

Ethiopia and Kenya two potential and untapped markets for Synthetic and Blended textiles from India

KENYA AT A GLANCE



Population	46.05 million	2015
GDP (US\$)	63.40 billion	2015
GDP growth	5.6%	2015
Inflation	6.6%	2015
GNI Per Capita (US\$)	1,340	2015

Introduction

Kenya is one of the major Cotton growing countries in the African region. Cotton production offers the greatest potential for increased employment, poverty reduction, rural development and income generation in the country. The sub-sector has been identified as one that could help bring rapid economic development and reduce poverty in the country. It has therefore been classified as a core industry by the Kenyan government.

In the early 80's the textile industry was the leading manufacturing activity in Kenya, both in terms of size and employment. The industry was employing over 200,000 farming households and about 30% of the labour force in the national manufacturing sector. However the sub-sector started declining in the mid-1980s until the 1990s. There was the dumping of used clothes locally known as "mitumba" which originally was meant for the troubled Great Lakes region but somehow ended up in the local market retailing at very low prices. This led to the collapse of the local textile industry in the early 1990s.

Since the liberalization of the economy in 1990, the influx of textile goods into Kenya also became a major problem that reduced the average capacity utilization in the textile mills to about 50%. The textile sector was actually once the fifth largest foreign exchange earner in Kenya, but dropped to a very small contribution of the Gross Domestic Product (GDP) from mid and late 90s. However, data available for the last 5 years indicates that the sector is on its way to recovery largely due to AGOA and increased Government support. The enormous market prospects presented by the African Growth and Opportunity Act (AGOA) of 2000 and the African, Caribbean and Pacific - European Union (ACP-EU) Cotonou Agreement have rekindled interest in the industry. Indeed, since Kenya qualified for AGOA, its exports to the US have expanded remarkably and so has investment in this sector. Kenya's textile exports to the US increased from US\$ 39.5 million in 1999 to US\$ 277 million in 2004.

Existing textile and apparel firms in the country produce a large variety of products. 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 travelling bags, blankets, sweaters, shawls, uniforms, towels, baby nappies and knitted garments of mostly cotton.

Structure of the Textile Sector

Kenya has 52 textile mills, of which only 15 are currently operational and they operate at less than 45 percent of total capacity. The existing mills operate using outdated technology and suffer from low levels of skilled labour and low productivity. The cost of electricity is a major cost driver for textile mills, as are the high maintenance and overhead costs due to old equipment. A further cost driver is the need to either use high-cost imported material or low-quality local fibre which requires additional processing.

Major inputs include cotton fiber (both local and from Uganda/Tanzania); man-made fiber & dyes which are mostly imported; utilities such as water, electricity and fuel; machinery; and skilled labour.

The yarn spinning companies have a capacity of 140,000 spindles in total, with only 40-50 percent currently being utilized. There are few stand-alone yarn spinning mills which produce cotton yarns, blended yarn, as well as polyester, acrylic and sewing threads. Yarn output is sold within Kenya and exported to Uganda, Rwanda, Tanzania, and Nigeria. Only 15 of the 52 yarn mills are operational.

There are some semi integrated mills, which cover the entire production value chain from spinning to knitting, dyeing, and finishing. Two semi-integrated mills are oriented to knitting and four to weaving. Stand-alone knitting and weaving companies import yarns from India, Indonesia, China, and Taiwan but also utilize 80-90 percent of domestic yarns. The 15 mills that are in the weaving, knitting, and finishing business see a capacity utilization of 40-50 percent.

