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## CASE STUDY—African Apparel Sector: Stitching Africa into the Global Value Chain



*“Promoting prosperity, open markets, and good governance in Africa through programs like AGOA, has improved the trade environment for both U.S. and African businesses and spurred economic growth.*

*- Earl Gast, Assistant Administrator for Africa*

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## INTRODUCTION

The African continent has a long and celebrated history of utilizing indigenous materials, including locally-grown cotton, to produce a rich assortment of textiles and garments. With the emergence of a \$1 trillion global market for textiles and apparel, the challenge has been to transform this legacy into a modern and integrated part of the increasingly fragmented global value chain. Africa's participation in the modern apparel industry is largely the result of international trade agreements—particularly the Multi-Fiber Arrangement (MFA) and the African Growth and Opportunity Act (AGOA)—that have paved the way for lower-income countries to join global production networks.

The **apparel** industry covers a wide range of products, including knit, woven, and nonwoven articles such as shirts, pants, gloves, and head wear. The vast majority of apparel exports from SSA, particularly to the United States, are consumer-ready products such as basic trousers and shorts, t-shirts, sweatshirts, and sweaters, largely made of cotton or man-made fibers.

*Source: United States International Trade Commission, Sub-Saharan Africa: Factors Affecting Trade Patterns of Selected Industries, April 2007, Publication 3914.*

Prior to 2000, the apparel industry in sub-Saharan Africa (SSA) was largely underdeveloped and concentrated within certain large economies, including South Africa, Nigeria, and Mauritius, which met local needs and supplied basic apparel articles to the European Union (EU). Import substitution-led policies in most SSA countries built the industry, but could not sustain it against fierce international competition until the continent was provided with unprecedented market access through the passage of AGOA in 2000. AGOA extended duty-free benefits under the Generalized System of Preferences (GSP) program to include certain textiles and apparel articles. Average duty rates on U.S. imports of textiles and apparel are relatively high, reaching 32 percent for certain products. Preferential access to the U.S. market under AGOA therefore attracted many Asian investors (primarily from China and Taiwan) to establish apparel production bases in SSA. To foster industrial development, African governments provided a variety of investment incentives, including tax exemptions and the creation of export processing zones (EPZs) as hubs for manufacturing activity.

The U.S. government also played a key role in expanding the SSA apparel sector under AGOA. In 2002, USAID designed and funded the Trade for African Development and Enterprise (TRADE) project, which established the three African Trade Hubs in the East, West, and Southern regions of the continent. One of their primary objectives was to engage African government agencies, civil society, and businesses to increase exports to the United States. While Trade Hub support for AGOA is multi-sectoral, the apparel sector has received the most attention and resources over the past decade.

## CHALLENGES AND CONSTRAINTS

While SSA apparel production expanded rapidly under AGOA, the industry has continued to encounter significant challenges in establishing a sustainable and competitive global presence. Weak market linkages and information, inadequate trade logistics, and insufficient capital are among the most critical factors inhibiting SSA competitiveness in the apparel industry.

**Market linkages and information:** Export-ready firms are often unable to identify and make contact with potential buyers and lack a coherent marketing strategy that would enable them to realize maximum benefits from marketing opportunities. Given their relatively small size, SSA producers tend

to be unfamiliar with product specifications, and therefore have difficulties in adapting production to meet the rapidly changing demands of international buyers and retailers.

**Intra-Regional Trade Rigidities:** Over the past decade, global apparel value chains have reorganized in response to consumer demand for “fast fashion,” adopting shorter delivery cycles and just-in-time systems to meet consumer trends and minimize inventory costs. Because the industry operates on thin margins and product replenishment schedules require rapid service, efficient trade facilitation is of particular importance in supporting participation in the value chain.<sup>1</sup> Major non-tariff barriers, including customs delays and rules of origin restrictions, prevail throughout the region, adding both time and costs to production schedules, particularly since many countries rely on imported inputs (reflecting limited SSA textile production).

**Access to technology and capital:** Under AGOA, international producers outsourced the most labor-intensive and lowest-cost operations to SSA, establishing cut, make, and trim (CMT) facilities. Thus, SSA apparel firms are locked into the final assembly stage of the value chain, which is the most labor-intensive. However, because entry and exit costs are relatively low, this position is extremely susceptible to competitive pressure from low cost destinations in other parts of the world. In the apparel supply chain, the highest value-added processes are the most specialized, including product design, branding, and marketing, all of which occur largely outside of SSA—with the exception of Mauritius and South Africa. SSA producers face major obstacles in accessing technology that could improve productivity and product quality. With scarce and relatively expensive capital, local producers are unable to obtain bank financing to invest in equipment to modernize their business or build new competencies to move up the supply chain.

