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**ON**

**THE TEXTILE INDUSTRY**

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## **EXECUTIVE SUMMARY**

The textile industrial sub-sector was identified as one of the activities that could help bring about rapid economic development in the newly independent Kenya. As such, it was classified as a CORE INDUSTRY and granted official government protection. Under this policy, there was a rapid investment in the sector, raising the number of weaving mills from six at independence to 52 in 1983, with a installed capacity of 115.0 million square metres per annum, along with 110 registered large scale garment manufacturing units. This made the sub-sector the second largest manufacturing activity after food processing.

As a result of the official policy, prices of textile goods became unnecessarily high because the manufacturers were assured of a captive market. By the end of the 1970s however, Kenya had become the operational base for humanitarian organizations serving refugees as a result of military unrest in the region. Some of the aid passing through consisted of used and discarded clothes from the developed countries. These items gradually found their way into the local garments market. One direct consequence of this growth was that investment in the textile sub-sector stagnated. By the 1990s, the importation of garments coupled with the following negative factors was causing the sub-sector considerable strain:-

- Improper or non-payment of import duty on imported textile goods;
- A weak and unstable value of the Kenya shilling;
- Lack of laws that would enable regulation of the industrial sub-sector by the Minister responsible for industrial issues;
- Inequitable import duty tariff structure;
- High cost and irregular supply of electricity;
- High cost of fuel oil.

The overall effect of these negative factors has been:

- Reduction in the installed industrial capacity utilization from an average of over 70% to 40-50%;
- Loss of over 70,000 jobs in the textile and garment making sub-sector;
- Loss of considerable amounts of government revenue: Illegal importation of Khangas alone costs the government about Kshs.108.0 million annually on import duty;
- Loss of investor confidence.

Kenya has the potential to produce all the raw materials to sustain a thriving local textile industry. A well managed textile sector in Kenya could exploit markets available in the COMESA countries and even serve the textile giant countries of Pakistan and India. For this to come about though, the following measures need to be taken:-

#### **IMMEDIATE MEASURES:**

- Strict enforcement of the Customs Act
- Strict enforcement of the Standards Act: sub standard goods should be destroyed or be returned to the country of origin **and not** auctioned as is the case today.
- All imported goods selling in the country bear a label showing the importers name as well as the distributor
- Zero-rate import duty on all raw materials for the textile industry. Yarn which is an intermediate product could come in at 5% duty.
- Import duty on all textile products to be revised upwards to 25%.
- Import duty on textile products should be standard and should be reviewed in accordance with the rate of exchange and never downwards without good reason. This rate should be uniform irrespective of whether these are new or used items.

## **MEDIUM/LONG TERM:-**

- Enact an Industrial Development Act that would empower the Minister responsible for Industrial issues regulate and govern activities within the industrial sector.
- On account of their existing infrastructure and potential in the textile sub-sector, revive the Hola and Bura irrigation schemes, whilst promoting the development of new ones and exploitation of raw material resources.
- Enforce COMESSA Tariff rates so that only goods having at least a 45% value addition taking place in the COMESSA country of origin are entitled to COMESSA Tariff Rates.
- Establish Textile Incubator units targeting Textile Engineering and related field of study students: These would be fully equipped small scale textile production units that would enable the fresh graduates develop their business foothold in the sub-sector even as they build up their capital base. These beneficiaries would be there for no more than five years, when they should move out to establish their own enterprises.
- Embark on a marketing campaign such as, “Buy Kenya, Build Kenya” whilst promoting equitable pricing structure on goods made in Kenya.
- Lower power costs
- Improve the transport network in the country.
- Formulate export promotion incentives in line with what other countries are doing in order to remain competitive internationally.
- Through the Export Promotion Council, in conjunction with the private sector, Kenya should be represented strongly at the major textile fairs in the world.
- Formulate and implement policies that would lead to reduced interest rates.
- Formulate and implement anti-dumping measures.
- Revive Hola and Bura Irrigation Schemes for cotton lint production and also to bulk seeds produced by K.A.R.I.
- Draft an Investment Code that would offer incentives to industrial investors in the country;

## **1.0 BACKGROUND**

Sessional Paper No.2 of 1997 expresses the vision of transforming Kenya into an industrial country by the year 2020. The strategy adopted is in three phases, starting with agro-based industries in phase one and ending in heavy engineering in phase three. The Eighth National Development Plan stipulates the activities that need to be done by the year 2001. As part of this, the then Ministry of Industrial Development had undertaken a study of the textile industrial sub-sector in order to assess its strengths, weaknesses and the potential way forward.