Import of textile and apparel products from India in 2015

Chp.	Product Description	Kenya's imports from India				Kenya's imports from world		
		Value in US\$ 000	Annual growth in value between 2011-2015%, p.a.	Share in Kenya's imports, %	Equivalent ad valorem tariff applied by faced to Kenya	Value in 2015, US\$000	Annual growth in value between 2011-2015, %	Share in world imports, %, p.a.
50	Silk	19	-31	42	25	45	-43	Negligible
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	1	-77	Negligible	12	613	7	Do
52	Cotton	6,426	-4	4	17	144,553	8	Do
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	991	4	6	18	17,543	32	Do

54	Man-made filaments; strip and the like of man-made textile materials	17,632	-5	10	20	180,036	7	Do
55	Man-made staple fibres	30,374	-3	20	14	155,655	6	Do
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	4,130	25	2	17	198,883	92	1
57	Carpets and other textile floor coverings	3,660	72	22	25	16,326	24	Do
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	824	28	5	25	15,969	7	Do
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable . . .	4,040	14	15	10	26,768	Negligible	Do
60	Knitted or crocheted fabrics	1,027	46	1	25	95,704	7	Do
61	Articles of apparel and clothing accessories, knitted or crocheted	3,943	16	1	25	405,635	49	Do
62	Articles of apparel and clothing accessories, not knitted or crocheted	8,625	1	2	25	460,727	72	Do
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	21,210	8	7	28	304,151	9	1
TOTAL		102,902				2,022,608		

The average share of Indian manmade fibre and blended textiles in Kenya's imports is over 10%. However, significant level of negative growth in exports has been witnessed in recent period, especially on exports of manmade filaments and manmade staple fibres with a negative growth of 5% and 3% respectively in Kenya's import of these textiles from India whereas Kenya's global import of these textiles are increasing. Therefore, continued efforts should be on to penetrate this market more and sustain exports of Indian manmade fibre textiles to the Kenyan market. **Moreover, the main available fibre in Kenya is cotton not the manmade fibres. But, when it comes to use of outfits by mass population in Kenya, these are mostly made of synthetic fibres which is the most affordable and easy to main. To compensate this growing demand from the masses, this country mostly depends of imports of the manmade and blended textiles.**

Leading countries supplying Synthetic textiles to Kenya in 2015

Rank	Country
1	China
2	India
3	Singapore
4	Korea, Republic of
5	Indonesia
6	Japan
7	Thailand
8	Taipei, Chinese
9	Egypt
10	South Africa

Structure of the Apparel Sector

Thousands of apparel companies operate in Kenya. Approximately 170 are medium and large, while upwards of 74,000 are small and micro companies. Twenty-one companies operate in the EPZ, employing an average of 1,800 people per company. While the cost structure of apparel companies varies significantly by firm size, for the larger companies, the high cost of imported material (which is a fixed cost due to the absence of export-quality fabric in Kenya) contributes to the majority of the manufacturing cost (approximately 64 percent). Overheads also account for a significant portion of costs, at 21 percent. The only aspects of production where cost and quality can be managed to improve competitiveness are labour, electricity, and overheads.

Approximately 70 percent of Kenyan apparel firms have a US-dominant market orientation, meaning that at least 80 percent of their output is sold to US markets as indicated in Figure. Since the majority of Kenyan apparel firms have a US-dominant market orientation, exports to the US serve as a proxy for overall trends in Kenyan apparel exports.

Product wise, six of Kenya's top ten exports are cotton products, while four are man-made fibre products. Almost half of Kenya's apparel exports to the US are comprised of women's and girls' (W/G) cotton trousers, slacks, and shorts, and W/G man-made fibre (MMF) slacks, breeches, shorts, knit shirts, and blouses.

There are no standalone dyeing and finishing plants and services; this part of the production value chain is deeply integrated with textile mills. The Design and sewing segment consists of non EPZ firms (small/micro as well as medium and large apparel companies) and firms inside the EPZs, which are divided into foreign investment firms, accessory producers, and local micro firms located in the Export Business Accelerator (EBA). These firms work at 100 percent capacity utilization, and around 93 percent of their fabric supply is imported from China, Hong Kong, Taiwan, India, and Pakistan, as are the trims, machinery, and spare parts utilized in apparel production. There are significantly more apparel companies than textile manufacturers—170 medium and large companies, 74,576 small and micro companies, 22 foreign firms, and 9 accessory producers.