## USAID INITIATIVES AND RESULTS

China’s competitiveness, coupled with the expiration of global quotas on apparel in 2005, increased competition from highly productive, low cost suppliers in Asia. This prompted some international investors to close their SSA facilities and return to their home countries. The resulting decline in SSA competitiveness, along with the subsequent global financial downturn, caused additional closures of textile and apparel firms, further reducing manufacturing capacity and dissolving some of the employment gains achieved prior to 2005.<sup>2</sup> Within this context, the support offered by USAID through the Trade Hubs to create market linkages, improve logistics, provide access to finance, and brand strengthening has proved vital for stabilizing an industry in distress. The following provides a succinct analysis of intervention approaches undertaken by each Trade Hub in support of the apparel sector, and their resulting successes in increasing investment, employment, and exports.

### East Africa Experience

The East Africa Trade Hub (EATH) drives enhanced competitiveness in the apparel sector by providing firm-level assistance, which supports direct business linkages between U.S. and East African firms, and by

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<sup>1</sup> Fukunishi, et al., “Aid For Trade and Value Chains in Textiles and Apparel,” 2013.

<sup>2</sup> Madagascar was the second-largest supplier of apparel to the United States under AGOA nearly every year between 2000 and 2009, until it lost AGOA-eligibility. Thus, Madagascar’s apparel exports to the United States in 2010, 2011, and 2012 are not counted under the AGOA program, lowering the overall AGOA total substantially. In fact, Madagascar’s industry was devastated by the removal of AGOA benefits, highlighting the importance of duty-free, quota-free treatment for the competitiveness of SSA apparel exports. World Bank, “Incentives, Exports, and International Competitiveness in sub-Saharan Africa: Lessons from the Apparel Industry,” May 9, 2011, 51.

supporting national-level AGOA strategies, through which EATH provides direct assistance to governments and performs research and analysis for the apparel sector. EATH also collaborates with the African Cotton and Textile Industries Federation (ACTIF) on branding and marketing African-made clothing and textiles in order to increase exports. EATH works to ensure that firms are fully prepared for trade shows and missions, business-to-business events, and conferences on market developments/trends by addressing systemic business development constraints, providing targeted technical assistance at the firm-level, and educating private sector groups about AGOA opportunities. Through these networking interventions, market participants are introduced to international buyers, new markets, and opportunities for growth.

Origin Africa is an EATH-supported branding campaign established in collaboration with ACTIF. Its primary objective is to showcase Africa as a preferred sourcing destination, by altering perceptions about the business environment and demonstrating Africa's creativity and innovations to buyers and industry leaders. Beyond branding, Origin Africa promotes East African designers through fashion industry events throughout the region. Over 200 delegates attended the inaugural, four-day, 2012 Origin Africa Trade Expo, Seminar Series, and Designer Showcase in Ethiopia. Participants included more than 20 buyers from major U.S. and European retailers, such as Saks Fifth Avenue, Oakley, Calvin Klein, Tommy Hilfiger, and Otto Versand. The subsequent show in New York City in 2013 generated similar interest and results. Origin Africa also partnered with Swahili Fashion Week to support their 2013 event in Tanzania.<sup>3</sup> The 2014 Origin Africa event is scheduled for November 10—12 in Nairobi, Kenya.<sup>4</sup>

To encourage countries to take advantage of AGOA incentives, EATH works with governments and ministries of trade and industry to develop national-level strategies, identifying priorities and key areas of entry into U.S. and international markets, and developing action-oriented plans to achieve their objectives. Strategic plans along these lines have been finalized for Kenya and Mauritius, each with a principal focus on the textile and apparel sectors. A recent EATH study to further understanding of the U.S. market for apparel products has also been vital to East Africa's competitive advances in the global apparel market, particularly for small-scale firms in the region.