## **2.0 OVERVIEW OF THE TEXTILE INDUSTRY:**

Kenya has a population of about 30.0 million people. This number is growing at about 3.5% per annum. It is estimated that the total fabric demand by these people is at least 225.0 million square meters annually. On the other hand, there are 52 fabric manufacturers and 110 large scale garment manufacturers registered with the Registrar of Industries. The mills have a combined installed capacity of 115.0 million square meters whilst the garment manufacturing sector, has a combined capacity to process fabric into garments with a total installed manufacturing capacity equivalent to 85% of the total national demand. The actual number of small scale garment manufacturing units has never been documented but it would be safe to state that the total capacity to make garments in the country is well above the demand. This feature however has not induced expansion in the weaving sector on account of two main factors:

- Importation of large volumes of ready made garments both new and used along with finished fabric, all which sell at low prices
- High pricing of locally manufactured garments that reduces demand for them.

The textile industry is unique in that it has linkages with farmers, scientists, engineers, chemists, textile technologist, transporters and many others. It is thus a very good medium to bring about economic as well as industrial development.

### 3.0 RAW MATERIAL PRODUCTION:

The materials used by the textile industry are:

- 1) Cotton
- 2) Wool
- 3) Viscose
- 4) Polyester
- 5) Nylon
- 6) Acrylic
- 7) Dyes
- 8) Accessory chemicals

Only the first two are natural products. All the others are man-made substances. The country has the potential to produce all the raw materials for the textile Industry, within the African region and beyond. As of now, over 80 % of the raw materials are imported.

### 3.1 COTTON PRODUCTION:

This crop was introduced into the country in 1901 in Nyanza province. The strain brought in was an American variety whose lint has fibres measuring 25.0 - 29.0 millimeters long. Hence, this lint is classified as being of medium staple length.

Since it's introduction, cotton cultivation spread to parts of Western Province, Coast Province, Eastern Province and to a lesser extent, Central and Rift Valley Province. It is estimated that the country has about 2.04 million hectares of land suitable for cotton cultivation. These are distributed as follows:

Coast Province	914,000 Hectares
Eastern and Central	670,000 Hectares
Western and Nyanza	370,000 Hectares
Rift Valley	89,000 Hectares
<b>Total</b>	<b><u>2,043,000 Hectares</u></b>

Most of this land is in what is currently considered marginal land and in regions with very little economic development.

The greatest out-put of cotton lint was attained in the mid-1980s when a total of approximately 80,000 bales of cotton lint were realized from a land mass of about 60,000 Hectares annually. Of these quantities, the government managed Hola and Bura irrigation schemes in Tana River district account for 17% of the land under cotton and about 25% of the cotton lint produced in the country. Since then, due to the difficulties facing the textile Industry, the land under cotton lint has shrunk to around 15,000 Hectares producing about 20,000 bales of cotton lint. According to the Kenya Agricultural Research Institute (K.A.R.I.) findings, with the original strain of cotton, by using irrigation, it is possible to raise productivity from 250 kg/Hectares to around 600 kg/Hectares. This kind of productivity would yield enough lint to meet the current textile industries' need of 120,000 bales per annum and leave a surplus for export. This would also lower lint production cost to about US\$ 0.79 per kilogram from the current US\$ 1.50 per kilogram, whilst some of the major cotton lint producer in the world do so at 0.90\$/kg. It is estimated that to revive the vibrancy of cotton production in Kenya would require a minimum of 1.0 billion shillings. Return from this exercise would be high because K.A.R.I. has developed new strains of cotton that gives higher yields of lint unit per land mass than contemporary strains.

### **3.2 WOOL:**

It is estimated that the sheep in Kenya number around 4.0 million, 60% of them in the Rift Valley Province. Whilst the average yield is 4.5 kilograms of wool per animal in Australia and New Zealand, in Kenya, this is only around 0.5 kilograms per animal per year. This is because in Kenya, these animals are reared mainly for meat, and wool production is only a by-product and not the other way round as is the case in Australia and New Zealand. This indicates that with proper husbandry methods, it is possible to yield much more wool.