Almost all of textile products manufactured in EPZ are exported, mostly to the U.S. Around 15 companies outside the EPZ export globally. The rest supply to the local market with products for local hotels, conference materials, home décor, and tourism. The local market is also supplied by finished products from the second hand (*mitumba*) market and from smuggled goods. Exported apparel are retailed through mass merchandise chains, factory outlets, and mall orders, which then filter to department stores or specialty boutiques.

ECONOMIC OVERVIEW

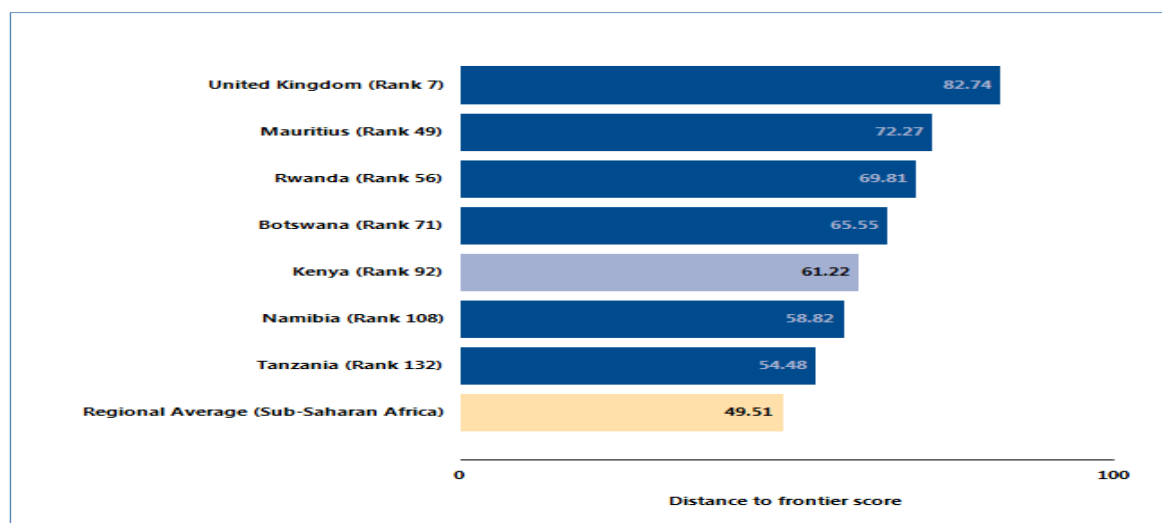
The World Bank's most recent Kenya Economic Update (KEU) March 2016 **projected a 5.9% growth in 2016, rising to 6% in 2017.** The report attributed the positive outlook to low oil prices, good agriculture performance, supportive monetary policy, and ongoing infrastructure investments.

According to the latest Kenya National Bureau of Statistics (KNBS) quarterly report, Kenya's economy expanded by 6.2% in the second quarter compared to 5.9% in the same period in 2015. This growth was mainly supported by agriculture, forestry and fishing; transportation and storage; real estate; and wholesale and retail trade. Manufacturing, construction, financial and insurance sectors slowed down during this quarter while accommodation and food services, mining and quarrying; electricity and water supply; and information and communication sectors recorded improvements.

