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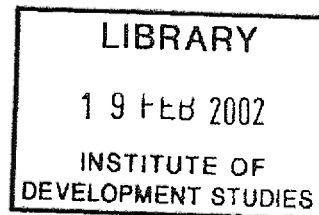
**KENYA'S GARMENT INDUSTRY**  
**An Institutional View of Medium and**  
**Large Firms**

by

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## 1. Introduction<sup>1</sup>

Kenya's garment industry has been on a downward spiral for at least a decade. Despite government recognition of the potential contribution of this industry to industrialisation, positive solutions to its many problems have yet to be developed. It is not that the problems are unknown. Many analysts can reel them off: weak demand stemming from low purchasing power, failed cotton sector, sagging textile industry, competition from second hand clothes, and many, many more. Yet knowing the problems is not enough. Workable solutions require an understanding of their sources, especially those with the deepest roots.

A closer look at Kenya's business system promises the needed insights. The business system is that constellation of formal and informal institutions that forms the backdrop for all business activity. The institutions – individually and in their interactions – sometimes constrain, sometimes facilitate the conduct and performance of business. The present research examines a portion of Kenya's garment industry in the light of the business system. The study is not yet complete, but information provided by the 22 medium- and large-scale firms interviewed so far not only confirms the existence of many of the industry's problems, but also points to their institutional roots and suggests fruitful ways of addressing them.

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This paper is organised into seven parts. Following this introduction, part 2 presents the business system approach in more detail and complements it with a second analytical tool, the value chain. Part 3 puts the discussion into the perspective of the history and present situation of the garment and textile industries in Kenya. Part 4 traces the main garment value chains represented by Kenyan medium and large-scale firms. Part 5 identifies the problems particular to each stage of these chains. Part 6 examines the institutional roots of these problems, while part 7 summarises the paper and offers some tentative recommendations for further discussion.

## **2. Industry and the Institutional Environment**

Understanding any industry requires knowledge on at least two levels. At one level is the business system; at another is the way the particular industry operates. In the following two sections, we look at some of the approaches and methods of analysis that can be used at each of these levels.

### *2.1 The Business System*

Business systems are particular forms of economic organisation that have become established and reproduced in certain institutional contexts (Whitley 1996). Underlying the notion of a business system is the recognition that business activity does not happen in a vacuum. Rather businesses are formed and operate in a specific environment peopled by a wide variety of institutions. The growing literature on business systems attempts to explain the organisation and functioning of industry using the broad theoretical framework of the New Institutional Economics (NIE). In a sense, the business system approach does for the NIE what older industrial organisation models did for neo-classical economics. It attempts



to examine the forces that direct and influence the way individual businesses operate and, ultimately, the organisation of business activity in general (Pedersen and McCormick 1999).

In theory, the approach takes into account the full range of economic, social, and political institutions. Research in Asia and Europe, however, suggests that particular groups of institutions are likely to be more important than others in determining the nature of a national business system. Whitley (1992) groups these institutions into three main categories: firms, markets, and societies. Firm-level institutions include management styles and structures, decision-making processes, owner/employee relations, patterns of company growth and development. Markets and market development include customer, supplier and inter-firm relations, the roles of financial sectors and the state in market and industry development. Whitley's final group consists of key social institutions, such as education systems, systems of power and status, and family structure.

Whitley confined his analysis to national institutions. In a small open economy like Kenya's, however, external institutions can have a significant impact on the national business system. No one would deny, for example, the effects of the world trend toward market liberalisation on developing economies. Furthermore, the interactions between external and national institutions can be critical in shaping the latter.

The picture that has emerged from the business systems perspective is of fairly coherent national systems that differ from one another in important respects. Thus, according to Whitley (1992), Japan, Korea, Taiwan, and Hong Kong all have recognisable national systems that are the product of their differing histories and

institutional environments. Fukayama (1995) makes a similar point regarding the Japanese and Chinese systems: History and institutions, especially the nature of the family, have combined to create distinct patterns of business organisation.

In Africa history and the institutional environment seem to have combined to produce a different result: business systems that are not unitary but fragmented (Pedersen and McCormick 1999). The typical African production and distribution system consists of several distinct segments: a parastatal sector, a formal, large-scale private sector typically dominated by multinational affiliates and so-called 'non-indigenous' enterprises owned by migrant traders or settlers such as Asians in East Africa, whites in Zimbabwe, and Lebanese in West Africa, and finally a micro and small enterprise (MSE) sector which is mostly African owned, informal, and owner-managed. This sector may also contain an important illegal or semi-legal large-scale component. The various fragments interact with each other, but only in limited ways.

The history of development in Africa also means that in nearly all cases the state remains the most critical institution for facilitating or impeding economic development. Therefore, rather than following Whitley (1992) in treating the state as one of a number of market-related institutions, a specifically African approach will consider the state first and separately, and then go on to look at firm-level institutions, markets, and social institutions.

## *2.2 Value Chains*

Understanding the organisation and functioning of particular industries can be further refined by analysing the chain of activities required to bring a product from its conception to the final consumer. The usefulness of value chain analysis

has been demonstrated in studies of industries as varied as fresh fruits and vegetables, garments, and automobiles (Dolan and Humphrey 2000, Gereffi 1999, Humphrey 1999). The concept of the global value chain recognises that the design, production and marketing of many products now involves a chain of activities divided among enterprises located in different places. The chain includes all of a product's stages of development, from its design, to its sourced raw materials and intermediate inputs, its production, its distribution support to the final consumer.

This fairly simple concept has several dimensions. The first is its flow, also called its *input-output structure*. In this sense, a chain is a set of products and services linked together in a sequence of value-adding economic activities. At its simplest, we can think of a chain as having four main sections. A product is first designed, then raw materials are purchased and production takes place; the product is then distributed through wholesalers and retailers (see Figure 1). At each stage, services such as transport or finance may be needed to keep the process going. As we will see when we start mapping real chains, some of these sections may be subdivided and others combined or compressed. Nevertheless, the four sections -- design, inputs, production, distribution -- remain a handy device for understanding each step of the process.

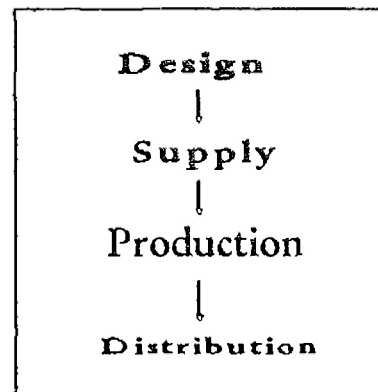


Figure 1: Basic value chain

A value chain has a another, less visible input-output structure. This is made up of the flow of knowledge and expertise necessary for the physical input-output structure to function. The flow of knowledge generally parallels the material flows, but its intensity may differ. For example, the knowledge inputs at a product's design stage may be much greater than the material inputs, production, on the other hand, needs large quantities of materials, but in many cases requires only standard or routine knowledge.

The second dimension of a value chain has to do with its *geographic spread*. Some chains are truly global, with activities taking place in many countries on different continents. Others are more limited, involving only a few locations in different parts of the world. A UK retailer may, for example, contract with a Chinese fabric supplier to deliver cloth to a garment producer in Sri Lanka. The finished goods will then be shipped directly to the UK retailer. It is also possible to identify national, regional, or local value chains. These operate in the same way as the global chains, but their geographic 'reach' is more limited.

