tax free, for exclusive use in the manufacture of goods for export. Specific

incentives include exemption from customs/excise duty and VAT on imported plant, machinery, equipment, raw materials and other imported inputs; and 100 percent investment allowance on plant, machinery, equipment and buildings.

Tax Remission for Exports Office (TREO) Scheme

The TREO scheme aims at encouraging local manufacturers to export their products by remitting duty and VAT on raw materials used in the manufacture of goods for export. It also provides for tax remission on inputs to make goods defined as essential for the domestic market. The TREO encourages manufacturers to produce for the export market by granting remission of import duty on inputs; exemption of IDF fees on inputs except for payment of processing fee of Kshs. 5,000; remission of VAT on inputs; and remission of excise duty on fuel oil and kerosene.

9.0 COMPETITIVENESS OF THE TEXTILE AND APPAREL INDUSTRY IN KENYA

9.1 Competitiveness of the Kenyan Textile and Apparel Industry

While Kenya remains a high cost production economy, there are a number of resources which makes Kenya attractive for doing business. These include educated and trainable manpower, access through port and air transportation.

9.1.1 Pool of Trained and Trainable Manpower

The textile industry in Kenya has been for the last 70-80 years. Employees laid off with contraction of the industry remain available to participate in a revamped textile industry. Further, most Kenyans have eight years of education with majority of those seeking employment having attained secondary education (i.e. 12 years of quality education). First time employees with no skills have not had any difficulties in short term training.

9.1.2 Incentives and government guarantees

The incentives and guarantees are covered in section 8.0

9.1.3 Port of Mombasa

The port of Mombasa is the gateway for Kenya and hinterland countries of the region with the rest of the world. Continued investments and modernization of the port has made it possible to increase the throughput of the port. In this regard the private sector has benefitted from increased capacity. Another added advantage is the move to transact most businesses online.

9.1.4 Global and Regional Connectivity

Kenya is linked to the region and the rest of the world through efficient air and road transport. There are over 40 flights per week into/out of Nairobi to Europe, another 25 flights per week to Asia. Further, connectivity within Africa and a number of continental airlines makes accessibility much easier. Road network is also elaborate, though much more needs to be done to improve the quality of roads.

9.1.5 Linkage with International Shipping Lines

Mombasa as hub of marine transportation has created connectivity through international shipping lines. Both local and foreign investors and business people are able to transact business on line.

9.2 Factors contributing to non-Competitiveness of the Kenyan Textile and Apparel Industry

Even with the abundance of comparative advantages, there remains four key factors that have been identified as contributing to the lack of competitiveness in the manufacturing sector and by extension to the specific sub sectors such as the textile and apparels in Kenya. These broad factors include poor infrastructural conditions and high input costs; low productivity levels; inefficient flow of goods and services and unfavorable business environment.

9.2.1 Poor infrastructural conditions and High input costs

The poor and inadequate infrastructural conditions are one of the many constraints affecting the competitiveness of textile and apparel exports among Kenya producers, as well as between SSA producers and global competitors. Inadequate infrastructure, such as unreliable electricity, poor road quality, and limited access to international shipping, increases production costs and limits speed to market. As a result, most SSA manufacturers produce lower-value, basic apparel products. Additional constraints include, but are not limited to, geographic distances to major markets, lack of access to affordable capital, and political instability.

Expensive and often low-quality raw materials, rising labor costs, unreliable and expensive energy (e.g. US\$0.15c/Kwh in Kenya versus US\$ 0.07c/Kwh in China and US\$0.04c/Kwh in South Africa) have led to high costs of productionⁱⁱ. Poor infrastructure and inadequate services, such as water and other input supplies, have also contributed to the high cost of local manufacturing.

- **Number of days it takes to clear at port**

There have been initiatives since DB 2008 at the port of Mombasa, international airports and border ports including administrative reforms to make procedures and processes more efficient for importers and exporters involved in international trade and trade across borders. A case in point is the National Single Window Community Based Project currently under implementation by the GoK. The introduction of this system will result in a reduction in import cargo delays both at the port of Mombasa and JKIA.