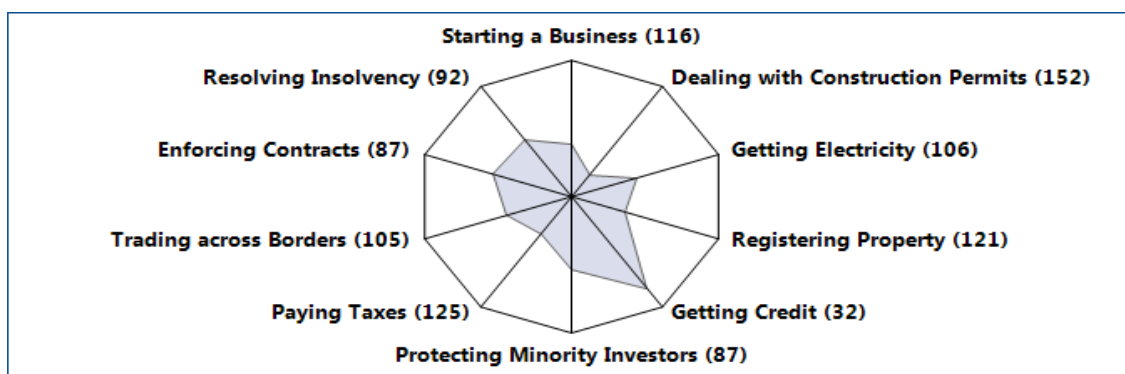
In August of 2016, the President of Kenya signed into law, an amendment to the 2015 Banking Bill which capped lending interest rates. **The law caps the maximum lending interest rate at 4% above the base rate set by the Central Bank of Kenya.**

THE BUSINESS ENVIRONMENT

Knowing where an economy stands in the aggregate ranking on the ease of doing business is useful. Also useful is to know how it ranks relative to comparator economies and relative to the regional average. The economy's rankings and distance to frontier scores) on the topics included in the ease of doing business ranking provide another perspective.



Rankings on *Doing Business* topics - Kenya (Scale: Rank 190 center, Rank 1 outer edge)



SOURCE: World Bank *Doing Business* database

Kenya has the potential to be one of Africa's great success stories from its growing youthful population, a dynamic private sector, a new constitution, and its pivotal role in East Africa. Addressing challenges of poverty, inequality, governance, low investment and low firm productivity to achieve rapid, sustained growth rates that will transform lives of ordinary citizens, will be a major goal for Kenya.

ETHIOPIA AT A GLANCE



Population	99.39 million	2015
GDP	\$61.54 billion	2015
GDP growth	9.6%	2015
Inflation	10.1%	2015
GNI Per Capita (US\$)	590	2015

Introduction

Ethiopia's long history in textiles began in 1939 when, under Italian occupation, the first garment factory was established. The country's current textiles industry encompasses spinning, weaving and processing. Ethiopia has five public textile factories producing mostly work-wear garments for the domestic market. Numerous

privately-owned factories produce shirts, suits, work clothes and uniforms for national and foreign/export markets.

Ethiopia is also a largely cotton growing country. Large-scale cotton production is carried out under irrigation, mainly in the Awash Valley, which has more than 50,000 hectares under cultivation. Another 45,000 hectares of high-quality cotton is cultivated by small-scale farmers. There still exists huge potential for the expansion of cotton cultivation in Ethiopia, especially in the Omo-Gibe, Wabi Shebelle, Baro Akobo, Blue Nile and Tekeze River basins. The production of cotton is well integrated into the textile sector, with garment factories relying heavily on domestically produced cotton.

The Ethiopian cotton, textile and garment sector is one of the key manufacturing industries prioritized by the government and expected to substantially boost performance in the second Growth and Transformation Plan (GTP). Hence, according to recent information, it is expected to generate about a billion USD by the end of GTP II period. Hence, the government is aggressively working to streamline, improve, support and expand the textile industry both in the domestic and foreign markets so as to emerge competitive at the international markets. It is also highly engaged in industrial parks construction in the different parts of the country.

Presently, the whole textile industries and their value chains are exhibiting change for the better. Besides, the industry is believed to be one of the first steps into industrialization and creating opportunities for employment and increasing international and global trade. Because, increased integration into the global economy is one of the best ways for developing the nation, improving the standards of living and reducing poverty levels through economic expansion, job creation among others things.

