

KENYA'S APPAREL & TEXTILE INDUSTRY 2005



KENYA

EXPORT PROCESSING ZONES AUTHORITY



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Abbreviations

- AGOA: African Growth and Opportunity Act
- WTO: World Trade Organisation
- US: United States of America
- EU: European Union
- MUB: Manufacturing Under Bond
- EPZ: Export Processing Zone
- EEC: European Economic Community
- SSA: Sub Saharan Africa
- DANIDA: Danish International Development Agency
- GDP: Gross Domestic Product
- KICOMI: Kisumu Cotton Mills
- RIVATEX: Rift Valley Textiles
- EAC: East African Community
- COMESA: Common Market for Eastern and Southern Africa
- GSP: Generalised System of Preferences
- ACP: African, Caribbean & Pacific
- EPC: Export Promotion Council
- KAMEA: Kenya Apparel Manufacturers & Exporters Association
- KIB: Kenya Irrigation Board
- ACT: Agreement on Clothing & Textiles
- KAM: Kenya Association of Manufacturers

Annual Average Exchange Rates (Kshs to US\$)

Year	Rate
1999	70.3
2000	76.2
2001	78.6
2002	78.4
2003	75.9
2004	80.0 (As at 31 st August 2004)

For latest rates click on <http://www.centralbank.go.ke/cbk/FXrates/archives.html>



1 Industry overview

Agriculture is the base for economic growth, employment creation and foreign exchange earnings in Kenya. The sector accounts for about 24% of Kenya's GDP, contributes more than 50% of the country's export earnings and employs about 75% of the population.

Cotton production offers the greatest potential for increased employment, poverty reduction, rural development and generation of increased incomes in arid and semi-arid areas of the country. The sub-sector has been identified as one that could help bring rapid economic development in the country. It has therefore been classified as a core industry by the Kenyan government.

Cotton production was introduced in Kenya in the 1900s by the colonial administration. However, it was not until the early 1960s that the crop was introduced in many parts of the country, being encouraged in areas with low rainfall and therefore unsuitable for other cash crops. Currently the crop is grown in Nyanza, Western, Coast, Central, Eastern and Rift Valley provinces, largely under rain fed conditions. Cotton is also planted on irrigated land and the Government has made an effort to boost production of cotton by setting up various irrigation schemes in different arid and semi-arid parts of the country.

Kenya's cotton sector was still dominated by private colonial ginners till independence in 1963. Immediately after independence Kenya adopted an import substitution policy that ensured a backward integration of textile mills. Between that time and the end of 1990 the Government systematically introduced controls into the sector: it helped cooperative societies buy ginneries from the colonialists, controlled marketing margins, fixed producer prices and invested heavily in textile mills. The Government protected the local industry by imposing a 100% duty on imported goods, which ensured the rapid growth of the local textile industry with an average production capacity of over 70%. The industry also received substantial assistance from the Government and donor agencies especially in the 1980s.

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

Since the liberalization of the economy in 1990, the influx of textile goods into Kenya also became a major problem that reduced the average capacity utilization in the textile mills to about 50%. The textile sector was actually once the fifth largest foreign exchange earner in Kenya, but dropped to a very small contribution of the Gross Domestic Product (GDP) from mid and late 90s. However, data available for the last 5 years indicates that the sector is on its way to recovery largely due to AGOA and increased Government support.

The enormous market prospects presented by the African Growth and Opportunity Act (AGOA) of 2000 and the African, Caribbean and Pacific - European Union (ACP-EU) Cotonou Agreement have rekindled interest in the industry. Indeed, since Kenya qualified for AGOA, its exports to the US have expanded remarkably and so has investment in this sector. Kenya's textile exports to the US increased from US\$ 39.5 million in 1999 to US\$ 277 million in 2004. Total investment in the sector rose from KShs. 1.2 billion to KShs. 9.7 billion, a 41% increase while jobs generated increased from about 26,000 in year 2002 to 37,000 in 2003, but dropped to 32,000 by end of 2004.

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



knitted garments. Garment manufacturers on the other hand, produce various types of garments both for the local market and for export. About 46% of the garment manufacturers produce men's wear while the others produce woven chemise and robes, pants, Kaunda suits (for men), knitted and woven garments.

The textile industry has made a sizeable contribution to income generation in rural areas by providing a market for cotton. The cotton sub-sector has significant linkages with not only the textile processing and manufacturing industry but also with manufacturers of soaps and detergents, animal feeds, chemicals, fats and oils. These direct linkages with the textile processing and manufacturing firms are particularly important for the exploitation of new market opportunities presented by AGOA, European Union and other markets where Kenya can export the cotton products.

Investments in growing and ginning of cotton, spinning and weaving operations, in addition to those in production of apparel and other products are assured of ready local, regional and international markets. Attractive investment incentives and production advantages are found in Kenya.

2 Industry structure and production

The textile industry in Kenya is relatively diverse and can be divided broadly into four main areas of production as follows:

- Cotton growing and ginning
- Yarn and thread production
- Fabric manufacture
- Apparel manufacture

2.1 Cotton growing and ginning

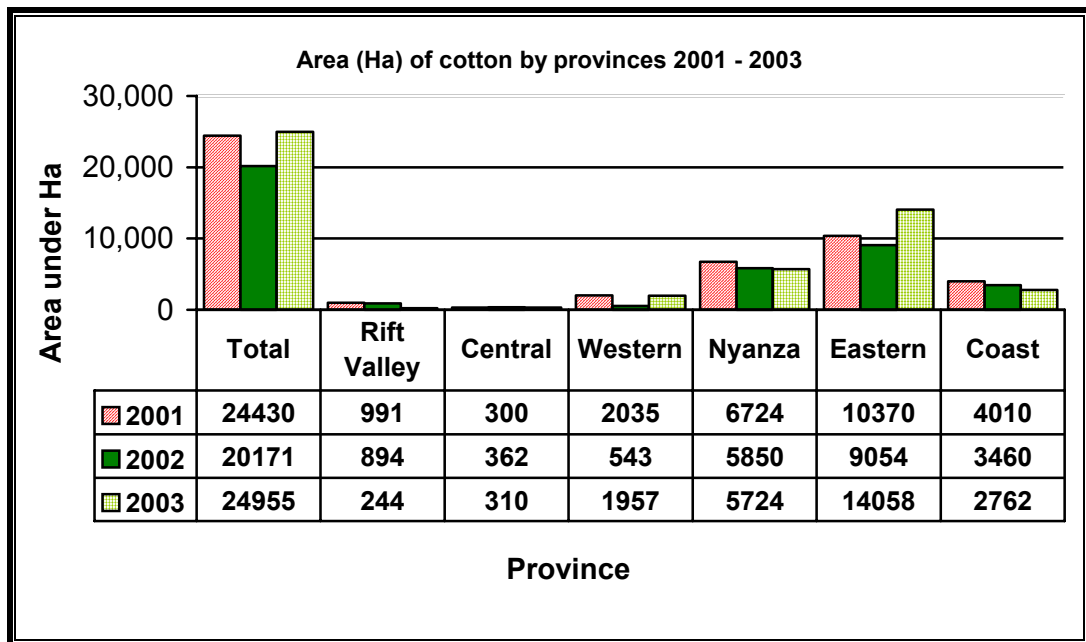
Cotton in Kenya is mainly grown by small-scale farmers in marginal and arid areas, on small land holdings averaging about 1 hectare. It is estimated that Kenya has 140,000 small-scale cotton farmers¹ compared with over 200,000 in the mid-1980s when the industry was at its peak. The Cotton Board of Kenya estimates that countrywide, 350,000 hectares is suitable for rain-fed cotton production with the potential to produce about 260,000 bales of lint annually, and 34,500 hectares for irrigated cotton with the potential to produce 108,000 bales of lint annually. However, only about 25,000 hectares is currently under the crop², and the total annual lint production stands at only about 20,000 bales (2003). The acreage for the last three years is detailed in chart 1 below.