On successful implementation of the program, time to export should take 16 days down from 29 days and time to import 19 days down from 26. This is by improvement brought about by the new program and also enhancement of processes going on since DB 2009 including:

- _ Enhanced use of X-ray scanners;
- _ Customs border control services in line with international standards;
- _ Systems interface; RADDEX connectivity to URA and RRA to enable data exchange in order to facilitate cross border trade in the region;
- _ Valuation database; this gives 10% deviation allowance from the database hence verification made easier and in turn clearance is not delayed;
- _ Single entry documentation (SED) for both import and export online; and

_ OSBP (one stop border post) with RTMS and CSS implemented; _ VMS and S2005S have been integrated; among others

- **In country transit transportation**

In country transit transportation also needs to be improved. In particular, there is need to reduce the number of road blocks which have turned into toll stations for fleecing the business community.

- **In country border points**

Continued operations of cross border ports of entry even with a fully operational customs union and Common market, causes delays in the clearance of goods which do not attract any duty.

9.2.2 Low productivity levels

Capital productivity in the Kenyan manufacturing sector is particularly low, compared to regional and global productivity levels. For example, productivity is up to 3–4 times lower than that of comparable Indian firms. This has been occasioned by declining capital investment levels from 30 per cent of GDP in the 1980s to below 15 per cent in the late 1990s. Over the past 15 years, gross investment in plants and equipment as a proportion of replacement value has been less than 5 per cent for 70 per cent of the manufacturers. Low investment levels have resulted from high levels of uncertainty in the business climate diminished expected returns on investment due to high costs, and lack of long-term financing.

Although Kenya's labor productivity is comparable to that of India and China, there is significant room for improvement, particularly among small- and medium-sized enterprises.

9.2.3 Inefficient Flows of Goods and Services

Inefficiency in the local transport and logistics sector (e.g. port, rail and road transport services), greatly hampers the ability of local manufacturers to access and be competitive in regional and global markets.

9.2.4 Unfavorable Business Environment

The unfavorable business environment arises from heavy regulations, weak trade agreements, lack of rigorous legal enforcement, incidences of insecurity, as well as limited access to capital.

Heavy regulation has led to complex and sometimes overlapping business and investment registration, affecting both the ease and the cost of doing business in the sector (e.g. Kenya issues hundreds of business-related licenses). Weak negotiating capability impedes the country's ability to negotiate for favorable trade agreements and therefore creates barriers against Kenyan companies. Weak enforcement of standards and of tax laws has led to dumping of sub-standard imports and counterfeit goods into the domestic market, making it unfavorable for local manufacturers to compete.