### **3.3 SYNTHETIC RAW MATERIALS:**

These are derived from crude oil chemicals. With a crude oil refinery based in Kenya, it is possible to process the necessary chemicals in the country. As of now, the portion of crude oil containing these substances is exported out of the country and the finished products re-imported at considerably much higher cost.

### **3.4 VISCOSE:**

This material was developed due to the shortage of cotton lint. Presently, most of it is derived from timber and waste cotton lint. Very often, the viscose industry occur along the paper making industry. By expanding and managing the forest reserves carefully, Kenya can become an important producer of viscose in the world.

### **4.0 PRE-LIBERALIZATION STATUS:**

At independence in 1963, the Government identified the textile industry as one of the core-industries that would help spur the economic growth of the country. At that time, there were only six textile mills in the country. To enable the sub-sector thrive, Government accorded the sector official protection of not allowing in textile products into the country. Those that were allowed were charged a 100% import duty. On account of this policy, the number of textile mills in the country rose rapidly. By 1980, their number had risen to the current levels. Their total installed capacity was more than enough to meet the annual demand. By operating at around 70%, and assured of a captive market, they could meet the local demand comfortably.

By mid-1970s, much of the East and Central African region was affected by military conflict. This caused an influx of refugees into Kenya and nearby countries. As a result, Kenya became a staging center for International humanitarian aid. Used garments from Europe and Americas constituted some of the aid channeled through here. Because of their intended purpose, they were brought into the country duty free. In time though, some of these items began finding their way into the Kenyan market. On account of the fact that many

of them had been given off as charity in their country of origin and the fact that no duty was being paid for them, they could be sold at very low prices and yet make significant profits for the dealer. As such, this business took root very fast. The government reacted by imposing duty on these goods and even attempted banning their importation without much success in controlling their influx.

The overall effect of this feature was that investment and operation of the textile industries became frozen. As Kenya's population grew, the market share balance became tilted in favor of imported commodities. By 1990, the textile market share was distributed as follows:

ITEM	FABRIC EQUIVALENT (million square metres)	MARKET SHARE (%)
1. Locally Manufactured Garments	83.0	45.3
2. Imported new garments	38.0	20.8
3. Imported used garments	30.0	16.8
4. Imported Fabric	32.0	17.5
<b>TOTAL</b>	<b>183.0</b>	<b>TOTAL 100.0</b>

## 5.0 POST - LIBERALIZATION STATUS

Since the liberalization of the Kenya economy in 1990, the influx of textile goods into Kenya has become a deluge that has reduced the average capacity utilization in the textile mills to around 50% and even lower in the garment making industry; The imported garments are of the following categories:

- New, out of season garments from the developed countries.
- Used clothes obtained from second hand markets or via charitable organizations abroad.
- Fashionable, new garments for exclusive boutiques.
- Factory rejects from major garment manufacturers.

A peculiar reported importation route of textile goods is from India via Dubai. This circuitous route benefits only the middleman involved in

the transaction whilst not making Kenya the worse off monetarily for the transaction. This is because compared to Kenyan prices, Indian made garments can be unbelievably cheap using 1997 as a base year, a short sleeved cotton-polyester shirt could be made on the Indian retail market for about 70.00 Rupees which was equivalent to Kshs. 94.50. On the Kenya retail market, a similar product was retailing for around Kshs. 400.00 each. It is reported that Indian businessmen take advantage of export incentives offered by their Government by over-invoicing their exports to Dubai. On re-exporting these goods to Kenya, the invoicing is reduced considerably.

## **6.0 NEGATIVE FACTORS ON KENYA’S TEXTILE INDUSTRY:**

### **6.1 OVERPRICING OF TEXTILE GOODS:**

Despite the sector being buffeted by all sorts of unfavorable factors, businessmen involved in the textile sector have tended to price themselves out of the Kenyan textile market. This is illustrated in the following tables:

<b><u>ITEM</u></b>	<b><u>FACTORY PRICE</u></b>	<b><u>PRICE AT 35% PROFIT MARGIN (Ksh/m)</u></b>	
	<b>(KSHS/METER)</b>	<b>WHOLESALE</b>	<b>RETAIL</b>
General Fabric	75.11	101.40	136.89
Shirting Fabric	43.14	58.14	78.62
Suiting Fabric	134.13	181.08	244.46
Ladies Dress Fabric	34.77	46.94	74.67

**Data: REGISTRAR OF INDUSTRIES**

As an example, using these retail figures, the department of industries has demonstrated that a two piece suit should not be retailing for more than Kshs. 4,500 each. On the other hand, using factory prices, the Textile Manufacturers Association is of the opinion that this figure should be around Kshs. 2,300.00 each. On the general retail market though, this item costs around Kshs. 7,000.00 or more.