The third dimension of the value chain is the control that different actors can exert over the activities making up the chain. The actors in a chain directly control their own activities and are directly or indirectly controlled by other actors. A retailer, for example, controls the way he sells, but may be limited (indirectly controlled) by the range of goods available from wholesalers and producers. A homemaker may find that almost every aspect of her work is controlled by a distant retailer who has specified the design, quantity, and quality of the garments she is producing. The pattern of direct and indirect control in a value chain is called its *governance*. Since value chains are basically constellations of human interaction, the possible varieties of governance are endless. In the real world, however, we find that many chains are governed by lead firms (Gereffi 1994, Humphrey and

Schmitz 2000, Sturgeon 2000). These firms do not merely buy goods in the market. Rather they specify what is to be produced by whom, and they monitor the performance of the producing firms. In some cases, the lead firms are large producers such as transnational corporations or other large integrated industrial enterprises. The automobile industry is a good example of a producer-driven value chain. The large automobile companies dominate the chain by setting the specifications that must be followed by firms joining their networks of component suppliers. Other chains are driven by the buyers of the products. In clothing and footwear, leading brand-name companies like Liz Claiborne and Nike do no production themselves. Instead, they concentrate on design and marketing. Their strength as buyers enables them to dominate certain value chains. They determine what fabrics will be used, what styles will be produced, and in what colours.

A detailed understanding of the actors, linkages, and value-added at each stage of production and distribution seems to be a necessary underpinning for meaningful efforts to upgrade an industry. It is useful in itself, and it provides information for better understanding of the effects of institutions on individual chain segments and the chain as a whole.

2.3 An Analytical Framework for Understanding the Garment Industry

The ideal analytical framework for understanding the garment industry will marry the two levels of analysis discussed earlier: the business environment and the industry's internal structure (Whitley 1996, Gereffi 1996). We propose a simplified model that starts by a mapping that identifies the main actors in each of the four chain segments and obtains information about them (see Figure 2). Firms operating at each stage will be listed and their links to others in the chain traced. The nature of the firm-specific information to be gathered will depend on the question to be addressed. Some studies will require quantitative data in the form of sales and production figures. Others need only the network mapping. Some studies emphasise material flows. In others, knowledge flows are more important.

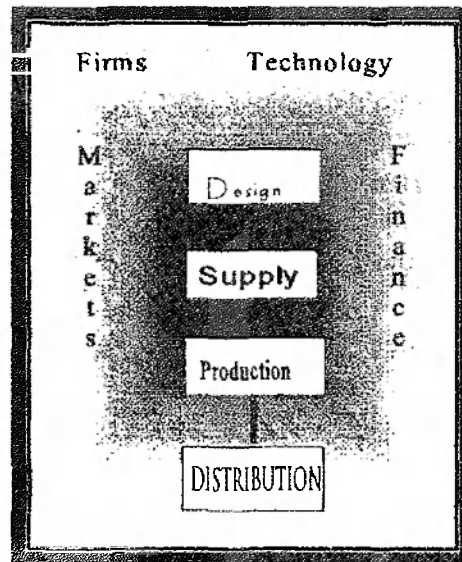


Figure 2: Value Chain in Institutional Context

The chain mapping leads directly into the second stage of the process: identifying the key institutions affecting the structure and functioning of this particular chain. Figure 2 places the value chain in its institutional context. The double outside frame represents the external institutions and the institutions of the state. Within this frame, and forming the environment of the value chain, are a host of different economic, political, and social institutions.

The institutions can be grouped and regrouped according to the particular problem under study. This is because, although some institutions have similar effects on all industries, the impact of others differs from one industry to another. Certain aspects of the financial system, for example, may have effects that cut across the industrial sector. Environmental standards pertaining to water, on the other hand, may have a great impact on the paper industry but almost none on the garment sector.

Not only do institutional impacts vary across industries, they also differ for various products within an industry. In the shoe industry, for example, fashion will have a greater effect on the marketing of women's dress shoes than it will on children's school shoes. Institutional impacts also vary according to the stage of the value chain. In the value chain for a high tech product, the design stage will be knowledge intensive, suggesting that the education system and other technology-related institutions will be especially important to this part of the chain. An education system that emphasises arts subjects rather than math and science may not produce enough local people capable of designing such products and may be one reason why designs are imported rather than developed at home. On the other hand, the nature of the technology system may be less critical for the production or distribution stages of the same value chain.

Our diagram shows four institutional groupings – firms, markets, finance, and technology – because these seem to have particular relevance to the garment industry. Together with external institutions and the state, they form the basis for our institutional analysis. Before taking up that analysis, we offer a brief overview of the development and current position of textile and garment production in Kenyan manufacturing.

### **3. Textiles and Garments in Kenyan Manufacturing**

Kenya's textile industry consists of firms of varying sizes and technologies producing a wide range of products for the domestic, regional, and global markets. Textile producing firms are all large-scale. Garment producers range from large factories to micro-enterprises. The larger producers use industrial machines and employ a mass-production type work organisation, while many of the small firms use electric or foot-powered domestic machines. Women own more than half of the small-scale garment firms, while men predominate in both ownership and as workers in medium and large firms (McCormick *et al* 1997; Delahanty 1999). Products include cotton, woolen, blended, and synthetic fabric, clothing for men, women, and children, and home products such as bed sheets, towels, and curtains.



Table 1: Imports of Textile Fabric from India and Pakistan, 1993 and 1997

Item	India		Pakistan	
	1993	1997	1993	1997
Woven cotton fabrics (M <sup>2</sup> )	479,182	2,266,451	12,850	910,665
Woven man-made fabrics (M <sup>2</sup> )	105,353	823,311	27,901	371,822

Source: Central Bureau of Statistics

Imports of cotton fabric from India went from under a half million square metres in 1993 to over two million square metres in 1997, an increase of 373%. Other increases are even more dramatic: over 600% 'man-made' fabric from India, over 1200% for 'man-made' fabric from Pakistan, and a whopping 6000% for cotton fabric from Pakistan. Not only are these figures staggering in percentage terms, but they also represent a significant share of the Kenyan market in absolute terms. For example, the combined 1997 imports of cotton woven fabric these two countries alone was equivalent to 7% of Kenya's 1990 production (Kenya 1991). When imports from other countries are added, the impact on the market is substantial. As far as we can tell, these phenomenal increases in imports of textile fabrics from India and Pakistan were for the production of garment exports.

Clothing production, which was essentially stagnant in the 1980s, also began to decline in the 1990s. The second hand clothes that began to flood the Kenyan market in the early 1990s drastically reduced domestic demand (Billetoft 1996, McCormick *et al* 1997, Njenga 1997). Exports, which could have taken up the slack, failed to take off.

Table 2: Formal Sector Wage Employment in Textiles and Garments, Selected Years

Activity	Year					
	1976	1980	1985	1990	1995	1997
Textile	13,644	19,662	21,773	25,104	24,214	25,121
Garment	4,785	5,322	7,682	6,868	7,114	7,304
Total	18,429	24,984	29,455	31,972	31,328	32,425
Manufacturing	108,776	141,280	158,763	188,873	210,775	220,481
Total textile and garment as % of manufacturing	16.9	17.7	18.6	16.9	14.9	14.7
<i>Source</i>	Statistical Abstracts, various years					
<i>Note</i>	Wage employment figures include casual employees, part-time workers, directors and partners serving on a regular basic salary contract. Self-employed persons, family workers who do not receive regular wages or salaries are excluded. Also not included is employment in 'informal' or micro enterprises.					

Despite this decline, the industry remains important to Kenya's future. It is listed as one of the industries to be promoted in phase one of the Kenya Government's current industrial strategy (Kenya 1996). One reason for this is that its labour intensive technology makes it able to employ large numbers of workers. Formal sector firms employed 32,000 in 1997, or 15% of the total formal sector manufacturing employment (See Table 2).

Textile employment nearly doubled between 1976 and 1997. Most of that growth took place in the four years between 1976 and 1980. In the succeeding five years, growth slowed, and since 1990 textile employment stagnated. With the closure of large textile mills such as Rivatex and Heritage, textile employment may have declined since 1997. Employment in formal garment firms peaked in 1985, declined, then recovered slightly toward the end of the 1990s. Total textile and garment employment as a proportion of manufacturing sector employment peaked at 20.0% in 1982. By 1985 it had declined to 18.6%. The decline continued until, by 1997, textile and garment employment stood at just under 15% of total manufacturing employment.