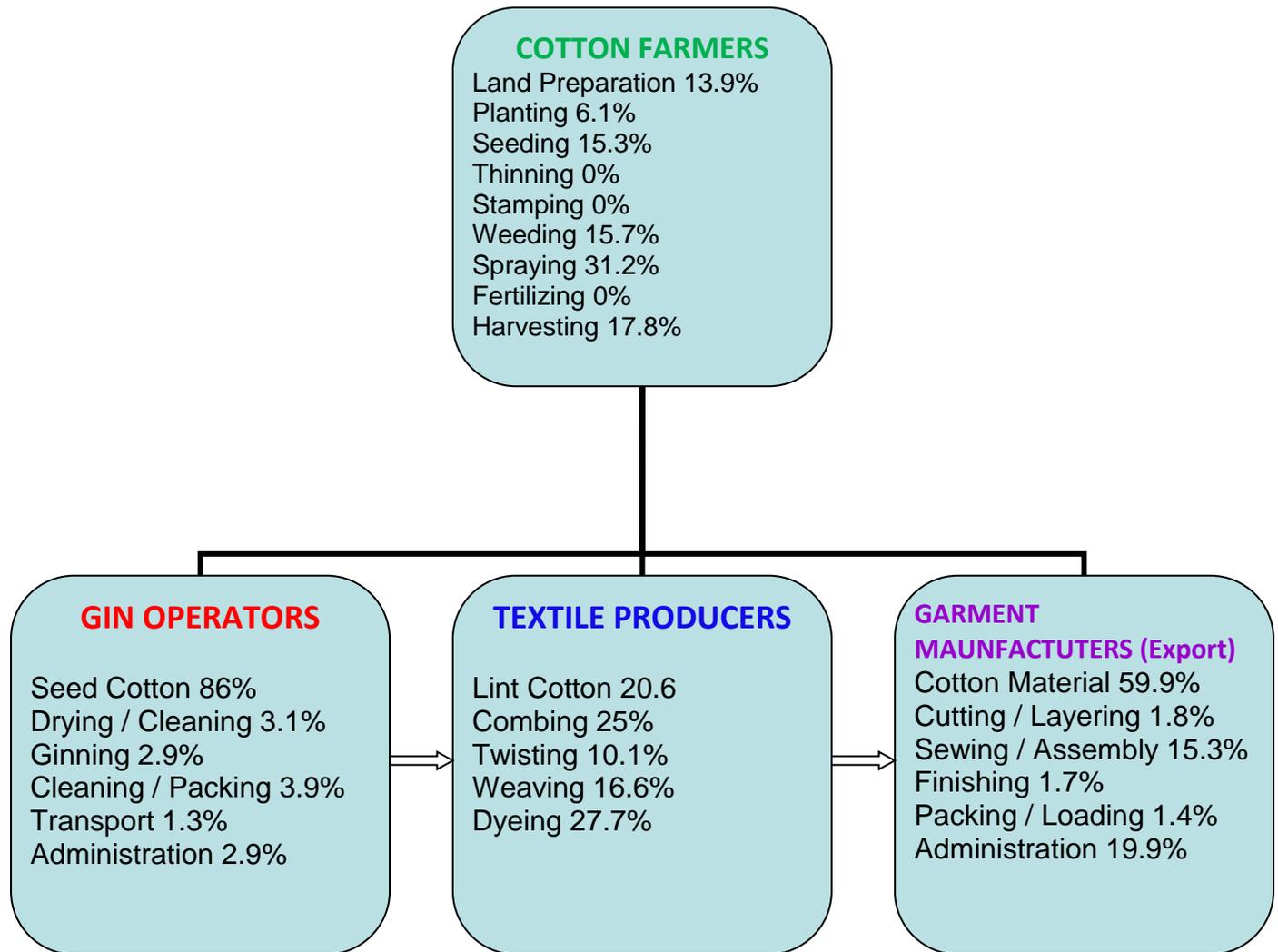
9.2.5 Costings and Value Chain Analysis

The textile and apparel value chain in Kenya links garment manufacturers, textile producers, gin operators as shown in figure 10.1. The costing is briefly highlighted below:

9.2.5.1 Cotton farming

This value chain begins with the cotton farmers. Kenya’s Cotton farmers are not achieving their full potential. This is clearly demonstrated by their low capacity utilization (40,000 hectares of 384,000 hectares under production) and production potential (57,000 bales of a potential 368,000 bales). Much of this low output can be attributed to a single overriding cost—imported agrochemicals. As evident in Figure (9.1), spraying makes up 31.2 percent of the value added in cotton farming, and agrochemicals account for 77.1 percent of that cost. Cost not only restricts the spraying frequency (currently the best smallholder farmer can afford five sprayings per season, whereas a robust cotton harvest requires twelve sprayings per season), but it also limits the ability of farmers to afford to invest in the labor costs for thinning, stamping, and fertilizing, which are important activities in crop maintenance.

Figure 9.1: Cotton-Textile Chain



Adopted from Global Development Solutions, LLC with Modification in diagram

9.2.5.2 Ginning

Ginning precedes textiles in the value chain. The primary cost in ginning is the seed cotton commodity. Thus, improvements and competition in cotton farming will likely play the largest role in reducing ginning costs. However, two inputs to the ginning phase should be highlighted as opportunities to realize efficiencies. First, the cost of spare parts is 60 percent of the maintenance costs that impact both drying/cleaning and cleaning/packing activities.

9.2.5.3 Milling (Textile Producers)

Lint cotton, combing, and dyeing account for nearly 75 percent of the value added for the textiles link in the value chain. The changes to be covered in farming and ginning can contribute to reducing the cost of lint cotton. Thus, the focus here will be on combing and dyeing.

The cost of electricity once again dominates the inputs to these two processes. Electricity accounts for 24 percent of combing costs and 35 percent of dyeing costs. As stated in relation to the garments link, the high cost and low quality of electricity in Kenya is degrading competitiveness. A separate issue related to combing is the high cost of overhead. Financing costs account for nearly 50 percent of combing overhead costs.

9.2.5.4 Garment Manufacturing

Aside from input materials, the garment value chain is dominated by sewing/assembly and administration. Electricity accounts for about 20 percent of maintenance costs under sewing/ assembly. The price per kilowatt-hour (kWh) in Kenya is \$0.11-\$0.19/kWh. This price is between 2.75 and 4.75 times higher than the price paid by manufacturers in South Africa, and between 1.5 and 2.7 times higher than in China.