¹ Government of Kenya

² Ministry of Agriculture - Crop Development Division 2003



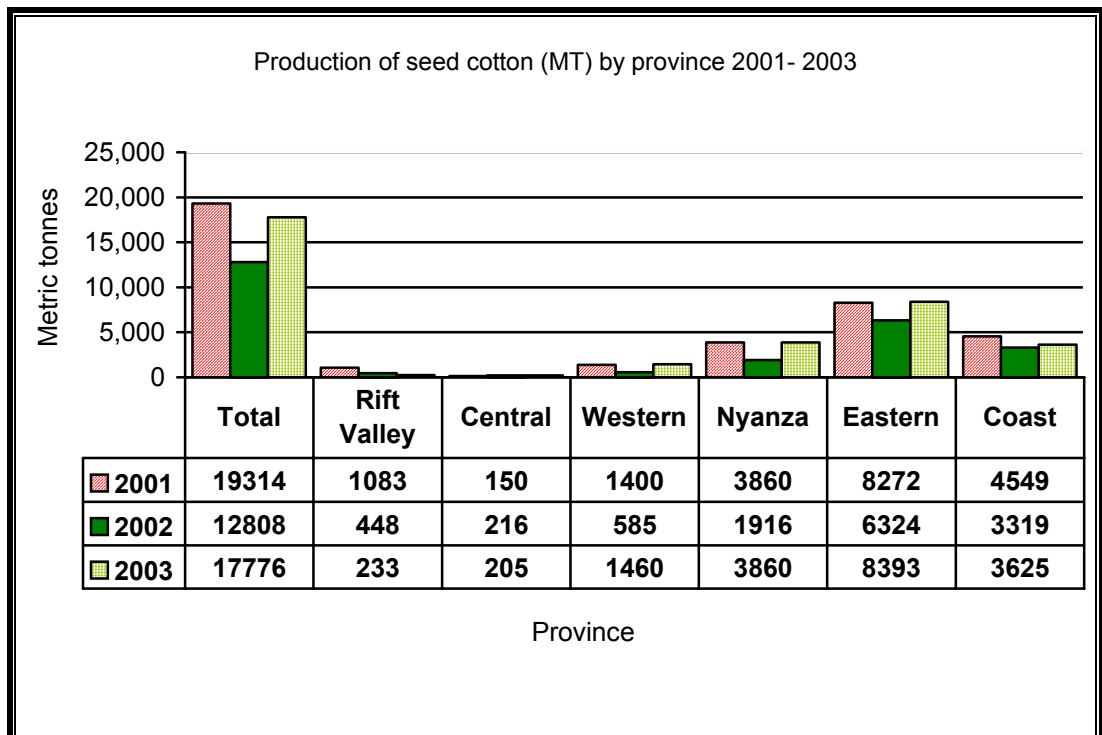
Chart 1: Area of cotton by provinces (Ha): 2001-2003



Source: Crop Development Division – Ministry of Agriculture Annual Report 2003

There was a slight rise in total cotton acreage from 24,430 ha in year 2001 to 24,955 ha in 2003 according to the 2003 annual report from the Ministry of Agriculture's Crop Development Division. The average production per hectare is currently 250 kg/ha but it is possible to raise the productivity level to around 600 kg/ha as confirmed by research conducted by Kenya Agricultural Research Institute (KARI) in the late 90s. In terms of seed cotton quantity, there was an 8% decline from 19,314 metric tonnes in 2001 to 17,776 metric tonnes of seed cotton in 2003.

Chart 2: Production of Seed Cotton (Metric Tonnes) by Province 2001-2003



Source: Crop Development Division – Ministry of Agriculture Annual Report 2003



Since cotton was introduced into the country in 1900, the strain that was initially grown was an American variety whose lint has fibres measuring 25.0-29.0 millimeters long, which was classified as being of medium staple length. Currently however, the dominant varieties grown in Kenya are:

- HART 89M – Central & Eastern Provinces
- West KSA 81M – Western & Nyanza Provinces

Irrigated cotton was produced mainly in Hola and Bura (Tana River District) and parts of Kerio valley. The Hola irrigation scheme was started in 1956, and the Bura one in 1981/82. By 1987/88, the government-run Hola and Bura irrigation schemes accounted for 39% of the national lint production. The Hola scheme collapsed in 1991/92 after the Tana River changed its course. Cotton is also grown in the Perkera irrigation scheme in Baringo District. Irrigation does allow for production of two crops per annum hence it reduces and spreads production costs.

There is however big potential for growing of more cotton as the country has about 2.04 million hectares of land suitable for cotton cultivation with the bulk of it in Coast province followed by Eastern & Central, Western & Nyanza and Rift Valley provinces respectively as shown below:

- | | |
|---------------------|------------------|
| ▪ Coast Province | 914,000 Hectares |
| ▪ Eastern & Central | 670,000 Hectares |
| ▪ Western & Nyanza | 370,000 Hectares |
| ▪ Rift Valley | 89,000 Hectares |

At the moment the potential areas targeted for cotton growing include:

- Nyanza Province
 - Rangwe and Asego (Homa Bay District)
 - Kendu-Bay, Kobama & Ndhiwa (Rachuonyo District)
 - Suba & Bondo (Rarienda)
 - Kibos- Kisumu
 - Nyando & Siaya
- Western Province
 - Busia, Butere Mumias
 - Bungoma District
- Rift Valley Province
 - Baringo, Keiyo / Marakwet, Iten, Koibatek, and parts of Turkana, West Pokot and Marigat.
- Eastern Province
 - Makueni & Kitui Districts, and parts of Meru
- Central
 - Mwea area of Kirinyaga District
- Coast Province
 - Lamu, Tana River and Taita Taveta Districts.

Cotton Ginning

Ginning separates seed cotton into lint and cottonseed. Ginneries are a focal point in the cotton industry, and their location, efficiency and organization are critical to it.

Ginning, like husbandry practice, harvesting or storage, is an important determinant of the spinning quality of cotton fibre. The ginner's objective is to produce lint of satisfactory quality and to gin the cotton with minimum effect on fibre spinning quality. The most important measures of that quality include strength, short fibre content, length uniformity, maturity, fineness, trash content, colour, seed coat fragment and stickiness. These factors affect the market price of cotton.



There are 24 ginneries in the country with an installed capacity of approximately 140,000 bales annually. But the utilised capacity is a meagre 20,000 bales (about 14%), meaning that if the cotton production capacity were increased by 400% the ginneries would still be able to handle the production.

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

Table 1: Installed Ginning Capacity in the Country per Province

Region	Installed Capacity (Bales per Annum)	Capacity Utilisation (%)
Eastern / Central Province	43,375	24%
Western Province	36,572	28%
Coast Province	31,589	62%
Nyanza Province	23,390	25%
Rift Valley Province	4,253	24%
Total Ginning Capacity In Kenya	139,179	Average 32.6%

Source: Export Processing Zones Authority 2002

The lint processed in the local ginneries is marketed to the textile industries for fibre while the seeds are returned to farmers for planting or are used for animal feed manufacturing and oil extraction.

Appendix 5 contains a list of all cotton ginneries in Kenya.