The employment drop may actually be more serious than these figures suggest. Re-examination of the value added data presented in Figure 3 suggests that in its peak years between 1979 and 1990, the garment industry and, to a lesser extent, the textile industry may have supplemented their regular workforce with extensive use of casual labourers on short-term, even daily, contracts. If those workers were included, the industry would probably show an employment rise and fall more like that of value added, rather than the almost steady rise indicated in Table 2.

At present, formal medium and large scale employment actually represents less than half of total. The 1999 survey of the micro- and small-enterprise sector

estimates that more than 84,000 workers are employed in small-scale production. Included in this total are 54,000 engaged in manufacturing wearing apparel, 10,000 involved in knitting and crocheting, 16,000 making cordage, rope, and twine, and 4,000 in other aspects of textile manufacturing (CBS *et al.* 1999). We analyse these small-scale garment producers in a separate paper.

The industry also has export potential. Many countries, most recently those in East and Southeast Asia, industrialised initially by becoming competitive in textile and clothing exports. In the mid 1990s only about 20% of Kenya's formal textile firms were exporting, and these export, on average, just over one quarter of their production (Granér and Isaksson 1998:182). Preliminary evidence suggests that Kenya can be competitive in both standard garments and Afrocentric niche markets. One study found, for example, that Kenya could produce and ship men's casual long-sleeved shirts to the US market more cheaply than Zimbabwe, Senegal, or India (Biggs *et al.* 1994). A later study, focused on the European market, showed similar findings (Biggs *et al.* 1996). Another study placed Kenya with Bangladesh, Sri Lanka, and Mauritius in the category of low-cost exporters of standardised goods (Gereffi 1994a). Market research in the US also supports the contention that the growing middle and upper-middle class African American population has both the resources and the desire to buy quality African garments and home products (Biggs *et al.* 1994).

The Kenyan textile industry is, however, fragile. Many firms are new to exporting and have not developed alternative markets. When in 1994 the US imposed quotas on imports of textile products from Kenya, neither the Kenya government nor the exporters appeared able to fight back. As a result, over half (53%) of the firms

that had exported to the US in 1994 exported nothing in 1995.<sup>2</sup> An earlier survey of garment producers in Nairobi found that no small or medium-scale firms were involved, even indirectly, in export production (McCormick 1992). In general, exporting firms are larger, more productive, and more capital intensive than other firms in the industry (Granér and Isaksson 1998:183). Some firms purposely straddle between local and export markets. This means that realising the export potential may require careful strategising on the part of key players in the industry and the Kenya government.

The recent passage of the Africa Growth and Opportunity Act (AGOA) by the United States Congress offers new incentives to producers of both garments and textiles. AGOA allows garments and textiles from African countries to enter the US duty free for a period of eight years, beginning in October 2000, provided certain conditions are met. Officials in Kenya's Ministry of Tourism, Trade, and Industry worked closely with their US counterparts to develop the required regulations. As a result, Kenya was the first country certified under AGOA. Further challenges remain, however. AGOA contains fairly stringent rules of origin requiring that garments be made from 'fabric wholly formed in one or more beneficiary sub-Saharan African countries from yarn originating either in the United States or one or more beneficiary sub-Saharan African countries...' (AGOA B, 112, b (3)). A further provision in AGOA has suspended this rule until 30 September 2004, to give African countries time to develop or revive their textile industries. This clearly poses a challenge to Kenya's sagging textile industry.

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<sup>2</sup>

This information, which was much publicised in the popular press, was confirmed by interviews with officials at the Export Processing Zones Authority.

#### 4. Garment Value Chains

We turn now to the analysis of the Kenyan garment sector. The discussion draws mainly on data collected in a series of interviews with 22 large and medium scale firms in various locations in the country. Twelve of these produce garments only, six manufacture only textiles, and four make both (see Appendix A). The firms range in size from 5 to 2,000 workers, with a mean size of 398 and a median of 170 workers.<sup>3</sup> Two of the four largest producers, with 1,000 or more workers each, are export garment factories and one is a large integrated knitting mill selling to the regional market.

Two rounds of interviewing were conducted. The first used an interview guide that focussed on problems of the industry as a whole, while the second gathered firm-level data on design, supply, production, and distribution (see Appendices B and C). The twenty-two firms were selected purposively. To date, nine firms have been interviewed twice, while the rest were interviewed once. Firm interviews were supplemented by interviews with key informants, secondary sources, and additional information gleaned from a related study of micro and small firms in Nairobi.

The study revealed the existence of a number of separate garment chains with large or medium scale production facilities in Kenya. Table 2 provides a rough mapping of five of these chains.<sup>4</sup>

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<sup>3</sup> The sample was purposively drawn, so these statistics are not necessarily typical of the industry as a whole.

<sup>4</sup> Other chains, such as those for women's wear, children's clothing, and African dress also exist. The five presented here are meant to be illustrative rather than exhaustive.

Table 3: Garment Value Chains in Kenya

Stage	Export		Domestic		
	VC1 Shirts, etc.	VC2 Eco Friendly	VC3 Uniforms	VC4 Woven Shirts	VC5 Knitted Shirts
Design	USA importer	Kenya/ German buyer	Kenya (buyers)	Kenya (producers)	Kenya (buyers and producers)
Supply	East or South Asia through USA importer	Kenya	Kenya and/or India and E. Asia	East and South Asia	Kenya
Production	Kenya	Kenya	Kenya	Kenya	Kenya
Distribution	USA importer	German buyer	Kenya uniform	Kenya	Kenya retailers



Three of the producing firms interviewed fall into the first chain (VC1) which consists of exporting firms that are inserted into the global value chain for garments. These firms mostly make shirts, shorts, trousers, and occasionally simple cotton dresses. They tend to be large, with between 500 and 2,000 workers each, but production is the only function carried out in Kenya. One of them described his firm as "glorified tailors." They do neither design work nor supply procurement. Designs come from the US importer; the local firm then makes and grades the patterns. The importer also sources fabric and most other inputs from Asia and has them shipped directly to the Kenyan producer. The main items bought in Kenya are packaging materials, though one firm was trying to work with a local supplier to upgrade the quality of thread to a level acceptable to the US buyers.

VC2 is a specialised chain that at present has only two participating firms. One is a knitting mill. In addition to its ordinary knitted fabric, this mill makes eco-friendly cotton knit fabric, using cotton that has been organically grown in Kenya and natural dyes. The other is a medium-scale manufacturer that is subcontracted to make a range of garments for export to Germany. All of the output is sold to a single buyer in Germany, who in turn distributes them through its own network. The subcontractor and the buyer cooperate in making new garment designs.

The remaining value chains (VC3, VC4, and VC5) end in the domestic market. VC3 is the chain for uniforms. Designs are usually provided by the uniform users, though one of the large firms has design capability for those who wish to take advantage of it. Supply procurement depends largely on the type of fabric required. Those making school uniforms, overalls, and dustcoats buy locally made fabric. Those making dress uniforms for hotels, airline staff, and the military

generally source their materials from other countries, mainly South and East Asia, but also woolen fabric from United Kingdom, nylon from Turkey, and embroidery thread from Germany.

VC4 is the domestic chain for men's woven shirts. Producers in this chain do their own designing, though they admit that their product is standard with little variation. They source nearly all of their shirting from East and South Asia. The main exception to this is the fabric for school shirts, which some producers source in Kenya. They distribute through wholesalers and retailers around the country. They indicated that, although there may be some buyers who take their products into neighbouring countries, they were not attempting to export directly.