EATH has also facilitated trade through support for integrated border management tools within the region. These include joint border committees, customs harmonization at the EAC level, and the implementation of innovative software to streamline customs procedures and allow for a direct exchange of electronic information between border posts. These measures have reduced transit times by up to 50 percent, playing a crucial role in facilitating on-time delivery by East African apparel producers.<sup>5</sup>

Since 2009, EATH has facilitated \$115 million in exports in the textile and apparel sectors, leading buyer's missions that have generated significant new business for East African firms. Following a 2010 mission, U.S. uniform supplying companies placed orders with three separate Ethiopian companies: Almeda Textiles, Novastar, and MAA Garment, generating more than \$3.5 million within two years.

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<sup>3</sup> *Fibre2fashion*, "Swahili Fashion Week Partners USAID and COMPETE," November 29, 2013.

[http://www.fibre2fashion.com/news/Association-news/USAID/newsdetails.aspx?news\\_id=156555](http://www.fibre2fashion.com/news/Association-news/USAID/newsdetails.aspx?news_id=156555)

<sup>4</sup> [https://originafrica.org/documents/ORIGIN\\_AFRICA\\_Brochure\\_F.pdf](https://originafrica.org/documents/ORIGIN_AFRICA_Brochure_F.pdf)

<sup>5</sup> EATH supported the implementation of the innovative Revenue Authority Digital Data Exchange System 2.0 (RADDEX 2.0), which streamlined customs procedures to allow for a direct exchange of electronic information between border posts. USAID East Africa Trade Hub, "RADDEX in the Making – Background, Strategy, and Implementation," October 2013.

Polo shirts for all CVS pharmacy staff have been made in Ethiopia since 2010. Other companies, with EATH support, are gradually penetrating the U.S. market for the first time in niche apparel sectors, representing first-time orders and expanding networks. As a direct result of an EATH-led trade mission in 2013, U.S. retailer Anthropologie has initiated new orders with Tanzanian and Ethiopian firms.<sup>6</sup> In March 2013, UAL—a Kenyan apparel company—increased production and added over 2,500 new employees to staff a third company in Kenya’s Export Processing Zone.<sup>7</sup>

EATH recently completed an analysis of the cotton, textile, and apparel value chain in East Africa, identifying key constraints and investment opportunities for each segment of the production network. The report makes specific recommendations for interventions to integrate and strengthen all components of the regional value chain.<sup>8</sup>

### West Africa Experience

In support of the apparel industry, the West Africa Trade Hub (WATH) has established 18 regional AGOA Resource Centers, which provide training and technical assistance to firms and associations in investment promotion, branding and marketing, and export market linkages. WATH has also developed an AGOA Apparel Export Guide, which provides companies with information on best practices, AGOA requirements, and U.S. market information. These efforts have enabled small-scale and nascent producers in West Africa to ratchet up export capacity.

Trade shows form another pillar of WATH support to help firms attract potential buyers, take stock of the competition, and gain an industry foothold. While WATH has organized the Source Africa pavilion at the semi-annual MAGIC apparel industry show in Las Vegas since 2008, it was the 2012 show that emphatically demonstrated Africa’s potential as a new sourcing destination. That year, clothing manufacturers from Cameroon, The Gambia, and Ghana reached a new milestone, signing deals worth \$570,000, and with additional potential orders estimated at \$4.5 million.<sup>9</sup>

Besides sponsoring individual companies, WATH supports AfricaNow!, a network of West African exporters, production companies, and international buyers who participate collectively in trade shows, market themselves jointly, and emphasize quality standards and cutting-edge designs. Through the ongoing support to all network members, the Hub works to increase their market visibility, create links to important market players, increase production capacity, and improve access to financing.<sup>10</sup>

Garments are a major AGOA success story for Southern Africa...Lesotho, Swaziland and Mauritius, in particular, developed garment industries around AGOA. They now employ thousands of sewing machine operators making apparel for some of the largest and best-known brands in the US, including Levi’s, Wal-Mart, Gap, Old Navy, Victoria’s Secret, Target, Calvin Klein, Gloria Vanderbilt, Vanity Fair and Land’s End. Mozambique and Botswana have developed strategies to follow the examples of their successful [Southern African Development Council] neighbors.” Erica Barks-Ruggles, Consul General of the U.S. in Cape Town.

Source: Bambina Wise, *Women’s Wear Daily*, “Sizing Up South Africa’s Potential,” April 29, 2013.