2.2 Apparel, yarn and fabric manufacture

Cotton lint goes through spinning to produce yarn. The yarn is then weaved or knitted to produce different types of fabric. Spinning operations in Kenya are all large scale and locally owned. The spinning firms produce yarn, industrial yarn, and sewing thread while integrated mills produce a wide variety of products including yarn, fabrics (knitted and woven), canvas, sweaters, shawls etc.

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

The number of garment manufacturers/exporters currently stands at 55, with 29 under the MUB scheme and 26 firms under the EPZ program. The actual number of small-scale garment manufacturing units though has never been documented.

The range of apparel products for both local and export market include the following:

- **Domestic market:** trousers, uniforms, overalls, vests, inner garments
- **Export market:** jeans, trousers/pants, shorts, shirts, nightwear, blouses and dresses.



Appendices 1 and 2 contain lists of all garment manufacturers under the EPZ and MUB programs respectively while Appendix 3 contains a list of textile mills in Kenya.

2.3 Other textile production

2.3.1 Wool production

The wool industry in Kenya is relatively small. The background of the industry dates back to the 1920's when Lord Delamere did the first importation of wool sheep. Most important of the wool sheep, mainly from New Zealand, Britain, Australia and South Africa, were done by the settler community. The population continued to grow. Today the leading wool producing districts include Nyandarua, Narok, Nakuru, Elgeyo Marakwet, West Pokot and Meru Central (mostly Timau division).

The country has sheep totaling 7,855,911 heads but the population for wool sheep is about 13% of the total population standing at 1,010,771 heads of sheep (year 2001), which is a 30% growth from the year 1999, showing there was a positive growth in the wool industry. Rift Valley province led with 713,791 heads of wool sheep while Central Province had 247,379 as tabulated below.

Table 2: Wool sheep population and distribution trend - 2002

Province	1999	2000	(2001)
Rift Valley	452,905	564,870	713,791
Central	256,140	252,690	247,379
Eastern Province	64,373	53,360	46,620
Nairobi	2,659	2,997	2,981
Total	776,077	873,917	1,010,771

Source: Livestock Production Department – Ministry of Livestock and Fisheries Development 2002

In the 1960s and early 1970s, large-scale farms in high potential areas did wool production. From 1970s, however, most of these farms were sub-divided into small-scale farms due to human population pressure. Today small-scale farmers in the high potential areas keeping small flocks of wool sheep do bulk of the wool production.

The major wool breeds in Kenya include Merino, Corriedale, and Ramney Marsh. Other breeds include Hampshire Down and cross breeds between two or more of these breeds. There are also crossbreeds between the pure breed, wool breeds and the indigenous sheep.

There is a lot of inbreeding in the wool flocks due to shortage of breeding stock. This is attributed to lack of serious wool sheep breeders in the country.

The mean yield of wool per animal per year is 4.5Kg. The mean yield for Kenyan sheep is only 2.18 Kg per year. There is big potential to increase both the wool yield per animal and the overall population of the animals. The wool is processed locally or exported to world markets. The main market for raw wool is United Kingdom.

2.3.2 Synthetic raw materials

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



3 Market conditions

3.1 Local market

Local textile manufacturers supply only 45% of the Kenyan textile market requirements while imported new and used clothes account for about 37% of the market, as shown in table 10 below. Demand for textile products in the country is estimated to be growing at 3.8% annually.

Currently there are 35 textile mills in the country. If they were to operate at their installed capacity, they would create demand for cotton lint of 60,000 bales per annum, on top of the current annual demand of 120,000 bales to be able to meet the increasing demand for the increasing Kenyan population.

Table 3: Domestic textile and apparel market

Item	Fabric equivalent (Million Sq. Metres)	Market share (%)
Imported fabric	32.0	17.5
Imported new clothes	38.0	20.8
Imported used clothes	30.0	16.4
Local manufactured items	83.0	45.3
Total	183.0	100.0

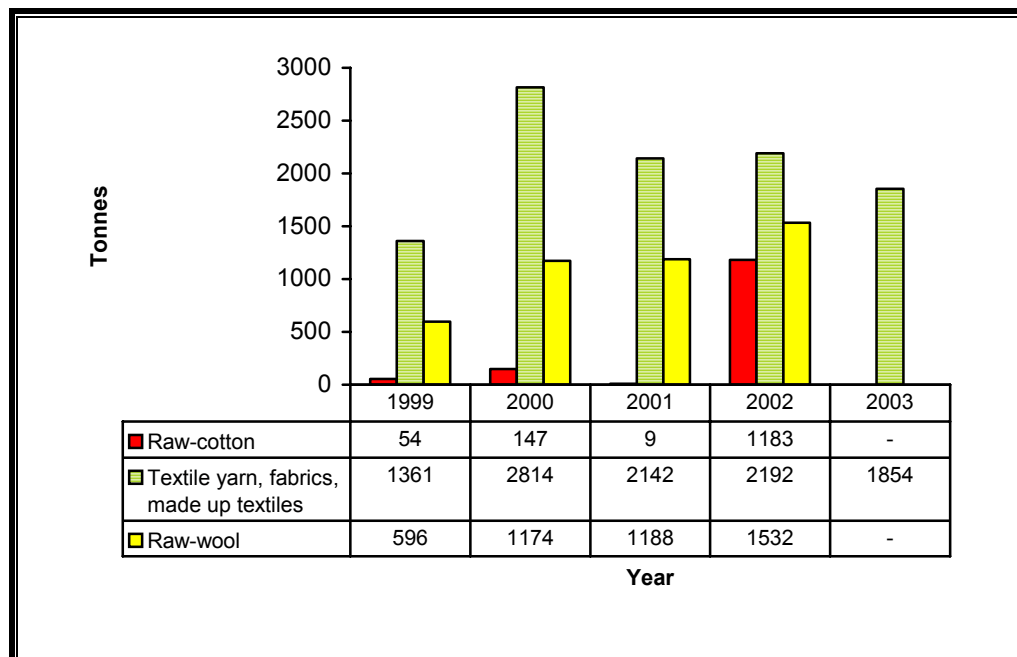
Source: Paper on cotton /textile sub-sector – Ministry of Trade and Industry (March 2004)

3.2 International markets

The main exports in the textile sector are textile yarn, fabrics and made up textiles, with the volume totaling 1854 tonnes in 2003 down from 2192 tonnes exported in 2002, signifying an 18% drop in exports. Only a small amount of cotton is exported raw.

Export trends for the textile and apparel industry are detailed in chart 3 below:

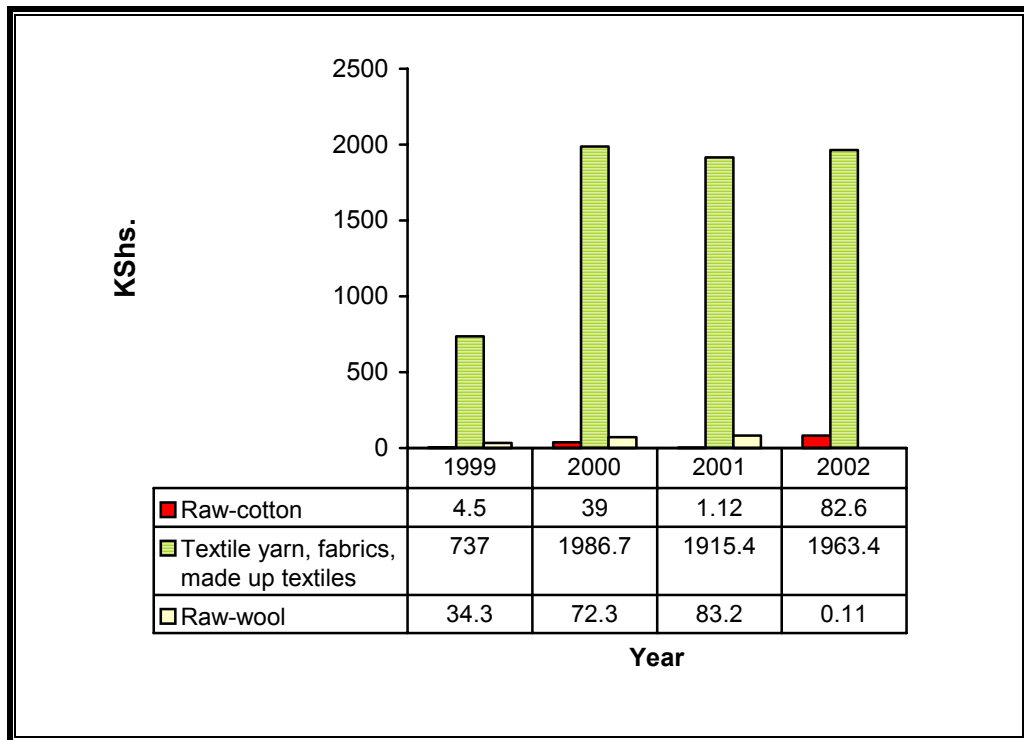
Chart 3: Volumes of Exports (Volume in Tonnes)