## **6.2 NON-PAYMENT OF IMPORT DUTY:**

On several occasions, imported textile goods have been bought from retail or wholesale outlets in Nairobi that indicates that no import duty has been paid on these commodities at all. The following two examples illustrates this position:

- According to Kenya's schedule of import Duties, the import duty on khangas is Kshs. 60.00 per piece. As such, if the stated import duty is paid, there is no way that a pair of khangas can be available in the Kenyan market for less than Kshs. 120.00. Similar items have been bought from wholesalers in Nairobi for less than this price.
- Using the stipulated import duty, VAT and port charges, the minimum charges for a shirt is Kshs. 190.00 each. An imported product from India has however been bought from a major retail outlet in Nairobi for Kshs. 185.00 only.

## **6.3 A WEAK, UNSTABLE SHILLING:**

This factor exerts its influence because the textile industry is heavily dependent upon imported raw materials. The implications of this feature are well exemplified by the unit price of crude oil in Kenya:

At the beginning of 1985, the world crude oil prices were around US\$ 50.00 per barrel. With an exchange rate of approximately Ksh15.0 :US\$, Kenya was paying Kshs. 750.00 per barrel of crude oil. At the end of 1999, when the world crude oil price was approximately US\$ 18.00 per barrel, with an exchange rate of Kshs. 75.00: 1.0US\$, the country was paying Kshs. 1,350.00 per barrel.

This effect cannot be overemphasized for Kenya's textile industry imports over 80% of it's raw materials, even though Kenya has the potential to produce them all.

The damage being done to the textile sub-sector by depreciating shilling remains hidden because of the tendency to look at earnings from the major exports.

These can be very misleading. The coffee industry is an excellent example of this phenomenon as indicated in the table below:

YEAR	COFFEE EXPORTED (TONNES)	UNIT PRICE (K.SH/KG)	UNIT PRICE (US\$/KG)	RATE OF EXCHANGE (KSH:US\$)
1986	122.622	63.3	3.95	16.042
1987	98.218	39.6	2.13	16.515
1988	38.889	55.0	2.99	18.589
1989	49.753	37.8	1.94	19.528
1990	-	-	-	-
1991	84.191	51.94	2.08	23.00
1992	78.147	52.81	0.96	55.00

Data : a) Annual Trade Report  
b) Economic Survey

It should be noted that during this period, the amount of coffee exported had decreased to around 63% of the origin level, and the unit price in US\$ had gone down by 76% of the original value. However, due to a weakened shilling, the unit price in Kenya shillings was only 16.6%. In terms of foreign Exchange earnings, in US\$ they dropped from 484.4 million in 1986 to 75 million in 1992. However, due to the depreciation of the Kenya shillings, the value of exports in Kenya shillings increased from 1.97 billion shillings in 1986 to 4.9 billion in 1992.

A country like India or Pakistan whose currency is fairly stable and whose industry produces all raw materials locally can thus out-compete Kenya drastically. In this sense, the actual damage done to the country's economy is because of the constantly depreciating value of the shilling, which does not permit a financial stability. The greatest achievement of this instability is a significant contribution to the accelerated poverty growth rate of the country: imports and their products become more expensive as a result of the depreciation of the shilling and wages in the country are rarely reviewed by a similar margin, hence the increase in the poverty rate in the country. This factor played an important role in the collapse of the government owned textile mills which were started using loans denominated in hard currency.

## **6.4 ANOMALOUS IMPORT TARIFF STRUCTURE:**

According to the Import duty schedule of Kenya, raw materials for the industrial sector are fixed at 5% whilst that of finished products is at 25%. On the other hand, according to the COMESSA Tariff rates, finished products should be entering the Kenyan market at 2% import duty. This makes it more profitable to import finished goods via a

COMESSA country rather than invest in industrial production in Kenya. So serious is this feature that according to the Kenya Association of Manufacturers, some major companies are considering relocating their operations to nearby COMESSA countries from where they can be servicing their Kenyan market which in most cases is the most developed in the region.