<sup>6</sup> [http://www.competeafrica.org/Files/ECA\\_Hub-AGOA\\_Brief-final\\_April\\_2013.pdf](http://www.competeafrica.org/Files/ECA_Hub-AGOA_Brief-final_April_2013.pdf)

<sup>7</sup> *Ibid*

<sup>8</sup> USAID East Africa Trade Hub, “Strengthening the Cotton, Textile and Apparel Value Chain in East Africa: An Assessment,” August 2014.

<sup>9</sup> Carana Website: <http://www.carana.com/about-us/news-archives-all/86-highlights/596-new-interest-in-african-apparel-manufacturing>

<sup>10</sup> AfricaNow! Website <http://www.africa-now.org/about-us>

WATH supported the establishment of a West African brand, Source West Africa, to enhance visibility and consistency at trade shows. To further educate firms on best practices, WATH conducted a training module with support from Source West Africa and the USAID Business Environment and Agile Markets (BEAM) project. The workshop educated exporters on core aspects of value chain integration; including design, marketing, branding, costing, and pricing, and encouraged networking for future collaboration.<sup>11</sup>

In addition to marketing efforts related to trade shows, WATH launched EBizBox, an initiative to help exporters develop a robust Internet presence. EBizBox is a strategic partnership with Intel and local service providers. As a result of its implementation, WATH has increased the visibility of smaller African firms to international markets, as well as streamlining their marketing and branding efforts.<sup>12</sup>

Through its partnership with the Borderless Alliance, WATH implements customs modernization reforms and conducts road governance studies to identify significant bottlenecks along essential trade corridors. The establishment of Border Information Centers and trade and transport observatories has significantly reduced inefficiencies, benefitting the export competitiveness of West African apparel producers.

WATH also supported the development of Ghana's apparel industry by providing technical assistance that resulted in the establishment of a Lucky1888 Mills factory in March 2010.<sup>13</sup> The factory has since expanded, bringing employment to nearly 500 young women who produce apparel for the U.S. hospitality, healthcare, and food service industries.<sup>14</sup> It plans to increase employment to 1,500 by 2015.<sup>15</sup>

## Southern Africa Experience

The Southern Africa Trade Hub (SATH) supports the apparel industry by supporting trade shows, promoting foreign direct investment in new manufacturing capacity, increasing access to new markets, and advocating for policy reforms to liberalize trade and strengthen regional value chains.<sup>16</sup>

To expand market linkages, SATH worked with Leading Textile Exhibitions South Africa to host the Source Africa Trade Show in Cape Town, in April 2013.<sup>17</sup> This event, which was the first pan-African apparel industry show, brought together over 170 African textiles, apparel, and footwear exhibitors from across the continent, and 1,400 leading buyers and participants from around the globe. Two hundred business meetings were conducted between African companies and buyers, and over \$10 million in immediate and carry-over deals were reportedly secured.<sup>18</sup> The 2014 event, also in Cape Town, drew 217 exhibitors from 18 countries, and 1,185 African visitors. The Hub's primary

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<sup>11</sup> USAID West Africa Trade Hub <http://www.watradehub.com/products/apparel/source-west-africa-training-targets-apparel-exporters-cote-d%E2%80%99ivoire>

<sup>12</sup> Finn Holm-Olsen, "Best Practices in Overseas Representation," 2009, 16.

<sup>13</sup> Lucky Mills is a Pakistani textile and apparel firm with multiple locations.

<sup>14</sup> Lucky Textile Mills Website <http://www.luckytextilemills.biz/new/processing.html>

<sup>15</sup> Carana Website <http://www.carana.com/about-us/news-archives-all/86-highlights/596-new-interest-in-african-apparel-manufacturing>

<sup>16</sup> USAID Southern Africa Trade Hub, "Textiles and Apparel" one pager:

<http://www.satradehub.org/images/stories/downloads/pdf/One-pagers/Textiles%20&%20Apparel.pdf>

<sup>17</sup> USAID Southern Africa Trade Hub, "Source Africa 2013 Launched in Cape Town," August 2012. <http://www.satradehub.org/value-chains/sath-content/newsroom/hub-happenings-articles/source-africa-2013-launched-in-cape-town>

<sup>18</sup> USAID Southern Africa Trade Hub, "Source Africa Exceeds Expectations," May 2013. <http://www.satradehub.org/home/sath-content/activities/textiles-apparel/source-africa-exceeds-expectations>



contribution was in organizing Business-to-Business matchmaking events and meetings between exhibitors and international buyers; 395 business matchmaking meetings resulted.<sup>19</sup>