Source: Statistical Abstract 2003 & Economic Abstract 2004 by Central Bureau of Statistics



Chart 4: Value of Exports (Value in Kshs. Million)



Source: Statistical Abstract 2003, Central Bureau of Statistics

Textile exports from Kenya enjoy preferential access to regional and world markets under a number of agreements/arrangements:

1. East African Community (EAC)

The East African Community (EAC) is the regional intergovernmental organisation of the Republics of Kenya, Uganda and the United Republic of Tanzania with its headquarters in Arusha, Tanzania. EAC has a combined population of nearly 90 million people with a combined Gross Domestic Product (GDP) of \$25 billion.

The EAC aims at widening and deepening co-operation among the partner states in, among others, political, economic and social fields for their mutual benefit. With a Customs Union established and signed by the three partner states, trade is considered to rise even further. Currently the community has adopted three-band common external tariff regime namely, zero percent for capital goods and raw materials, 10 per cent for semi-processed goods and 25 per cent for finished products.

The Customs Union will definitely spawn a wider market for Kenya's manufacturing sector. Under EAC, Kenyan exports to the sub-region have risen from Ksh.1.9 billion (\$24 million) in 1990 to Ksh.45.5 billion (\$583 million) in 2002, or from eight to 27 per cent.

Kenya's textile and apparel exports to her two partners in the community for the year 2003 was Ksh.904.85 millions as tabulated in table 4 below.



Table 4: Principal Domestic Exports to EAC (Value in Kshs '000)

Commodity	Textile Yarn	Fabrics, Woven or Made	Made up Articles
Tanzania	140,135	180,726	135,391
Uganda	122,293	39,796	286,509
Total	262,428	220,522	421,900

Source: Statistical Abstract 2003 by Central Bureau of Statistics

Compared with their respective population, Uganda is importing more textile related goods than Tanzania. Kenya also imports cotton, yarns and fabric from Uganda and Tanzania.

2. Common Market for Eastern and Southern African (COMESA)

COMESA (as defined by its Treaty) was established 'as an organization of free independent sovereign states which have agreed to co-operate in developing their natural and human resources for the good of all their people' and as such it has a wide-ranging series of objectives which necessarily include in its priorities the promotion of peace and security in the region. However, due to COMESA's economic history and background, its main focus is on the formation of a large economic and trading unit that is capable of overcoming some of the barriers that are faced by individual states.

COMESA's current strategy can thus be summed up in the phrase 'economic prosperity through regional integration'. With its 20 member states, population of over 385 million and annual import bill of around US\$32 billion, COMESA forms a major market place for both internal and external trading. Its area is impressive on the map of the African Continent and its achievements to date have been significant. Member countries of this group enjoy preferential tariff treatment for their imports and exports. Within the COMESA region, Kenya's textile industrial base is one of the best developed.

Tariff structure within COMESA can broadly be divided into two:

- i. General tariff for COMESA
- ii. Free Trade Area (FTA)

General tariffs adhere to the general terms of trade by COMESA, while the FTA has abolished tariffs for goods originating from their member countries; the FTA has not only gotten rid of customs tariffs but has also applied the relaxation and eventual elimination of quantitative restrictions and other non-tariff barriers.

Kenya is a member of the FTA within COMESA. Kenyan textile and apparel exports to COMESA³ for the year 2003 totaled KShs. 550,441,000. Democratic Republic of Congo (DRC) led with total imports for the year 2003 totaling Kshs. 236 million followed by Rwanda and Ethiopia with import values of Kshs. 88 million and Kshs. 55 million respectively.

Exports to the regional COMESA market are detailed in table 5 below.

³ Uganda not included



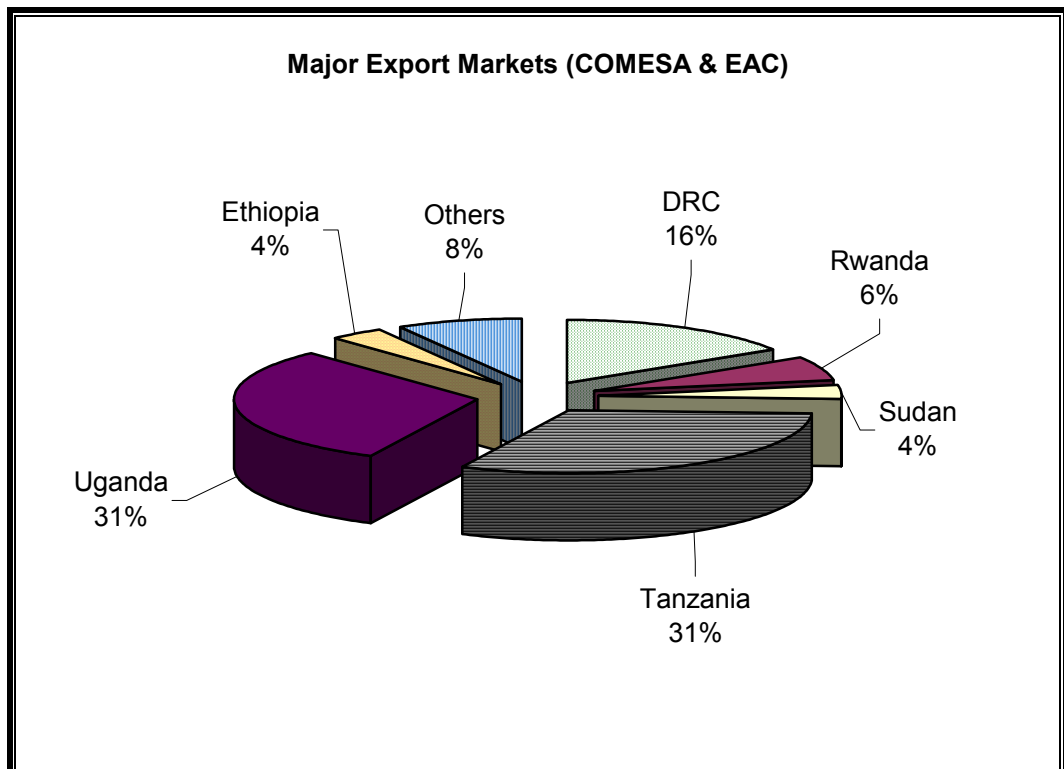
Table 5: Principal Domestic Exports to COMESA (Value in Kshs '000)

Commodity	Textile Yarn	Fabrics, Woven or Made	Made up Articles
Angola	-	-	11,643
Burundi	5,736	-	12,202
Comoros	-	-	6
DR Congo	47,815	95	188,192
Eritrea	-	-	21,397
Ethiopia	-	3,960	51,178
Malawi	16,652	2,972	9,371
Mauritius	7,557	2,265	-
Rwanda	12,118	793	74,885
Sudan	1,360	3,364	47,302
Zambia	-	-	10,687
Zimbabwe	10,792	-	2,880
Others**	3,998	11	1,210

Source: Statistical Abstract 2003 by Central Bureau of Statistics

The chart below shows total exports under Textile yarn, Fabrics woven & made and made up articles to the 2 regional blocs of EAC and COMESA. The total exports totaled Ksh.1.5 billion.