Import of textile and apparel products from India in 2015

Chp.	Product Description	Ethiopia's imports from India				Ethiopia's imports from world		
		Value in US\$ 000	Annual growth in value between 2011-2015%, p.a.	Share in Ethiopia's imports, %	Equivalent ad valorem tariff applied by faced to Ethiopia	Value in 2015, US\$000	Annual growth in value between 2011-2015, %	Share in world imports, %, p.a.
50	Silk	172	46	14	35	1,255	133	Negligible
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	183	33	1	22	12,226	40	Do
52	Cotton	18,561	58	56	25	32,928	44	Do
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	802	260	11	19	7,318	17	Do
54	Man-made filaments; strip and the like of man-made textile materials	15,175	19	8	29	195,404	17	Do
55	Man-made staple fibres	10,207	1	11	21	90,024	27	Do
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles	47,127	313	70	33	67,700	111	Do

	thereof							
57	Carpets and other textile floor coverings	12	-44	Negligible	35	21,940	65	Do
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	1,261	15	3	33	36,146	55	Do
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable . . .	461	15	1	17	42,455	78	Do
60	Knitted or crocheted fabrics	84	74	Negligible	35	27,109	110	Do
61	Articles of apparel and clothing accessories, knitted or crocheted	324	-32	Negligible	35	142,909	31	Do
62	Articles of apparel and clothing accessories, not knitted or crocheted	6,929	15	2	35	325,896	40	Do
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	10,756	71	8	30	141,875	38	Do
TOTAL		112,045				1145,185		

The average share of Indian manmade fibre and blended textiles in Ethiopia's imports is around 10% and increasing. Presently Manmade filaments and manmade staple fibres account for 8% and 11% respectively in Ethiopia's global import of these textiles. There is substantial scope to increase our exports to Ethiopia which is evident from its growing global imports. **Most importantly, since Ethiopia does not have the required industrial infrastructure and knowhow for manufacturing the manmade and blended textiles, it will have to depend on import at least for next 10 years and this is where the opportunity lies for Indian exporters.**

Leading Synthetic textiles supplying countries to Ethiopia in 2015

Rank	Country
1	China
2	Indonesia
3	India
4	United States of America
5	Thailand
6	Germany
7	Belarus
8	Taiwan
9	Turkey
10	South Africa