The fifth chain (VC5) is the domestic knitted shirt chain. The products include T-shirts, polo shirts, and sweat shirts. Some are plain, others screen printed or embroidered. They are made both in sewing units attached to knitting mills and in separate manufacturing facilities. In some cases the screen printing is done by a different firm. All producers use fabric made in Kenyan knitting mills of cotton grown mainly in Tanzania, and/or Uganda. Distribution is either directly to companies ordering the shirts (e.g., as promotional items or prizes for workers) or to wholesalers and retailers.

It is difficult to be precise about the relative importance of these chains because we do not have full information on turnover or value added. VC1 has only about six firms, but these could account for as much as half of total garment output. This chain's greatest contribution at the moment is to employment. Its impact on value added is lower because of its reliance on Asian fabric. VC2 is a very small chain, but three of the four chain functions are located in Kenya. Furthermore, it has

strong backward linkages into high value Kenya grown organic cotton. The three domestic chains have more producing firms than the export chains, but many are operating at very low levels because of Kenya's current poor economy. The knitted shirt chain and parts of the uniform chain are fully Kenyan, but these are also suffering from the poor economy and the decline in tourism.

Several of the chains stand to benefit from Kenya's qualification under AGOA. The most immediate benefit goes to VC1, where producers who are already exporting to the US gain an immediate cost advantage from their duty-free status. These same producers and their buyers, however, have to begin planning for the time when they will have to shift to African fabric or lose their duty exemption. VC2 is currently very specialised with a market in Europe. AGOA could, however, encourage participants in this chain to seek new outlets in the US. The greatest potential benefit is for the three domestic value chains. These are the chains that are suffering most from Kenya's poor economy. They need new markets if they are to survive. As we will see, however, they have many problems to overcome if they are to take advantage of the window of opportunity offered by AGOA.

## **5. Key Problems in the Garment Industry**

We begin with production issues because these are similar across the five chains. We then take up issues affecting supply, distribution, and design. Table 3 lists the issues, categorising them according to whether they were mentioned mainly by exporters, mainly by domestic producers, or by both groups equally.

<i>Table 4: Problems Experienced by Garment Producers</i>		
Problem	Exporters	Domestic
<i>Production Issues</i>		
* Power availability	✓	✓
* Power cost	✓	✓
* Labour productivity	✓	✓
* Outdated equipment		✓
<i>Supply Issues</i>		
* Limited range of Kenyan textiles	future	✓
* Relative prices of Kenyan and imported textiles	future	✓
* Minimum order sizes		✓
<i>Distribution Issues</i>		
* Low domestic demand		✓
* Competition from second hand clothing		✓
* Competition from uncustomed new goods		✓
* Lack of access to export markets		✓
* Unstable markets in neighbouring countries		✓
* Poor telecommunications services	✓	
* Transport cost	✓	
* Uncertainty concerning AGOA	✓	✓
<i>Design Issues</i>		
* Lack of skilled technical personnel		✓
<i>General</i>		
* Political and economic uncertainty	✓	✓
* High cost of finance	✓	✓
* Limited availability of finance	✓	✓

The firms raised four issues affecting production. The first two are related to power. Stringent power rationing between May and December 2000 meant that many firms were forced to run their own generators or to shut down for specified periods. The costs associated with either option were, according to those affected, substantial. Power costs (tariffs) seemed to be an even more important issue because their direct effects on the cost of production make Kenyan goods uncompetitive on both domestic and export markets. One interviewee cited a newspaper article, which placed Kenya second only to Japan in its power cost (US\$0.10 per KWH in Kenya, compared to US\$0.108 per KWH in Japan) and far higher than South Africa (US\$0.028), Kenya's rival to the south (*East African Standard* 5 September 2000). Analysts of the power sector point to poor planning, poor administration, and corruption as key reasons for Kenya's high power costs, power shortages, and frequent power interruptions (Okech and Nyoike 2000).

The third production issue is labour productivity. Kenya is a low-wage country, with 1993 wage costs comparable to those in China and India (ILO 1995). This should make Kenyan garments very competitive on the world market. According to some, however, the wage benefit is seriously undermined by low productivity. One manufacturer claimed that garment industry productivity rates in the Far East are ten times those in Kenya, and that Indian productivity is five times Kenya's. We were not able to substantiate those figures, but poor productivity and lack of skills do seem to be real, affecting both exporting firms and those producing for the domestic market.

Outdated equipment was cited as one factor in low labour productivity. It is also an issue in its own right, especially for domestic firms. One producer of knitted garments showed us its three sets of equipment. The first group was mechanical, dating from the 1960s. The second, smaller group, consisted of partially

automated machines bought in the 1980s, and the third and smallest group had computerised machines. The general manager said that if Kenya's economy were more stable, he would have replaced all of the oldest group and most of the second group by now. As it is, he must continue to use the old equipment. Doing so affects both product quality and production costs. This problem was not cited by exporting firms, probably because they tend to be newer firms with more recently purchased equipment.

Some respondents mentioned a second factor in low labour productivity. They said that poor work ethic seemed not only to undermine productivity, but also to increase supervision costs. Some felt 'forced' by this situation to rely on expatriate supervisors.

Several supply issues were identified. The first was the limited range of Kenyan textiles. Of the three value chains using woven fabric (VC1, VC3, and VC4), only the one manufacturing heavy duty uniforms makes extensive use of Kenyan fabric. As discussed above Kenya once had a flourishing textile industry, but over the past ten years, most of the largest textile mills have closed and production levels have dropped to their 1976 levels. The remaining firms are producing well below capacity and many have dropped whole product lines.

The second supply issue was the high cost of Kenyan textiles. Even when a suitable fabric is available locally, garment manufacturers may not use it. One respondent told us, "You can get Kenyan fabric that is as good as what comes in from the Far East, but only at a higher price." According to sources in the textile industry, outdated machinery and the costs of electricity and water are the main culprits in their high cost structure.

A third issue raised by smaller producers is the minimum order size. One medium-scale manufacturer told us that he prefers to import fabric because he can get greater variety in a single shipment. He can order as little as 500 metres per

colour per design from his foreign supplier, but must order at least 2,000 metres of the same colour and design from the Kenyan factory. Producers also expressed concern about poor/inadequate quality control and the rather narrow range of the quality bands of Kenyan fabric.

Five issues related to distribution were raised in our discussions. The first three issues affect mainly those producing for the domestic market and are, in fact, different faces of a single problem. Low domestic demand is the 'number-one' concern. Demand for Kenyan-made goods is low in the domestic market because most Kenyans are too poor to buy much new clothing. Recent studies show that over half (52.6%) of Kenya's 30 million people are classified as absolutely poor (Kenya 2000, p. 188). Furthermore, the poor and, increasingly, the middle class find acceptable substitutes in imported used and new garments. This is the second issue. Our respondents agreed that second-hand clothes benefit the poor. They do not advocate banning them, but argued that their importation should be controlled. The third issue – competition from uncustomed new goods – was seen as an even more serious problem. There appear to be many sources of such goods. Some enter the country in the suitcases of small traders who travel to places such as Dubai. More damaging are the large shipments that find their way into the market. Some are supposedly destined for neighbouring countries, such as Uganda, Rwanda, or Burundi. As transit goods, they are exempt from duty. Then somewhere in the process they are released into the Kenyan market, where they are sold at very low prices. Another source of uncustomed clothing appears to be shipments that fail to reach their destinations and are auctioned by the Kenyan authorities. Rejected shipments of items produced for export can also find their way onto the Kenyan market. In other cases, whole container loads are brought in by or through well-connected individuals. The situation is aggravated by the Kenya Bureau of Standards' (KBS) double standards. KBS enforces its labelling requirements, including country of manufacture, on Kenyan goods, but not on imported items.

Lack of access to export markets is the fourth problem cited by those currently producing for the domestic market. These firms recognise the limits of the Kenyan market, and most have given some thought to the possibility of exporting. They raised a number of issues related to access. Some said they lacked contacts; others felt that they could not produce in sufficient quantity or at a high enough quality; others thought the investment required would be too great.