Chart 5: Exports to COMESA and EAC combined



Source: Statistical Abstract 2003 by Central Bureau of Statistics



3. The African Growth and Opportunity Act (AGOA)

The African Growth and Opportunity Act (AGOA) was signed into law in the US on May 18, 2000 as Title 1 of The Trade and Development Act of 2000. The Act offers tangible incentives for African countries to continue their efforts to open their economies and build free markets. AGOA provides reforming African countries with the most liberal access to the U.S. market available to any country or region with which the United States does not have a Free Trade Agreement. It supports U.S. businesses by encouraging reform of Africa's economic and commercial regimes, which will build stronger markets and more effective partners for U.S. firms.

AGOA extends duty-free and quota-free benefits to imports of a number of apparel items, and textile products used to make those goods, produced in eligible sub-Saharan African (SSA) countries. The Act has given the beneficiary sub-Saharan countries, Kenya included, a window period (2000 – 2007) to develop their own base for the textile raw materials, while allowing use of fabric and other materials on the apparel items from any part of the world (3rd country fabric provision).

AGOA also expands the list of products, which eligible sub-Saharan African countries may export to the US subject to zero import duty under the Generalized System of Preferences (GSP) – see below. While generally GSP covers approximately 4,600 items, AGOA GSP applies to more than 6,400 items. AGOA GSP provisions are in effect until September 30, 2015.

Two subsequent amendments have been done to the original AGOA act. The latest one was signed into law in July 2004, which extended preferential access for imports from beneficiary sub-Saharan African (SSA) countries until September 30, 2015; extended third country fabric provision for three years, from September 2004 until September 2007; and provided additional Congressional guidance to the Administration on how to administer the textile provisions of the bill.

Since its implementation, AGOA has encouraged substantial new investments, trade, and job creation in Africa. It has helped to promote sub-Saharan Africa's integration into the multilateral trading system and a more active role in global trade negotiations. It has also contributed to economic and commercial reforms, which make African countries more attractive commercial partners for U.S. companies.

Impact of AGOA on the Kenyan textile sector

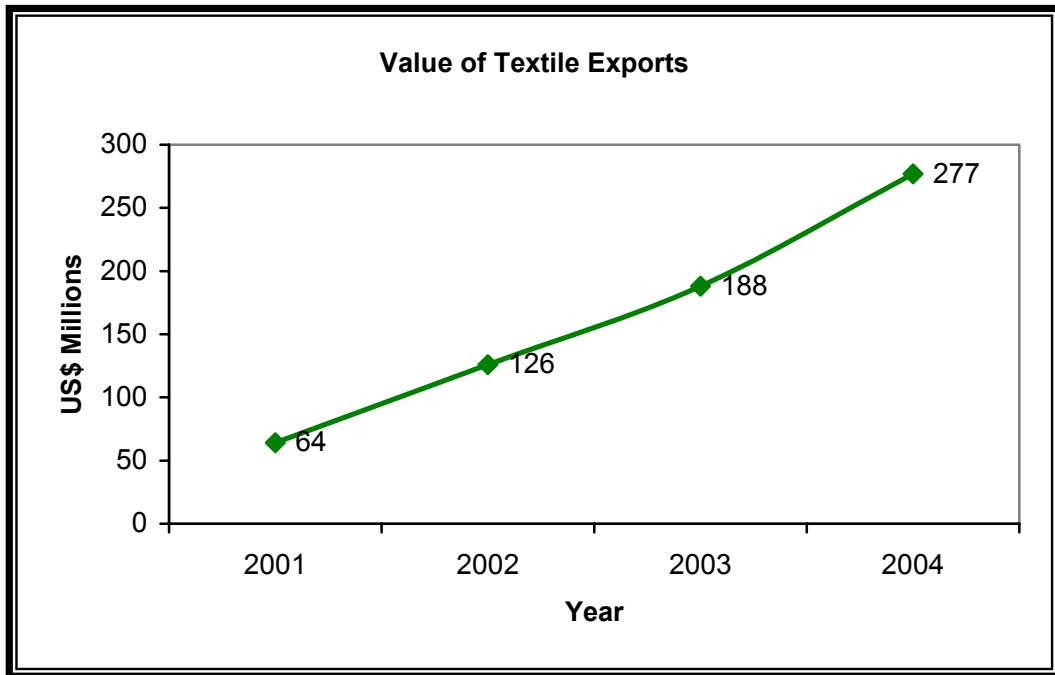
Kenya was the first African country to be accredited as an AGOA beneficiary in the sub-Saharan African region. The enactment of AGOA opened up an opportunity for growth and revival of the textile sector in Kenya.

The AGOA benefits brought foreign investors into the country particularly under the EPZ program, manufacturing apparel for export to the US market. Between year 2000 and year 2001, there was an increment of 183% in terms of number of apparel producers specifically for the US market, from 6 in 2000 to 17 in 2001, with a subsequent increment in terms of investment from Ksh.1.2 billion to 3.8 billion (approximately US\$ 15 to US\$ 47 million) an increment of 214%. Under AGOA, Kenya's exports to the US have increased from US\$ 45 million in 2000 to US \$277 million by 2004.

The rise in exports of textiles from Kenya to the US are summarized in chart 6 below.



Chart 6: Value of Textile Exports (Value in US \$ Millions)



Source: Office of Textile & Apparel, US - 2005

Of all sub-Saharan African countries that export textiles to the US under AGOA, the 6 main beneficiaries listed below constitute about 89% share of exports by volume and 91% by value as detailed in table 6 below.

Table 6: Share of AGOA Textile Trade by Sub-Saharan African Countries - 2004

Country	Million Square Metre Equivalent	% Share	\$ (Million)	% Share by Volume
Lesotho	111.128	24.1	455.643	24.3%
Kenya	73.396	15.9	277.327	15.6%
Madagascar	69.414	15.0	323.133	18.1%
Swaziland	61.469	13.3	178.712	10.0%
South Africa	57.362	12.4	163.864	9.2%
Mauritius	37.406	8.1	266.462	12.7%
Totals	410.175	88.8	1,625.141	91.2%

Source: Adopted from ACT Trade Report Vol. 8 No.2 (2005)

The total investment in the textile sector as of December 2003 is Kshs. 9.7 billion. Most of the large investment is in the EPZs with a few under the MUB scheme. The number of those who manufacture outside these two schemes can however not be ascertained.



Table 7: EPZ Garment Manufacturing Enterprises: Employment, Investment and Exports 2000-2003

Year	Number of firms	Number of employment	Investment Kshs (Billion)	Total export Kshs (Billion)
2000	6	6,487	1.2	2.3
2001	17	12,002	3.74	4.29
2002	30	25,288	6.90	8.15
2003	34	32,095	9.43	11.08
% Increase	17%	44%	41%	17%

Source: EPZA Annual Report 2003

According to statistics from the ministry of Trade and industry, there has been a steep rise in the level of employment since enactment of AGOA. In 2000 there were 10,000 jobs in the textile sector alone. This rose with the enactment of AGOA to form 15,000 in 2001, to over 37,000 in 2003. These are only direct jobs, more jobs are likely to have been created with the multiplier effect in areas like cotton fields, ginneries, suppliers of seeds and other farm inputs and other textile raw material suppliers.