In 2012, SATH worked with local partners to complete in-depth, country-level analyses of the textile and apparel industry in Botswana, Lesotho, Mozambique, and Swaziland. National Investment Promotion Agencies will use this information to develop concrete strategies for increasing industry competitiveness. SATH plans to continue to collaborate with the Ministries of Trade and Industry in each country to implement the resulting proposals and work to leverage significant additional foreign investment.<sup>20</sup>

SATH is also working with key regional organizations, including South Africa's Trade Law Centre (Tralac) and ACTIF, to expand institutional capacity and identify key policy issues that limit exports of textiles and apparel. These partners advocate reforms that will liberalize regional trade with a major focus on Rules of Origin in the Southern Africa Development Community (SADC) Trade Protocol, as well as South Africa's eligibility for a third country fabric waiver under AGOA.<sup>21</sup>

Even though Southern Africa has the best infrastructure and most efficient customs environment in Africa, exporters could still benefit from further reductions in the time/cost of trade-related transactions. SATH conducts time release studies to identify bottlenecks, improve communications, and align customs procedures with international standards. It has also assisted the development of a single administrative document (SAD500), a common customs declaration form designed to harmonize protocols across borders.

## **CONCLUSIONS AND LESSONS LEARNED**

As a labor-intensive industry with low capital requirements, apparel is a key entry point to industrialization for many countries. USAID has helped a number of sub-Saharan African countries, such as Lesotho and Swaziland, to take advantage of AGOA to successfully launch their industrial development.

Overall, USAID interventions to strengthen market linkages and bolster trade facilitation have contributed significantly to employment and export growth in the SSA apparel industry. A recent evaluation of Trade Hub export promotion assistance found that Trade Hub market linkage efforts were particularly effective in increasing exports.<sup>22</sup> Through qualitative interviews, the study determined that the best method for assisting firms is through a step-down process, which requires heavier initial support with a gradual reduction until firms become self-sustaining. The evaluation also recommended that Trade Hubs expand efforts to facilitate sustainable firm-level access to finance, which was cited by firms in East and West Africa alike as the main barrier to their export growth.

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<sup>19</sup> USAID, "Mid-Term Evaluation of the Southern Africa Trade Hub," August 2014.

<sup>20</sup> USAID Southern Africa Trade Hub, "Source Africa Exceeds Expectations," May 2013. <http://www.satradehub.org/home/sath-content/activities/textiles-apparel/source-africa-exceeds-expectations>

<sup>21</sup> The third country fabric waiver allows lesser developed countries (LDCs) to use unlimited quantities of imported fabric inputs in making apparel that qualifies for duty-free, quota-free entry into the U.S. market. Because South Africa does not qualify as an LDC, it must use fabric of either U.S. or African origin in AGOA-qualifying exports of apparel articles. As Asian fabrics are the least expensive in the world, this is a competitive disadvantage for South African producers.

<http://www.satradehub.org/images/stories/downloads/pdf/One-pagers/Textiles%20&%20Apparel.pdf>

<sup>22</sup> USAID, "Africa Trade Hubs Export Promotion Evaluation Report," October 2013. [http://pdf.usaid.gov/pdf\\_docs/pdacx958.pdf](http://pdf.usaid.gov/pdf_docs/pdacx958.pdf)

To realize the potential for effectively integrating into global production networks, SSA firms need to achieve significant additional improvements to competitiveness at every stage of the supply chain. For firms with niche clothing products, the best option may be to refine branding capabilities to secure greater rents associated with the product's uniqueness (e.g. high quality suits in Mauritius), or to enter a product niche (e.g. work-wear in Zambia) where demand does not vary significantly throughout the year and in which there are fewer competitors. For large firms with many operations offering standardized products (e.g. knits in Lesotho and menswear in Kenya), increased vertical integration within the country or regionally may be the best strategy for reducing costs and for controlling risks that delay shipments. However, these upgrades will require significant investment in the region's textile sector to develop production capacity and improve quality.

Finally, the simplification and harmonization of customs procedures and behind-the-border measures to facilitate movement along transit corridors are critical factors for better connecting SSA producers to global value chains. Within this context, effective implementation of existing regional commitments and of the 2013 WTO Trade Facilitation Agreement will better enable SSA countries to lower intra-regional trade barriers and thereby exploit more fully their comparative advantage in labor-intensive manufacturing industries, including apparel.

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