We thought that exporting to neighbouring countries might be a reasonable first step into the export market, but the domestic producers interviewed thought otherwise. They felt that markets in these countries were as uncertain as those in Kenya and were, therefore, reluctant to venture out. Some had 'passive' exports through traders who purchased goods and carried them across the borders, but there was little active marketing by the manufacturers themselves.

The distribution problems reported by exporting firms centred on Kenya's poor telecommunications and transport networks. These firms had updated their own technology. Some had websites. All communicated with suppliers and customers by fax and e-mail. They complained bitterly, however, about the erratic and costly service provided by Telkom Kenya. One firm ranked telecommunications as one of his most serious problems. Transport is also a major problem, especially for exporting firms located away from Mombasa and for domestic firms with national markets.

Both exporters and domestic firms expressed concern over AGOA. Exporters and potential exporters praised the efforts put in by the Ministry of Tourism, Trade and Industry to make Kenya the first to be certified to export into the United States under AGOA. Exporters, who were mostly already tapping the US market, were worried about what would happen in 2004 when they would be obliged to substitute African for Asian fabric. Potential exporters had many concerns, ranging from lack of information and contacts to the fear that they might gear up for exporting only to be shut out when the more stringent rules of origin take effect.



None of the firms thought that design was a major issue. The exporting firms are typical of producers in buyer-driven chains in that they rely on their buyers for designs. The shirt manufacturers all said that designs change very little so that their internal design capability was adequate. Nevertheless, there is scope for improvement in design capability. We noted that few African Kenyans occupy the skilled positions of pattern making and pattern grading.

What respondents did not say is also important. Two points are worth noting. The first is that none of the EPZ or MUB firms mentioned having major problems with the special concessions -- duty free imports, tax holidays, etc. -- that go with their status. This means that these programmes have been well institutionalised and are working smoothly. The second point concerns the domestic market. Although domestic firms were clearly suffering from the way market liberalisation was being implemented, none wanted to return to a controlled economy.

## **6. The Institutional Roots of Garment Industry Problems**

Reorganising the detailed listing of problems presented in the previous section suggests that the industry faces four major challenges: high production and distribution costs, weak domestic demand, difficulty in accessing the export market, and low investment. All of them, we believe, have institutional roots. Table 4 summarises the analysis leading to this conclusion. We first name what respondents identified as factors causing or contributing to each of the problems; we then indicate which types of institutions appear to be the sources of these factors. In most cases, no single institution or grouping of institutions is responsible for a given problem. Rather, many problems are the result of the interaction of two or more institutional forces.

In some cases, respondents were fairly clear about what they believed to be the main source of a problem. We have indicated these by a double tick. In others, the institutional roots of a problem were less clearly ranked, so we have shown only single ticks.

Respondents named seven separate factors contributing to their high production costs. The state plays a role in each of them, and was the only one named in five of the seven. Production technology, consisting of both machinery and the organisation of production, is mainly rooted in firm-level institutions and the country's technology system. As we saw above, however, it is closely linked to the investment climate and the education and training system, both of which are largely controlled by the state.

Respondents saw the next four factors as mainly the responsibility of the state. The tax and tariff regime was blamed for making imported inputs too expensive. Duties on machines, fabric, thread, buttons, etc. are an obvious case in point. Also cited were fuel taxes that contribute to the high cost of electricity and transport. The practice of deferring maintenance until roads become barely passable was recognised as a state institution that has greatly increased their costs. Similarly, respondents held the state responsible for the poor performance and high cost of rail transport. By one estimate, road transport in Kenya is four times that in competing countries, and rail transport is just over double other countries' costs. As a major shareholder in the Kenya Power and Lighting Company, the state was implicated in their high cost structure, and the poor planning that underlay the long period of power rationing and the frequent unplanned power outages.

Respondents also expressed great concern about what the collapse of the textile industry means, not only for that industry itself, but also for the future of the garment industry. Since some of the collapsed firms were parastatals, the state was seen as responsible for their failure, or at least as not taking necessary steps

to save them. Respondents, however, also recognised that other institutions played a role in the industry's failure. Mismanagement within some firms, fickle markets that quickly developed a taste for imports, weak technology, and high costs of finance were all mentioned.

The final institution implicated in the industry's high production cost structure was the education and training system. On the one hand, it was claimed that the system failed to produce individuals with high level technical and supervisory skills, thus forcing companies to recruit expensive expatriates for certain positions. On the other, it appears that insufficient or inappropriate education may be at least partly to blame for the poor productivity of the lower cadres of production workers. Since the major part of the education and training system is under government control, these problems too are considered by many to be the fault of the state.

Weak domestic demand is also a major problem. The small size of the market and the competition that has come as a result of market liberalisation since 1993 were the main factors cited. As one respondent pointed out, countries like India and China have very large populations. Even though average incomes are low, their absolute numbers of middle class people are sufficient to support a domestic garment industry. Although this is a market problem, most see its root cause – high levels of poverty and inequality – as the responsibility of the state. The problem of small market is compounded by what most respondents view as a poorly managed liberalisation process that has further narrowed the market by bringing in uncustomed imports. Although most respondents recognised the role of external forces in pushing market liberalisation, they held the state responsible for the way the process was implemented. Finally, respondents named globalization as also responsible for Kenya's weak demand. The globalization of garment production and the world trade in second hand clothing has flooded Kenya's market with cheap substitutes for Kenya-made clothing.

The third major problem facing medium- and large-scale garment producers is

their difficulty in accessing the export market. A few spoke of lack of entrepreneurial networks extending into importing countries. They felt, rightly or wrongly, that without personal contacts, exporting was impossible. Most respondents, however, even those already involved in garment exports, pinpointed national level institutions, especially the state, as the source of their difficulties. Some cite the erratic telecommunications system, which makes communicating with external buyers difficult. Others feel that the government needs to do more to provide trade information. High production costs, which have already been discussed, are seen by many, especially medium-sized producers, as a barrier to their entering the export market. The lack of a viable textile industry, while not currently a barrier to exporting, is recognised as a serious problem for firms wishing to take advantage of AGOA after 2004. As indicated above, unstable markets in neighbouring countries make it risky for smaller domestic firms to test the export market by expanding into the East African region.

Table 3 Institutional Sources of Garment Industry Problems

Problem	Causes/Contributing Factors	Institutional Sources					
		State	Firm	Market	Technology	Financial	External
High Production and Distribution Costs	• Production technology	✓	✓		✓		
	• Tax and tariff regime	✓✓					
	• Road maintenance regime	✓✓					
	• Railroad system	✓✓					
	• Electricity system	✓✓					
	• Lack of viable textile industry	✓	✓	✓	✓	✓	
	• Education and training	✓			✓		
Weak Domestic Demand	• Market size	✓		✓			
	• Market liberalisation	✓✓		✓			✓
	• Globalization	✓		✓			✓✓
Difficulty in Accessing Export Market	• Entrepreneurial networks		✓	✓			
	• Telecommunications system	✓		✓			
	• Trade information system	✓		✓			
	• High production costs (see above)	✓✓	✓	✓	✓	✓	
	• Lack of viable textile industry	✓	✓	✓	✓	✓	✓
	• Unstable markets in neighbouring countries						✓✓
Low Investment	• General instability and insecurity	✓✓					
	• Financial system	✓		✓		✓✓	✓

The final industry problem, mentioned especially by older firms, was low investment. Two reasons were given. The first reason pertains to both local and foreign investors. The dual benefits of EPZ status and AGOA should be a powerful incentive to both groups of investors, but so far the benefits seem outweighed by Kenya's generally unstable and insecure business environment. Those currently manufacturing in Kenya prefer to continue with their old plant and equipment, rather than investing more. Some go farther and say that they would readily sell out if they could find a buyer. As for foreign investment, the Government itself paints a realistic, if grim, picture: "Dilapidated infrastructure, insecurity, high level corruption and general depressed economic performance have contributed to reducing Kenya's attraction as an investment destination compared to other countries within the region" (Kenya 2000, p. 30).