The phase out of the Multifibre Agreement quotas and the threat brought about by anticipated shifting of orders by US buyers to China have, however, halted the growth and resulted in closure of a number of factories in 2004 and loss of about 5,000 jobs.

4. Generalized System of Preferences (GSP)

The GSP is a system whereby developed countries grant preferential treatment to eligible products imported from developing countries, so their exports would be competitive in the developed countries' markets. The preferential treatment is in the form of reduced import duty, and granted without reciprocal obligations on the part of the developing countries. The main preference giving countries under the GSP scheme are the US and the European Union. The lower tariffs or duty free entry make it attractive for importers in the donor countries to import from exporters in the beneficiary countries.

The Generalized System of Preferences (GSP) was negotiated under the auspices of UNCTAD (United Nations Conference on Trade and Development). The objectives of the GSP programme are to increase the export earnings of preference-receiving countries, promote their industrialization and to accelerate their rate of economic growth.

Kenya is a beneficiary country under the GSP scheme of preference and can enhance textile exports to the developed nations under this scheme. Exports to the US under this arrangement for the year 2004 totaled US\$ 6.79 million.

5. ACP / EU Cotonou Agreement

The Cotonou Agreement is a legal document that binds Europe and Africa in a long-term perspective. Both parties have committed themselves to promote the economic, cultural and social development of the ACP states as well as to a stable and democratic political environment.

The Cotonou Agreement reshapes substantially the relationship between the ACP group and EU countries: Member countries outside the EU currently enjoy non-reciprocal tariff preferences offered to the ACP countries by the EU. However, this will from 2008 on, be replaced by reciprocal Economic Partnership Agreements (EPA) in line with WTO rules.



Exports from Kenya entering the European Union are entitled to duty reductions and freedoms from all quota restrictions. Trade preferences include duty free entry of all industrial products and a wide range of agricultural products.

According to statistics available from the Central Bureau of Statistics, the principal export market for both wool and cotton (unprocessed) is the United Kingdom. In 2002, Kenya exported raw cotton and wool worth Kshs 16 million and Kshs 65 million respectively to the UK market alone as compared to raw cotton and wool worth Kshs 66 million and Kshs 49 million respectively to the rest of the world.

4 Legal and regulatory framework

The Textile and apparel sector is regulated under two ministries - Trade and Industry for trade issues and Ministry of Agriculture for cotton growing and irrigation schemes. The Cotton Board of Kenya (CBK) was formed under the Cotton Act Cap 335. The Act also provides for the promotion and regulation of cotton industry and for connected purposes.

The Cotton Board, which is currently inactive, was established to promote the cotton industry in Kenya as well as:

- To plan, monitor and regulate cotton growing and cotton ginning
- To license and control ginners and other persons dealing with cotton
- To regulate and carry out quality control of raw cotton and cotton ginning
- To regulate the export or import of cotton lint or cotton seed
- To advise the minister on the pricing of raw cotton
- To regulate and control the quality and supply of planting seeds through ginneries
- To carry out and promote research and development in cotton production and processing technology
- To provide training either on payment or without charge or co-ordinate training for nay sector of the cotton industry

The market has changed over the years and for this reason the Kenya government through the Ministry of Agriculture has prepared a bill which is currently before parliament that will change the Cotton Act and replace it with one that is more dynamic and responsive to the current market. This bill is awaiting debate in parliament to make it law.

The main export market for Kenya's textile and apparel is the United States through AGOA. This arrangement has strict rules of operation and exports entering the US have to go through a strict AGOA visa procedure. Under AGOA is a clause that requires that in order for countries to be eligible for apparel benefits, they must have in place an effective visa system to prevent illegal trans-shipment and use of counterfeit documentation, as well as effective enforcement and verification procedures. Procedures for obtaining the visa entail registration with Ministry of Trade & Industry and application to Customs Department through the Kenya Apparel Manufacturers & Exporters Association (KAMEA).

On the other hand, exports from Kenya to COMESA and EU require certificates of origin, which can also be obtained from Customs Department of the Kenya Revenue Authority.

5 Reasons to invest in Kenya

Kenya is an ideal investment location for the textile industry as supported by various investor friendly factors that include:

- Ready farming community that only requires enough seeds and irrigation schemes to be put in place



- Good research stations and facilities to carry out research on cotton seeds, fibres and different varieties that can be introduced into the country e.g. Kenya Agricultural Research Institute (KARI) and Kenya Industrial Research and Development Institute (KIRDI)
- A vibrant manufacturing sector to absorb all the cotton produced that range from ginneries all the way to garment manufacturing
- Quality control bodies to maintain high standards like Kenya Bureau of Standards (KEBS) and Kenya Plant Health Inspectorate Service (KEPHIS)
- A bill to establish a new body (Cotton Development Authority) to replace Cotton Board of Kenya is already before parliament. This bill is expected to address the shortcomings of the previous Act and to be more responsive to the current scenario
- Kenyan climatic conditions are ideal for cotton growing as cotton does well in semi arid areas, which Kenya has in abundance
- There is ample land for cotton growing i.e. over 2 million hectares. Current acreage under crop is only 25,000 hectares
- The Kenyan population is currently at 31 million and growing. This provides a ready local market for textile and apparel products
- There is a seaport at Mombasa, which is linked to the mainland by rail and the great North Road for ease of transportation of bulky cargo

Other additional advantages include:

- *Strategic location*
Located on the East African coast and having the port of Mombasa, Kenya is strategically located for investors wanting to access the East and Central African market. Kenya is also a regional hub for airlines allowing for easy access from and to any part of the world.
- *Access to the preferential market*
Exports from Kenya enjoy preferential access to world markets under a number of special access and duty reduction programs. These include: East African Community, Common Market for Eastern & Southern Africa (COMESA), European Union-African-Caribbean-Pacific (EU-ACP) Cotonou Agreement, Generalized System of Preferences (GSP) and African Growth & Opportunity Act (AGOA).
- *Labour availability*
Kenya has abundant and relatively well-educated population; therefore skilled and unskilled labour is readily available at reasonable rates.
- *Stable political climate*
Kenya has been one of the very stable countries in Africa since independence. The country has had three presidents with smooth transition taking place from one government to the next and peaceful elections held regularly. This is also manifested in the number of international and regional organizations headquartered in Nairobi including the UN, IGAD etc.
- *Investor friendly arrangements*
The Kenya government can guarantee investor friendly arrangements such as:
 - the Export Processing Zones (EPZ) program which offers attractive incentives to export-oriented investors and EPZ Authority to provide one-stop-shop service for facilitation and aftercare
 - the Investment Promotion Centre (IPC) to promote all other investment in Kenya including in Manufacturing under Bond (MUB) program
 - the Tax Remission for Export Office (TREO), a program for intermittent imports for export production
 - Generous investment and capital allowances
 - Double taxation, bilateral investment and trade agreements



- **Investment insurance**

The Constitution of Kenya provides guarantees against expropriation of private property. In addition, capital repatriation, remittance of dividends and interest are guaranteed to foreign investors under the Foreign Investment Protection Act (FIPA) (Cap 518).

Kenya as a member of MIGA (Multilateral Investment Guarantee Agency) provides investors with an opportunity to insure their investment in Kenya against a wide range of non-commercial risks. Kenya is also a member of the African Trade Insurance Agency (ATI), a multilateral export credit and political risk agency for COMESA member states as well as the International Council for Settlement of Investment Disputes (ICSID).