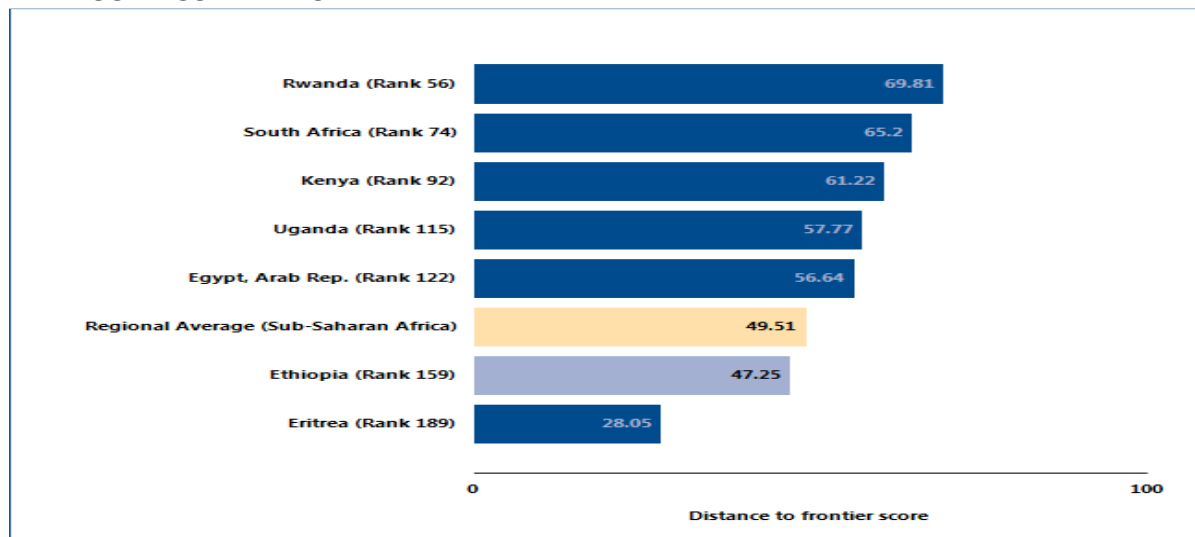
SOURCE: UN Comtrade

Economic Overview

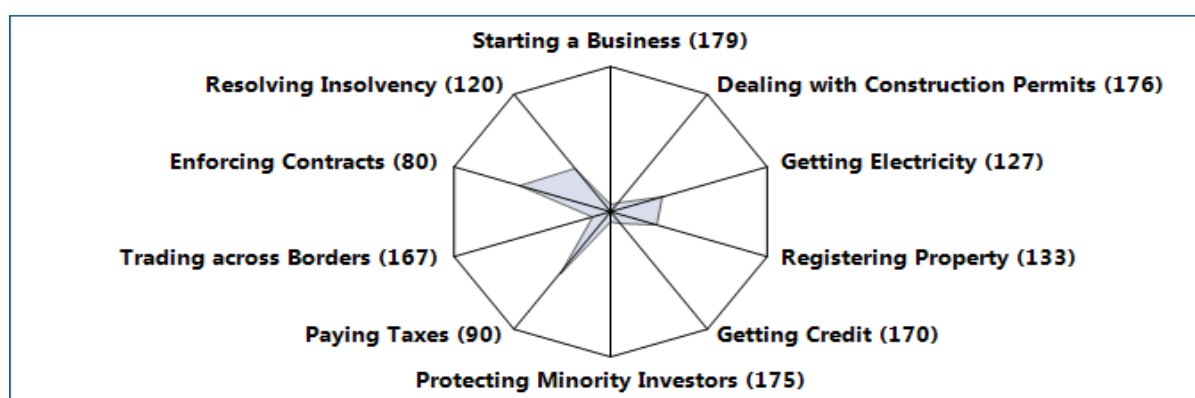
Ethiopia is the second-most populous country in Sub-Saharan Africa with a population of 99.4 million, and population growth rate of 2.5% in 2015. The country's per capita income of \$ 590 is substantially lower than the regional average (Gross National Income, Atlas Method). The government aspires to reach lower-middle income status over the next decade.

The economy has experienced strong and broad based growth over the past decade, averaging 10.8% per year in 2003/04 - 2014/15 compared to the regional average of 5.4%. The government is currently implementing the second phase of its Growth and Transformation Plan (GTP II). GTP II, which will run from 2015/16 to 2019/20, aims to continue improvements in physical infrastructure through public investment projects and transform the country into a manufacturing hub.

THE BUSINESS ENVIRONMENT



Rankings on *Doing Business* topics - Ethiopia
(Scale: Rank 190 center, Rank 1 outer edge)



SOURCE: World Bank *Doing Business* database.

SRTEPC EXPORT PROMOTION PROGRAMME IN ETHIOPIA AND KENYA

The SRTEPC ventures into those markets which are virgin, potential and opportunities emerge for exports of Indian manmade and blended textile products. Both Ethiopia and Kenya are the promising markets for our products and are comparatively easy as India shares a cordial business and political relationship since time immemorial. Indian business communities are settled in both these countries and many of them are into textiles sector. Both these east African countries are well connected with sea routes and from there the vast market is extended up to Europe.

Having identified all these positive parameters apart from the above mentioned substantial import data, the Council has decided to organise its flagship export promotionl event “Incredible Textiles of India” in Ethiopia from 6 to 7 March, 2017 and in Kenya from 9 to 10 March, 2017. All the member exporters are eligible to participate in both the events, however, number of booths will be limited to around 20 only. Hence, allocation will be on first-come-first serve basis. The interested member – comapnies of the Council are requested to take maximum benefit of this not to be missed opportunity and expand your export horizon in the African contenent.