*Table 6: Interest and Inflation Rates, December 2000*

Type	Rate (%)
Bank overdraft	19.7
91-day Treasury Bills	12.9
Average annual inflation	9.2
Real interest, based on overdraft rate	10.5
<i>Source: Central Bank of Kenya 2001</i>	

The second reason cited for low investment was the financial system. Medium- and large-scale firms are able to obtain bank loans, but many feel that the cost of borrowing is excessive. Although bank interest rates have come down after

climbing above 30% twice in the mid-1990s, producers consider their present levels still too high to encourage further investment. As of December, 2000 the spread between bank overdraft rate and the Treasury bill rate was 6.8 percentage points, and the difference between the overdraft rate and the average annual inflation rate was 10.5 percentage points (see Table 5). Kenya's oligopolistic banking structure is no doubt responsible for these high rates. It is not clear whether efforts to regulate interest rates will be successful in the long run, but they have sent a clear message of dissatisfaction to the banking industry.

Kenya's financial system is also characterised by excessive collateral-loan ratios. It is not uncommon to have to raise collateral worth several times the amount of a loan. Such excessive ratios can be attributed to poor property rights that make banks unsure of whether they can actually claim collateral should a loan go bad.

## **7. Summary, Conclusions, and the Way Forward**

The analysis has, in summary, highlighted the role of institutions in creating and exacerbating the problems in Kenya's garment industry. We examined a range of institutions, which we grouped broadly as firm level, national level, and global. Not surprisingly, national level institutions including the state, markets, technology systems, and the financial system, proved to be most important. The role of external institutions, especially global markets and multilateral donor organisations, was also recognised. In most cases, however, respondents did not view them as determining the fate of the industry. They felt that if the Kenya government did more to level the playing field, then Kenyan industry could be globally competitive.

More specifically, respondents believe that the state currently constrains business activity in a number of interrelated ways. First of all, corruption undermines many of the supportive policies that have been put forward. Secondly, market liberalisation has been poorly implemented. Corruption is certainly implicated

here, but there also seem to be areas where the policies, regulations, etc. have simply been inadequately thought through. Thirdly, the state has failed to maintain the physical and communications infrastructure in a condition required for profitable business activity. Again many of the infrastructure problems are due to corruption in contract awards, etc. Corruption may even be the reason why government ignores regular maintenance and favours large re-building projects. In addition, there again seems to be a lack of planning and, perhaps, over-dependence on donor funds for projects that might be carried out with local resources. Finally, the state is faulted for putting politics before economics, and allowing the country to deteriorate into a generalised condition of instability and insecurity.

Markets were recognised as the central institution. Liberalisation was seen as a good thing in itself, but badly implemented in Kenya. Respondents pointed out that even highly developed countries protect their own industries. Yet Kenya embarked on total liberalisation without adequately considering the consequences for domestic industry.

The technology system is blamed for failing to provide the industry with a labour force with relevant skills. The formal school system is part of the problem, especially in its failure to give students with the skills in mathematics that are needed for technical work in the industry. Training institutions are also blamed for not offering training programmes to equip people to be supervisors or middle level managers.

The financial system was blamed for charging too much for credit. Here again, liberalisation was seen to be been badly executed. It has not created a competitive market, but rather has allowed a few large banks oligopoly power. By overcharging their customers, these banks have contributed to the garment industry's uncompetitive cost structure.



Based on this analysis, we put forward a few tentative recommendations in each of the four problem areas..

First, to counter *high production costs*, government should:

- Reduce tariffs on inputs not manufactured in Kenya;
- Target key roads used by industry for continual maintenance and eventual upgrading;
- Follow through on electricity upgrading.

Second, to boost *domestic demand*, government should:

- Take all possible measures to alleviate poverty and improve the rural economy;
- Enforce existing tariffs on imported new clothing;
- Enforce existing standards on imported textile products.

Third, to improve the industry's *access to the export market*, government should:

- Hasten the privatisation of Telkom Kenya;
- Review the operations of the existing trade information systems (KEITA, EPZ, etc.);
- Develop appropriate incentives (tax rebates, investment credits, etc.) to encourage private investors to revitalise the textile industry.

Fourth, to make Kenya more attractive for local and foreign *investors*, government should:

- Take firm measures to counter crime and politically motivated violence;

The above measures do not address every issue, because in some cases there is not enough information to make informed recommendations. This is partly due to the scope of the present research. We have not investigated all institutions. In particular, this research made no systematic investigation of socio-cultural institutions, nor did we go deeply into areas such as the technology and financial

systems. Furthermore, our research has been largely qualitative. We aimed at understanding the issues, rather than at quantifying them. Many of the issues need further research. We suggest in particular studies on labour productivity, an examination of the issue of export incentives, and further study of what might be done to ensure that Kenya's financial system better serves local industry. Finally, we believe that a survey to gather quantitative data on revenues, costs, value added, and employment would be an excellent follow-up to our work.

A final observation: All of our recommendations are directed to government. In formulating them, we wonder whether the industry might not also have recommendations to make to itself and its associations. This is, perhaps, an area for further discussion

Appendix A: Textile and Garment Firms Interviewed

Firm	Industry	Main Products	Market(s)	Export Status	Employment
A	Garment	CMT garments (shirts, etc.)	Export (USA)	MJB	500
B	Textile	Towels, baby napkins	National	none	400
C	Garment	Socks, hosiery	National	none	90
D	Garment	CMT garments (shirts, etc.)	Export (USA)	EPZ	1,000
E	Garment	Trousers, safari suits	National	none	80
F	Garment	Men's and women's clothing	Local	none	5
G	Garment	Shirts	National	none	80
H	Textile	Polyester fibre	National	none	130
I	Garment	T-shirts, African dress	Tourist and export	none	20
J	Garment	Uniforms	National	none	140
K	Textile/Garment	Yarn, knitted, knimed and woven cloth, knitted shirts	National and Export (Canada and Europe)	none	1,510

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L	Textile, Garment	Knitted and woven cloth, sweaters	National and Export (Europe, Region)	none	500
M	Garment	Knitted and woven garments	National and Export (Germany)	none	60
N	Garment	Work uniforms	National	none	12
O	Garment	CMT garments (shirts, etc.)	Export	EPZ	2,000
P	Textile	Woven fabric	National and Regional	none	500
Q	Garment	Shirts	National	none	100
R	Textile, Garment	Woven fabric, CMT garments	National and Export (Europe)	MUB	550
S	Textile	Blankets	National and Regional	none	200
T	Textile	Polyester yarn	National and Regional	none	80
U	Textile	Sheets, baby carriers	National	none	10
V	Textile, garment	Knitting yarn, baby shawls, sweaters, sitting material	National and Regional	none	1,000
<p>Notes: MUB: Manufacturing Under Bond EPZ: Export Processing Zone</p>					

## APPENDIX B

### Institutions and the Industrialisation Process: Textiles and Garments in Kenya

#### Interview Schedule

##### *Overview and Purpose of this Interview*

We are in the initial stages of a study of the impact of economic and social institutions on Kenya's industrialisation process, using the textile and garment industry as a case study. Our first step has been to identify some of the key international institutions, such as the world trading and financial regimes. We have also used published material to study the textile and garment industry in several other countries, in order to learn about how their institutions facilitate or constrain the industry.

We have two reasons for coming to you at this point: *first*, we felt that you could help us to understand the *structure of the industry* in Kenya and main issues facing producers; and *second*, we would like your suggestions about how the study might be designed so that it will be beneficial to business people.