Controlling electricity costs should be a top priority, because it would benefit firms in many sectors. Aside from electricity cost, the quality of electricity service is also an issue. Outages force companies to maintain parallel power supplies, adding to cost. Frequent blackouts damage or jam equipment, further adding to cost. A separate issue in the garment value chain is the high reject rate that contributes to administration costs. This high rate suggests that improved labor productivity, management practices, and cotton quality should receive some focus.

10.0 SOCIO-ECONOMIC IMPACT OF COTTON, TEXTILE AND GARMENT INDUSTRY

Currently there are about 40,000 farmers growing cotton in the country; 12 operational ginneries which are however operating at only 35% of their full capacity

Statistics in Table 6.1 show that the textile and apparel sector have immensely contributed in creating employment opportunities rising from about 10,000 people in 2000 to more than double in 2009. As at 2010 there are about 20,000 people employed by the sector. The severity of the loss of the jobs in the textile sector is underpinned by the fact that the majority of those employed in the garment manufacture are women in child bearing age and with no other skills to secure alternative employment.

11.0 CURRENT AND FUTURE CHALLENGES TO THE TEXTILE AND APPAREL INDUSTRY AND PROPOSED SOLUTIONS

11.1 Challenges

The following policy issues and transactional constraints negatively affect Kenya's exports to US at the commodity and cross-cutting levels. They also touch on the procedures of compliance with the US Government determined market accessibility conditions. The Challenges include:

- Erosion of AGOA benefits with expiry of the Multi Fiber Agreement in 2005 affected textile exports to the US market where we had comparative advantage because of the quota restrictions imposed on the non AGOA beneficiary countries prior to 2005.
- Competition from low cost producers, such as China and India, following the expiry of MFA and further liberalization of the international market;
- The impact of recession for the US economy and financial crisis is expected to affect consumer spending and generally affect demand for imports;
- Delayed re-establishment of the local/regional integrated textile chains to satisfy the AGOA requirement of local fabric sourcing.
- Low cotton production, ginning and textile manufacture means that lifting the provision of 3rd country fabric will render existing garment manufacturers idle;
- Stringent quality assessments in the US market –
- Lack of commercial representation in the US market to promote the Kenyan products and link producers with appropriate marketing chains. Continued reliance on textiles and apparel without exploring value added lines, in order to take advantage of the expansive Market Access opportunity created by AGOA by diversifying the range of products, including value addition;
- Lack of access to financial support especially for the small and medium enterprises
- Lack of direct flights from Nairobi to USA which makes Kenya exports expensive compared to its competitors;
- Other challenges include supply side constraints and lack of access to finance.

The cross-cutting Issues include:

- High cost of production in terms of energy, water and infrastructure. These costs are much lower in South East Asian countries.
- Lack of an integrated cotton and textile sector to provide raw materials for the garment industry while the South East Asian countries have long traditions in the textile industry;
- Inadequate financial support for the textile industry from the government while the sector in some countries like India and Pakistan receives a lot of financial support from the government.
- South East Asian countries benefit from economies scale since textile production in their countries is massive. They are therefore able to produce garments at much lower prices than the garment firms in Kenya

- Distance to the US from Kenya is also much longer compared to the distance between the US and South East Asian countries
- South East Asian countries have huge domestic market for example India with a population of over 1 billion people

11.2 Proposed Solutions

The recommended remedial strategies that are required to be put in place by the Government of Kenya and the private sector include:

- Establishing direct relationship between exporters, local garment makers and textile manufacturers
- Making proper US market survey on quality assessments
- Having enough stocks that satisfy demand before entering into contractual arrangements
- Establishing Kenyan distributors in the US
- Sensitizing the relevant US authorities on AGOA
- Putting in place urgent policies and measures to boost local production of cotton and high quality fabrics for apparel manufacture
- Strengthening US/Kenyan textile trade associations links.

Critical solutions to the identified cross cutting constraints hinge upon: ensuring there is direct and cost effective air and sea freight transport from Kenya to USA; and there are no delays and burdensome procedures at the entry ports. Further, the level of awareness of SPS management requirements needs to be increased; the standards testing infrastructure should be improved; trade finance needs to be made accessible with affordable interest rates and collateral requirements; scaling up attractive features of EPZ and KIA; and developing human capacity for promoting Kenya trade interests in international markets

Accessing the US market calls for meeting US norms, standards and best practices which involve diverse technical and administrative functions.