The import duty issue has been made worse by import duty reductions on textile goods at a time when the sector is going through very difficult times e.g. Fabric tariff No. 5209 to 5905 had an import duty of 25% or Kshs. 11.00 per square meter. this was reduced to Kshs. 6.00 per square meter at a time when the volume of the Kenya shilling decreased from Kshs. 60.00: 1.0 US\$ to Kshs. 75.0: 1.0 US\$ Textile raw materials have however not benefited from similar reduction, thus encouraging further importation of finished products into Kenya. This feature is worsened by companies operating under the MUB and EPZ schemes that are beginning to offload their goods onto the local market quite contrary to the stated requirements of the schemes.

## **6.5 HIGH COST OF ELECTRICITY:**

Industrial electricity supply charges in Kenya are some of the highest in the world at US cents 7.0 compared to US cents 2-3 in the Republic of South Africa. Since the textile industry is totally dependent upon electrical supply, the sub-sector in Kenya thus starts off at disadvantaged position. This is made worse by constant and regular power outages that is forcing the industry to invest in captive power generation. Though this may ameliorate the power supply issue, it does little to lower supply cost on account of duty on fuel oil introduced in 1992.

## **6.6 NON-ENFORCEMENT OF THE STANDARD ACT:**

The standards Act states that the units of imported into the country should be given in metric units. All too often, textile goods bear the imperial units of measure which complicates import duty collection, and thus shortchanging the final consumer of the commodities.

## **7.0 RESULT OF THE NEGATIVE FACTORS:**

- a) Installed capacity under- utilization: This has dropped from around 80% in 1992 to about 50% at the end of 1999.
- b) Loss of jobs: Since the beginning of the liberalization policy, 92 garments making factories are known to have closed down resulting with a loss of 60,000 jobs. In the fabric manufacturing sector, another 5,000 jobs have been lost.
- c) Loss of government revenue: It is estimated that every month, 6-7 containers of khanga each of 40 feet come into the country. On average, each one should draw an import duty of Kshs. 14.0 million. Considering the evidence that duty is seldom paid, every month, the Government is losing Kshs. 98.0 to Kshs. 108.0 million annually on this item alone. When all other textile goods imported into the country are considered, the revenue lost can well be in excess of one billion shillings annually.
- d) Loss of investor confidence in the sector.

## **8.0 POTENTIAL OF THE TEXTILE INDUSTRY.**

### **8.1 LOCAL MARKET:**

If the current number of textile mills were to operate at their installed capacities, they would create jobs for another 5,000 people and creating demand of cotton lint of 60,000 bales per annum on top of the current annual demand of 120,000 bales. Considering that the present production of lint is only 20,000 bales, the extra total demand would require the cultivation of 118,400HA. With K.A.RI. findings, this could be brought down to 59,200 Hectares. The most important feature is that most of this land is located in what is today considered “marginal” areas and where poverty is highest in the country. As such, these regions would benefit considerably from economic development of allied industries and hence lead to poverty alleviation.

## 8.2 INTERNATIONAL MARKETS:

Within the COMESSA region, Kenya's textile industrial base is one of the best developed. As such, if it attains its optimal utility, the country would gain foreign exchange whilst more than doubling the labour force serving the sector.

Within the East African region, the island nation of Mauritius has become an important player in the knitted garment industry. Due to land scarcity, the country is in great need of raw cotton lint or guaranteed cotton yarn. This is an avenue that can be exploited.

Further afield, the textile giant countries of India and Pakistan have just about committed all the land they dare do to cotton cultivation. As such, to meet the growing demand for textile raw materials, they will have to allow imports of textile goods. Considering the market size of region, this will be a very lucrative market to serve.

## 9.0 RECOMMENDATIONS:

### 9.1 IMMEDIATE CONCERNS:

- Strict enforcement of the Customs Act
- Strict enforcement of the Standards Act: sub standard goods should be destroyed or be returned to the country of origin **and not** auctioned as is the case today.
- All imported goods selling in the country bear a label bearing the importers name as well as the distributor
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## **9.2 MEDIUM/LONG TERM:-**

- Enact an Industrial Development Act that would empower the Minister responsible for Industrial issues regulate and govern activities within the industrial sector.
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