##### *Questions*

#### THE INDUSTRY

Questions on respondent's company (these can be asked directly or woven into the rest of the interview). NOTE: The *focus of the interview* is on the industry.

- ▶ when established
- ▶ ownership
- ▶ principal markets (countries, nature of customers [retailers, agents, wholesalers, etc.]

- ▶ main items produced
- ▶ firm capabilities (full manufacturing, cut-make-trim, other)
- ▶ in-house design staff?
- ▶ to what market segment are the products targeted? (low, middle, high end)
- ▶ source of initial orders (personal contact, trade shows, etc.)
- ▶ labour force (number of workers, M/F ratio, education & training, productivity, etc.)
- ▶ sources of inputs (machines, fabric, accessories, patterns)
- ▶ are there important intermediaries? (wholesalers, traders, agents of big suppliers, etc.)
- ▶ how do goods reach the market (air, ship, etc.)
- ▶ do you have any representative abroad?
- ▶ infrastructure (problems with roads, electricity, telephone)

What can you tell us about the textile industry in Kenya?

- ▶ approximate number of firms currently producing (both woven fabric producers and knitting mills)
- ▶ who are the key players in the industry? where are they located? (any in Mombasa?)
- ▶ main market for Kenyan textiles
- ▶ what proportion of your own inputs consist of Kenyan textiles?
- ▶ are there any organisations or business service institutions specifically for the textile industry?
- ▶ what, in your view, is the root cause of the problems of the textile industry?

What can you tell us about the clothing industry in Kenya?

- ▶ approximate number of firms producing for the *export market*
- ▶ Who are the key players? (any in Mombasa?)
- ▶ what is the size range of exporting firms (in terms of workers or investment)
- ▶ approximate number of large firms (100+ workers) producing for the *domestic market*
- ▶ how many firms produce accessories (buttons, zippers, trims, facing material, etc.)
- ▶ how do large firms procure fabric? accessories? machines?
- ▶ are there important intermediaries? (wholesalers, traders, agents of big suppliers, etc.)
- ▶ how important is subcontracting in the industry?

- ▶ what are the major infrastructural needs?
- ▶ how efficient are Kenyan garment workers?
- ▶ are workers unionised? how strong are unions? what is the driving force in setting wages and/or working conditions? (market forces, management, unions, government, etc.)
- ▶ what is the M/F ratio of workers in the industry? why is it the way it is?
- ▶ how are workers trained? are there unmet human resource needs?
- ▶ what are the typical financial arrangements in this industry? (how is inventory financed? what are the financial arrangements with overseas buyers?)
- ▶ how would you describe industry technology in Kenya compared with other countries? (outdated  $\Leftrightarrow$  state of the art)
- ▶ are there any organisations or business service institutions specifically for the clothing industry?
- ▶ impact of second-hand clothes on industry
- ▶ impact of new WTO rules on industry (now, later)
- ▶ impact of global economy (e.g., Asian crisis) on industry

Kenya has a number of private and governmental organisations intended to serve the business community. Please comment on their relevance to textile and/or clothing manufacturers:

- ▶ Kenya Association of Manufacturers (KAM)
- ▶ Kenya Industrial Research and Development Institute (KIRDI)
- ▶ Kenya National Chamber of Commerce
- ▶ Kenya Bureau of Standards
- ▶ Export Promotion Council
- ▶ EPZ-Authority
- ▶ Ministry of Industry
- ▶ Others?

*If not already covered:*

How do government rules, regulations, policies, incentives affect these industries?

- ▶ Are there specific laws, etc. governing the textile industry? the clothing industry?
- ▶ Are there general laws that, because of the nature of the industry, have a

particular effect on either clothing or textiles?

What, in your view, are the key issues that we should be exploring?

#### DESIGN OF THE STUDY

We would like to involve practitioners in this study so that the findings are useful to business people. What advice do you have for us?

- ▶ are there people you know who would be interested in this aspect of the work?
- ▶ what issues/aspects of the research are likely to be of greatest interest to business people?
- ▶ what is the best way to involve business people? (seminars, individual discussions, other)
- ▶ what format of meeting or seminar is most likely to draw people (e.g., half-day seminar, evening meeting, etc.)

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**APPENDIX C**

**VALUE CHAIN INTERVIEW GUIDE**

UNIVERSITY OF NAIROBI  
Institute for Development Studies

INSTITUTIONS AND THE INDUSTRIALISATION PROCESS  
Textiles and Garments in Kenya

VALUE CHAIN INTERVIEW GUIDE

<p><b>1. ENTERPRISE DATA</b></p>	
<p><b>1.1 COMPANY:</b>                  1.1.1 Respondent name and title                  1.1.2 Family business?                  1.1.3 Contact information                      PO Box                      E-mail address                      Website</p>	
<p><b>1.2 COMPANY HISTORY</b>                  1.2.1 Year of establishment                  1.2.2 Major turning points/milestones</p>	
<p><b>1.3 MAIN ITEMS PRODUCED</b>  <i>PROMPT</i>                  • <i>Product lines</i>                      Textiles (knitted, woven)                      Garments                      Other                  • <i>Specific products</i></p>	

1.4 LOCATION(S) 1.3.1 What is produced where?	
1.5 TOTAL NO. OF EMPLOYEES	

2. MARKETS AND DISTRIBUTION	
<p>2.1 WHAT ARE YOUR MAIN MARKETS?  <i>PROMPT</i>  Kenya, other Africa, Europe, USA, other countries  types of buyers  production to order or to market  changes in markets over last few years?  order size/variations</p>	
<p>2.2 DO YOU HAVE KEY REGULAR BUYERS? Yes No  <i>PROMPT</i>  reasons for using regular buyers  initial contacts  level of importance of the regular buyers  nature of business start up with regular buyers</p>	

**2.3 WHO ARE YOUR REGULAR BUYERS?**

*PROMPT*

importers, wholesalers, retailers  
location?

2.3.1 How did you start doing business with these regular buyers?

2.3.2 What were you looking for in these regular buyers?

2.3.3 How important are these regular buyers to you?

*PROMPT*

in terms of sales volume  
do they supply market information?

2.3.4 How do you normally make contact with these regular buyers?

*PROMPT*

regular meetings (frequency?)  
phone, fax, e-mail

2.3.5 How do you ship your goods to your regular buyers?

*PROMPT*

by road, rail, air freight, sea  
Is delivery ever a problem?

<p><b>2.4 HOW DO YOU MARKET YOUR PRODUCTS?</b></p> <p><i>PROMPT</i>          advertising          offering credit          point of sale promotions          promotional visits          participation in trade fairs          trade name/own label</p> <p><b>2.4.1 Have you ever carried out any market survey?</b></p>	
<p><b>2.6 WHAT TECHNOLOGY SYSTEMS ARE INVOLVED IN THE DISTRIBUTION OF YOUR PRODUCTS?</b></p> <p><i>PROMPT</i>          computerised inventories          website          e-commerce</p>	
<p><b>2.7 FOR A TYPICAL PRODUCT, MARKETING AND DISTRIBUTION REPRESENT WHAT PROPORTION OF VALUE ADDED?</b></p>	
<p><b>2.8 WHO IS/ARE YOUR MAIN COMPETITOR(S)?</b></p> <p><i>PROMPT</i>          countries          firms</p>	

<p>2.9 IS THE US GOVERNMENT'S AFRICA GROWTH AND OPPORTUNITY ACT (AGOA) LIKELY TO HAVE AN IMPACT ON YOUR FIRM?</p> <p><i>PROMPT</i>                  If yes, what impact?                  If no, why not?</p>	
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<p>3. DESIGN</p>	
<p>3.1 WHAT IS THE MAIN SOURCE OF YOUR PRODUCT DESIGNS?</p>	
<p>3.2 WHAT GOES INTO DESIGNING A NEW PRODUCT?</p> <p><i>PROMPT:</i>  <i>Textile fabric</i>                  Colour                  Pattern  <i>Sweaters</i>                  Choice of yarn                  Choice of stitch                  Choice of colour and pattern                  Style                  Pattern making and grading  <i>Shirts</i>                  Choice of fabric type, pattern, colour                  Style                  Pattern making and grading</p>	