6 Investment Opportunities

Opportunities for investment in the textile and related industries in Kenya abound and include:

- Cotton growing – it is estimated that over 400,000 hectares of land is suitable for cotton growing and presently only 24,955 hectares is under cotton. The current production of cotton is about 20,000 bales compared to demand by local mills of 90,000 bales annually. There is also an investment opportunity in cottonseed multiplication.
- Cotton ginning – the country has an installed capacity of ginning of about 140,000 bales per year. Currently, the ginning capacity utilization is 14%. If these ginneries were up and functional even at 50% utilization, this would give rise to other related industries such as cooking oil extraction, animal feed processing etc.
- Revival, development and or rehabilitation of some of the already closed textile mills involved in spinning and weaving for local and export markets e.g. Rivatex, Raymond Mills and investment in joint ventures in areas like modernization of very old ginneries and textile mills.
- Spinning – the yarn installed production capacity is 30,000 metric tonnes. However, the actual annual production is 20,000 metric tonnes.
- Weaving and knitting – the local production of woven fabrics in the year 2001 was 15.5 million sqm compared to a local demand of about 29 million sqm the same year. The balance is imported. Furthermore, AGOA 3rd country fabric provision requires that SSA countries utilize local fabric starting October 2007.
- Garment accessories – the local production of garment accessories (zippers, buttons, etc) is very limited in terms of variety and quality. Currently, most of the garment manufacturers import their accessories. The current number of pieces of garments exported in 2001 was about 20 million pieces by the end of 2003.
- Services – with setting up of apparel manufacturing factories, opportunities have arisen to provide the following services: buying houses, brokerage services, export marketing, training etc.
- Secondary industry – There exist opportunities in secondary industry e.g. cooking oil, soaps, animal feeds and other cotton by-products.

7 Useful Contacts

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Telposta Towers
Kenyatta Avenue
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8 Sources of information & glossary

- Ministry of Trade & Industry – Department of External Trade – www.tradeandindustry.co.ke
- Export Processing Zones Authority (EPZA) – www.epzakenya.com
- Investment Promotion Centre (IPC) – www.investmentkenya.com
- Kenya Institute of Public Policy Research & Analysis (KIPPRA) – www.kippira.org/resources/abstract1.asp?
- United States International Trade Commission – www.ustc.org
- Office of Textiles & Apparel - <http://otexa.ita.doc.gov>
- World Trade Organisation – www.wto.org
- United States International Trade Commission – www.usitc.gov



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Appendix 1

List of Garment Manufacturing Companies Under EPZ Program

	COMPANY	PRODUCT	LOCATION
1	Alltex EPZ Ltd.	Pants	Athi River
2	Apex Apparels EPZ Ltd.	Pants, Shorts	Nairobi
3	Ashton Apparel EPZ Ltd.	Ladies & Gents Pants	Nairobi
4	Baraka Apparels EPZ Ltd.	Jeans, Pants, Shorts	Nairobi
5	Birch Investment EPZ Ltd.	Shirts, Shorts, Jeans, Pants	Mombasa
6	BlueBird Garments (K) EPZ Ltd.	Pants / Jackets / Jeans	Mombasa
7	California Link EPZ Ltd.	Pant, Dress, Shorts, Shirts, Pullovers	Mombasa
8	Chandhu EPZ Ltd	Men, Ladies, Children Wear	Mombasa
9	Global Apparels Kenya EPZ Ltd	Pants, Shorts	Athi River
10	JAR Kenya EPZ Ltd.	Jeans, Shorts	Nairobi
11	Kapric Apparels EPZ Ltd.	Shirts, Shorts, Jeans, Pants,	Mombasa
12	Kenya Knit Garments EPZ Ltd.	Jackets, Tops, Sportswear	Mazeras
13	Mega Garments Industries (K) EPZ Ltd.	Means, Ladies & boys wear	Mombasa
14	Mirage Fashion Wear EPZ Ltd.	Shirts, Pants	Athi River
15	MRC Nairobi EPZ Ltd.	Pants	Athi River
16	Protex EPZ Ltd.	Tops, Jackets, tracksuits, shorts	Athi River
17	Rising Sun	Pants, shorts	Athi River
18	Rolex Garments EPZ Ltd.	Pants, Jeans, Shirts	Athi River
19	Sahara Stitch EPZ Ltd.	Pants, Jeans	Nairobi
20	Senior Best Garments (K) EPZ Ltd.	Pants, Pullover, Jackets, (Knit garments)	Mombasa
21	Shin Ace Garments (K) EPZ Ltd.	Men, ladies, Children wear	Mombasa
22	SinLane EPZ Ltd.	Knit tops, knit pants, Jackets, vests	Mombasa
23	Sino Link EPZ Ltd.	Knitted Pants, T-shirts, blouse	Mombasa
24	United Aryan EPZ Ltd.	Pants, Shorts	Nairobi
25	Upan Wasana EPZ Ltd.	Pant, Blouse, dresses, shirts, Jackets, Pullover	Nairobi
26	Wild Life Works Ltd.	Garments (T-shirts)/ Industrial buildings for lease to investors	Voi

Source: EPZA 2005

Appendix 2

List of Garment Manufacturing Companies Under MUB Scheme

	Company	Classification	Location
1	Apparel Africa Ltd	Manufacture garments	Mombasa
2	Apparels Trading Co Ltd.	Manufacture of apparel	Nairobi
3	Bedi Investments (Export) Ltd	Manufacture textiles/garments	Nakuru
4	Binti Apparels Limited	Market & export of woven & none woven garments	Nairobi



5	Blue Plus Ltd	Manufacture and export of garments	Nairobi
6	Crown Fashions Ltd	Manufacture of garments	Nairobi
7	Eagle Apparel Export Ltd	Manufacture of apparel	Nairobi
8	Emke Garment Kenya Pv Limited	Manufacture of garments	Mombasa
9	Equator Apparels Co. Ltd	Manufacture of garments for export	Nairobi
10	Excel Clothing	Manufacture of apparel	Nairobi
11	Falcon Apparel Exporters Ltd	Manufacture of garments	Nairobi
12	Freba International Mall Ltd	Manufacture of textiles	Nairobi
13	Garment label Manufacturers Ltd	Manufacturing of Garment labels	Nairobi
14	Heritage Woolen Mills Ltd	Manufacture of textiles	Eldoret
15	Kibingo Textiles Ltd	Manufacture of garments	Kerugoya
16	Leena Apparel Ltd	Manufacturing of garments	Nairobi
17	Manchester Apparels Ltd	Manufacturerers of apparel	Nairobi
18	Maridadi Apparels Ltd	Manufacture of apparel	Nairobi
19	Mash Apparels Kenya Ltd	Manufacture of apparel	Nairobi
20	Mega Spin Ltd	Manufacture of textile	Nakuru
21	Res Apparels Ltd	Manufacture of garments for export	Nairobi
22	Riziki Manufacturers Ltd	Garment exporters	Nairobi
23	Sankam Textiles Ltd	Manufacture garments	Nairobi
24	Sethi Fabric Ltd	Manufacture of garments for export	Nairobi
25	Storm Apparel Manufacturers Ltd	Manufactures apparel	Nairobi
26	Tana Apparels Ltd	Manufacture garments	Nairobi
27	Teleworld Industries Ltd	Manufacture shirts for export	Nairobi
28	Triaco Fine Textile Products	Making garments	Nairobi
29	Zawadi Apparels Ltd	Manufacture and export of garments	Nairobi