12.0 RECOMMENDATIONS

The combined effects of DFQF treatment of apparel from Asian LDC countries and termination of the 3rd country fabric by 2015 will destroy the SSA apparel industry revived through AGOA. USA imports from Asian LDC countries have risen sharply since 2005 while those from SSA have nosedived. Recommendations for the way forward are at two levels; country level and AGOA level. Priority is given to actions to be taken at AGOA level.

The Future of AGOA in SSA

For AGOA to remain the cornerstone of US-Africa economic policy and trade relations there is urgent need to revisit the overall AGOA framework within the context of the global WTO commitments and proliferations of FTAs (Bedi, July 2010). In particular there is need to lobby the US government to:

- Sustain the original the intention of AGOA to alleviate poverty via “Trade not Aid”.
- Maintain the momentum and motivation that has picked up to re-build the African Fibre, textile and apparel value chain.
- Continue giving hope to the foreign new investments, and the development of apparel manufacturing capacity of SSA that has resulted from AGOA.
- Create unfair competition if DFQF status is extended to Asian LDCs.

In this regard, SSA through AACTIF should lobby and negotiate with the US government to:

- 1. Extend the period of AGOA and AGOA IV beyond 2015 on a permanent basis to promote SSA cotton sector as originally intended;**
 - a. Extending AGOA on a permanent basis in order to incentivize investors and buyers to continue investing and sourcing from SSA
 - b. Secure the employment opportunities on permanent basis
 - c. Sustain the ongoing reforms in the cotton-textile chain
 - d. Sustain the ongoing reforms and investments in the cotton textile chain
 - e. Deepen the regional integration agenda at pan-African level
 - f. Facilitate Kenya meets commitments under Vision 2030
- 2. Extend the period of the “third country fabric” provision beyond 2012;**
 - a. To allow SSA countries to continue producing same quality products for the American market
 - b. To allow the SSA countries further develop the cotton textile sectors
 - c. For at least minimum period of 10 years
- 3. Extension of AGOA to non-sensitive Textile Products**
 - a. Joint (SSA/US-ITC) to determine non-sensitive non-apparel products not import sensitive in the US market that could benefit from AGOA
 - b. Flexibility of the requirements to process all non-apparel products in LDC countries
- 4. Protect AGOA from being undermined by ongoing USA preference reforms (TPP) and FTA arrangements**
 - a. Introduce temporary quotas on Asian LDCs to allow SSA textile growth
 - b. Reform the AGOA along the EIAP provisions given to Haiti
 - c. US jointly with SSA counties to seek for waiver from WTO under SDT
 - d. Provide special incentives for US buyers to continue to source from Africa

5. **Review of the AGOA rules of continued eligibility**, in particular terminal sanctions as was the case for Madagascar in 2009
 - a. Making provisions for unfair trade practices such as subsidies which most African countries may not have the capacity to provide
 - b. AGOA to continue to support the regional and pan-Africa integration agenda
6. **Continued TA to build the capacity of SSA textile industry through USA Trade Hubs**
7. **Defer/postpone the introduction of DFQF status to Asian LDCs** as it would undermine the purpose of AGOA and AGOA IV.

Country level

At the country level, Kenya there are four key factors that have been identified as contributing to the lack of competitiveness in the manufacturing sector and by extension to the specific sub sectors such as the textile and apparels in Kenya. These broad factors include poor infrastructural conditions and high input costs; low productivity levels; inefficient flow of goods and services and unfavorable business environment.

In this regard additional investments in infrastructure with a view to benchmarking subsequent rates to international rates; enhance the efficiency of the transport and relate service sectors of the ports, sustain technical skills trainings in order to increase productivity, and sustain reforms in the business environment and business climate including exploring the option of commercial representation in the US market. Further, the cotton-textile chain has to be developed in a wholesome way.

13.0 CONCLUSIONS

Like in all the SSA countries, Kenya has benefitted substantially from AGOA market opportunities especially in the textile and apparel sector. However, the socio-economic developments ushered in by AGOA have been eroded substantially from the MFA expiry which exposed the SSA countries to intense competition from the more efficient Asian LDC countries. But there is hope especially now that SSA countries are taking on pan-African approach to salvage AGOA. ACTIF should not tire in presenting SSA case to the US congress.

ⁱ Food processing, beverages and tobacco; refined petroleum products; and textiles, apparel, leather and footwear

ⁱⁱ KIPPRA ; World Bank Investment Climate Assessment for Kenya 2003, Kenya Competitiveness 2006; Kenya's Vision 2030

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