<p><b>3.3 IF YOU DO SOME OR ALL OF YOUR OWN DESIGNING:</b></p> <p><b>3.3.1 What enables you to design?</b></p> <p><i>PROMPT: How important are:</i>          Training in design          Skills informally obtained          Help from others          Other</p> <p><b>3.3.2 What constrains your ability to design?</b></p> <p><i>PROMPT: How important are:</i>          Lack of design skills          Limitations of local input markets          Lack of product market/market information          Machine capabilities/ limitations          Other</p> <p><b>3.3.3 How important is it that you make your own designs?</b></p> <p><i>PROMPT: Competitiveness in Kenyan market          Competitiveness in external markets</i></p>	
<p><b>3.4 IF YOU GET SOME OF YOUR DESIGNS FROM YOUR CUSTOMERS</b></p> <p><b>3.4.1 Does customer supply of designs bring any advantage to you?</b></p> <p><b>3.4.2 Do customers supplying designs require you to use certain inputs or suppliers?</b></p> <p><b>3.4.3 Do such customers assist you in any way?</b></p>	
<p><b>3.5 FOR A TYPICAL PRODUCT, THE DESIGN STAGE REPRESENTS WHAT PROPORTION OF TOTAL VALUE ADDED?</b></p>	



<p><b>4. PRODUCTION</b></p>	
<p><b>4.1 WHAT DETERMINES QUALITY OF YOUR PRODUCTS?</b></p> <p><i>PROMPT:</i>          Kenya Bureau of Standards          Machines          Market requirements          Skills of the workers</p>	
<p><b>4.2 WHAT FACILITATES MAINTENANCE OF PRODUCT QUALITY?</b></p> <p><i>PROMPT:</i>          Skills of workers          Familiarity with production of specific items          (e.g., woven fabric, sweaters)          Information from trade fairs          Consultations with other producers</p>	
<p><b>4.3 WHAT LIMITS YOUR ABILITY TO MAINTAIN PRODUCT QUALITY?</b></p> <p><i>PROMPT:</i>          Market does not pay for high quality          Non availability of desirable machines          Utility related complications          Production costs</p>	

<p><b>4.4 HOW IMPORTANT IS THE NEED TO MAINTAIN HIGH PRODUCT QUALITY?</b></p> <p><i>PROMPT:</i>                  Serve special market                  Remain competitive                  Increase market share</p>	
<p><b>4.5 WHAT INFLUENCES PRODUCTION LEVELS?</b></p> <p><i>PROMPT:</i>                  Capacity of machines                  Production shifts                  Ordering of products                  Subcontractor performance</p>	
<p><b>4.6 DESCRIBE YOUR PRODUCTION TECHNOLOGY?</b></p> <p><i>PROMPT:</i>                  approximate vintage                  compared to industry standard</p>	
<p><b>4.7 WHAT FACILITATES MEETING OF PRODUCTION TARGETS?</b></p> <p><i>PROMPTS:</i>                  Skills of workers                  Subcontractor networks                  Capacity of machines                  Forward planning</p>	
<p><b>4.8 WHAT LIMITS REALISATION OF PRODUCTION TARGET?</b></p> <p><i>PROMPTS:</i>                  Delays in sourcing materials                  Trade union activity                  Working capital                  Power shortages</p>	

<p>4.9 FOR A TYPICAL PRODUCT, PRODUCTION REPRESENTS WHAT PROPORTION OF TOTAL VALUE ADDED?</p> <p>4.9.1 Labour is what % of production cost? 4.9.2 Raw materials are what % of production cost? 4.9.3 Power is what % of production cost? 4.9.4 Is water a significant cost item? If so, what % of production cost? 4.9.5 Overheads are what proportion of production cost?</p>	
<p>4.10 LABOUR FORCE</p> <p><i>PROMPTS</i> Size Gender composition Skills Unionisation</p>	
<p>4.11 CAPACITY UTILISATION</p> <p><i>PROMPTS</i> Overall Seasonal or other variations</p>	

<b>5. SUPPLY</b>	
5.1	<b>WHAT ARE YOUR MAIN RAW MATERIALS?</b>  <b>DO YOU HAVE REGULAR SUPPLIERS FOR EACH?</b>  <i>PROMPT:</i> Cotton or polyester fibre Knitting Yarn Fabric Thread for assembling Buttons Lining material Embroidery thread
5.1.1	Do you make any of your own raw materials?
5.1.2	Are any of your raw materials supplied by your customers?

<p><b>5.2 TELL US MORE ABOUT YOUR MAIN RAW MATERIALS SUPPLIERS.</b></p> <p>5.2.1 What do you buy from your main regular suppliers?</p> <p>5.2.2 History of relationship: How long have you been doing business with them? How did you first get to know them?</p> <p>5.2.3 Nature of main regular suppliers Producers, importers, local wholesalers, local retailers? Size Location? Fixed or mobile? Where?</p> <p>5.2.4 How do you normally contact them? Phone, e-mail/fax, in person? How often?</p> <p>5.2.5 Do you tend to stick with certain regular suppliers or do you shop around? Why?</p> <p>5.2.6 Approximately how many such suppliers are in the market?</p> <p>5.2.7 Are you an important customer to these suppliers?</p>	
<p><b>5.3 TELL US MORE ABOUT YOUR OTHER RAW MATERIALS SUPPLIERS.</b></p> <p>5.3.1 What do you buy from your other suppliers?</p> <p>5.3.2 How important are these other suppliers to you?</p> <p>5.3.3 How important are you to these other suppliers?</p>	

<p><b>5.4 WHAT OTHER INPUTS DO YOU USE?</b></p> <p><b>DO YOU HAVE REGULAR SUPPLIERS FOR THESE?</b></p> <p><b>PROMPT:</b> Machinery Notions (buttons, elastic, etc.) Other supplies (stationery, cleaning supplies, etc.)</p> <p><b>5.4.1 Do you tend to stick with certain regular suppliers or do you shop around? Why?</b></p> <p><b>5.4.2 Approximately how many such suppliers are in the market?</b></p> <p><b>5.4.3 Are you an important customer to these suppliers?</b></p>	
<p><b>5.5 HAVE YOU EVER HAD A PROBLEM OR A CONFLICT WITH A REGULAR SUPPLIER?</b></p> <p><i>If yes,</i> Describe the conflict. How did you deal with the conflict? What was the outcome?</p>	
<p><b>5.6 FOR A TYPICAL PRODUCT, THE SUPPLY FUNCTION REPRESENTS WHAT PROPORTION OF TOTAL VALUE ADDED?</b></p>	

6. INSTITUTIONS	
6.1 IN YOUR VIEW, WHAT ARE THE KEY PROBLEMS FACING THE CLOTHING/TEXTILE INDUSTRY IN KENYA?	
<p>6.2 WHAT WOULD YOU CONSIDER TO BE THE MAIN INSTITUTIONAL FACTORS CONTRIBUTING TO THESE PROBLEMS?</p> <p><i>PROMPT</i></p> <ul style="list-style-type: none"> <li>Government policy, formal rules and regulations</li> <li>Government's ways of doing things</li> <li>Financial system</li> <li>Technology systems</li> <li>Labour system</li> <li>Input markets</li> <li>Product markets</li> <li>Global institutions (WTO, IMF, World Bank, etc.)</li> </ul>	
6.3 IN WHAT WAY CAN WE/OUR STUDY BE OF ASSISTANCE TO YOU?	
<p>6.4 OTHER</p> <p>Key institutions/organisations in contact with</p>	

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