Source: Investment Promotion Centre 2005

Appendix 3

Textile Mills in Kenya

	Company	Product	Locations
1	Afro Spin Ltd	Cotton/synthetic fibres, spinning & weaving	Nakuru
2	Alpha Knits Limited	Sweater, Socks, Stockings, Knitting Yarns, Kikois, Masai Shukas, Baby Shawl, Baby Blankets, Blankets	Thika
3	Bedi Investments Ltd	Textile Mill: Manufacturer of woven fabrics, Spinning, Weaving, Dyeing, Finishing and Garments	Nakuru
4	Bhupco Textiles Mills Ltd	Cotton / Synthetic fibres spinning & weaving	Thika



5	Fine Spinners Ltd	Sewing thread, Cotton yarn, polyester yarn, Blended yarn, Embroidery thread etc	Nairobi
6	Hercules Mills Ltd	Knitted fabrics	Nairobi
7	Heritage Woolen Mills	Knit, Textile Mill: manufacturer of woven fabrics	Eldoret
8	Jaydees Knitting Factory Ltd	Knitting & Textile Manufacturer	Nairobi
9	Kamyn Industries Ltd	Textile Manufacturer	Mombasa
10	Ken Knit	Textile Manufacturer	Eldoret
11	Kifaru Textile Mills	Textile Mill: Manufacturer of woven fabrics	Thika
12	Kisumu Cotton Mills	Textile Mill: Manufacturer of woven fabrics	Nyanza
13	Lamsons Industries Limited	Blankets, Baby Shawls, Kikois	Nakuru
14	Londra Limited	Yarn and Woven Fabrics (Suiting, Bed Sheeting, Dress Fabrics)	Nakuru
15	Mega Spin Ltd	Hand knit yarn and blankets, cotton / synthetic fibres spinning and Weaving	Nakuru
16	Midco Textiles (EA) Ltd	Knitted Cotton Fabrics and Garments (Blue Line Underwear's & T-Shirts and Manhattan Shirts)	Nairobi
17	Mombasa Towel Manufacturers Ltd	Cotton Yarn, Absorbent Hotel and embossed Towels, Baby Nappies and Dyed Water Proof and tough canvas	Mombasa
18	Mount Kenya Textiles Ltd	Woven fabrics – cotton / synthetics	Nanyuki
19	Nakuru Fibres Ltd	Polyester Textured yarns/Cotton Yarns	Nakuru
20	Nakuru Industries Ltd	Textile Manufacturer, Blankets	Nakuru
21	Nanyuki Spinners & Weaving	Yarns and Fabrics	Nanyuki
22	Nyali Textiles Mills	Textile Manufacturer	Mombasa
23	Nyanza Spinning and Weaving Mills (MOUNTEX)	Cotton / Synthetic fibres spinning and Weaving	Nanyuki
24	Premier Knitwear Ltd	Garments and Textiles Products	Nairobi
25	RIVATEX	Textile Mill: Manufacturer of woven fabrics	Rift Valley
26	Rupa Cotton Mills EPZ Ltd	Cotton Yarn Manufacturer, Cotton Fibres Spinning: Yarn	Athi River EPZ
27	Shawaz Textile Mills	Textile Mill: Manufacturer of woven fabrics	Nairobi
28	Silver Star Manufacturers Ltd	Bra, Elastic Narrau Fabric, Lingerie, Knitted Fabric, Tie	Nairobi
29	Spin Knit Limited	100% Acrylic Hand Knitting Yarn, Blankets, Woven products Sweater - 100% Acrylic - School and Casual, Kikoi	Nakuru
30	Spinners & Spinners Ltd	Cotton / Synthetic fibres spinning and Weaving, Blankets, Knitwear	Ruiru
31	Summit Fibres Ltd	Yarns and Fabrics, Polyester Yarns, Knitted Fabrics, Mosquito Nets	Mombasa
32	Sunflag Textile & Knitwear Mills Ltd	Cotton / Synthetic fibres spinning and Weaving, Yarn, Fabric, Garments	Nairobi
33	Thika Cloth Mills Ltd	Textile Mill: Cotton and Blended Yarns, Fabric & Manufacturer of woven fabrics	Thika
34	TSS Spinning & Weaving Ltd	Cotton Yarns and Fabrics, Canvas used for making tents, Tarpaulins, Travelling bags, School Bags	Athi River
35	United Textile Industries Ltd	Cotton / Synthetic fibres spinning and Weaving	Nairobi

Source: www.cottonafrica.com 2004 & the Official Yellow Pages of the Kenya Telephone Directory 2004
Non – operational Mills (KICOMI, Heritage, RIVATEX and MOUNTEX)



Appendix 4

Other Textile Related Industries under EPZ

	Company	Product / Activity	Locations
1	Maximus EPZ Ltd	Embroidered & screen print ed apparel	Mombasa
2	Match Point Kenya Ltd	Buying agent	Nairobi
3	Forum International	Washing chemicals	Mombasa
4	Texa Care Africa EPZ Ltd	Washing chemicals	Mombasa
5	Middle East Texco EPZ Ltd	Washing chemicals	Mombasa
6	YKK Kenya EPZ Ltd	Zip fasteners	Mombasa
7	Hong Kong Garments (K) EPZ Ltd	Garment accessories	Nairobi
8	Premium Machinery EPZ Ltd	Sell & servicing of sewing machines	Nairobi
9	Al-borj Kenya EPZ Ltd	Sell & servicing of sewing machines	Nairobi

Source: EPZA -2005

Appendix 5

Cotton Ginners in Kenya

	Company	Product / Activity	Locations
1	Africot East Africa Ltd	Cotton Ginnery	Malakisi / Bungoma
2	Agribusiness Development Consortium	Cotton growers & Ginning association member	Kitale
3	Amukura Ginners Ltd	Cotton Ginnery	Amukura / Busia
4	Asego Holdings Ltd	Cotton Ginnery	Homa Bay
5	Bulemia Oils Mills	Cotton Seed Oil Processing	Western
6	F.B. Gudka Ltd	Cotton Ginnery	Kisumu
7	Gaitu Ginnery	Cotton Ginnery	Embu District
8	Hola Ginners	Cotton Ginnery	Hola – Coast Province
9	Kenya Cotton Industry Ltd	Cotton Ginnery	Angurai Ginney – Malakisi
10	Kerio Farms Ltd	Cotton Ginnery	Salawa / Kerio Valley
11	Kibos Ginnery F.B. Limited*	Cotton Ginnery, Oil Extraction, animal feeds extraction & soap processing	Kisumu
12	Kitui Ginners Ltd	Cotton Ginnery	Kitui
13	Lamu Cotton Growers Ltd	Cotton Growers	Lamu
14	Malakisi Ginnery	Cotton Ginnery	Bungoma District
15	Makueni Ginners Ltd	Cotton Ginnery	Makueni
16	Malindi Ginners Ltd	Cotton Ginnery	Malindi
17	Meru Farmers Ginnery Ltd	Cotton Ginnery	Meru
18	Mpeketoni Ginnery	Cotton Ginnery	Mombasa
19	Muluanda Ginnery	Cotton Ginnery	Teso District



	Company	Product / Activity	Locations
20	Mwea Ginnery	Cotton Ginnery	Kirinyaga District
21	Nyanza Ginnery Ltd*	Cotton Ginnery	Kisumu
22	Tharaka Ginnery*	Cotton Ginnery	Tharaka Nithi District
23	Ugenya Lint Processing	Lint Processing	Kisumu
24	Voi Industries Ginnery	Cotton Ginnery	Nakuru

Source: Ministry of Trade & Industry 2004

- Some of the privately owned ginneries