

INTEGRATING KENYA'S MICRO AND SMALL FIRMS INTO LEATHER, TEXTILES AND GARMENTS VALUE CHAINS:

Creating jobs under Kenya's Big Four agenda

May 16, 2019



WELCOME AND INTRODUCTION

- The Big Four agenda aims to achieve industrialisation through a range of actions, including the expansion and creation of economic zones and industrial clusters
- This study aims to support the Ministry of Industry, Trade and Cooperatives, and the Executive Office of the President by suggesting ways to better integrate leather, textiles and garments MSMEs into value chains, economic zones and industrial parks.
- The research draws on secondary literature and in-depth primary interviews with more than 40 stakeholders across the leather, textiles and garments value chains. It follows consultations including a [roundtable event in July 2018](#).

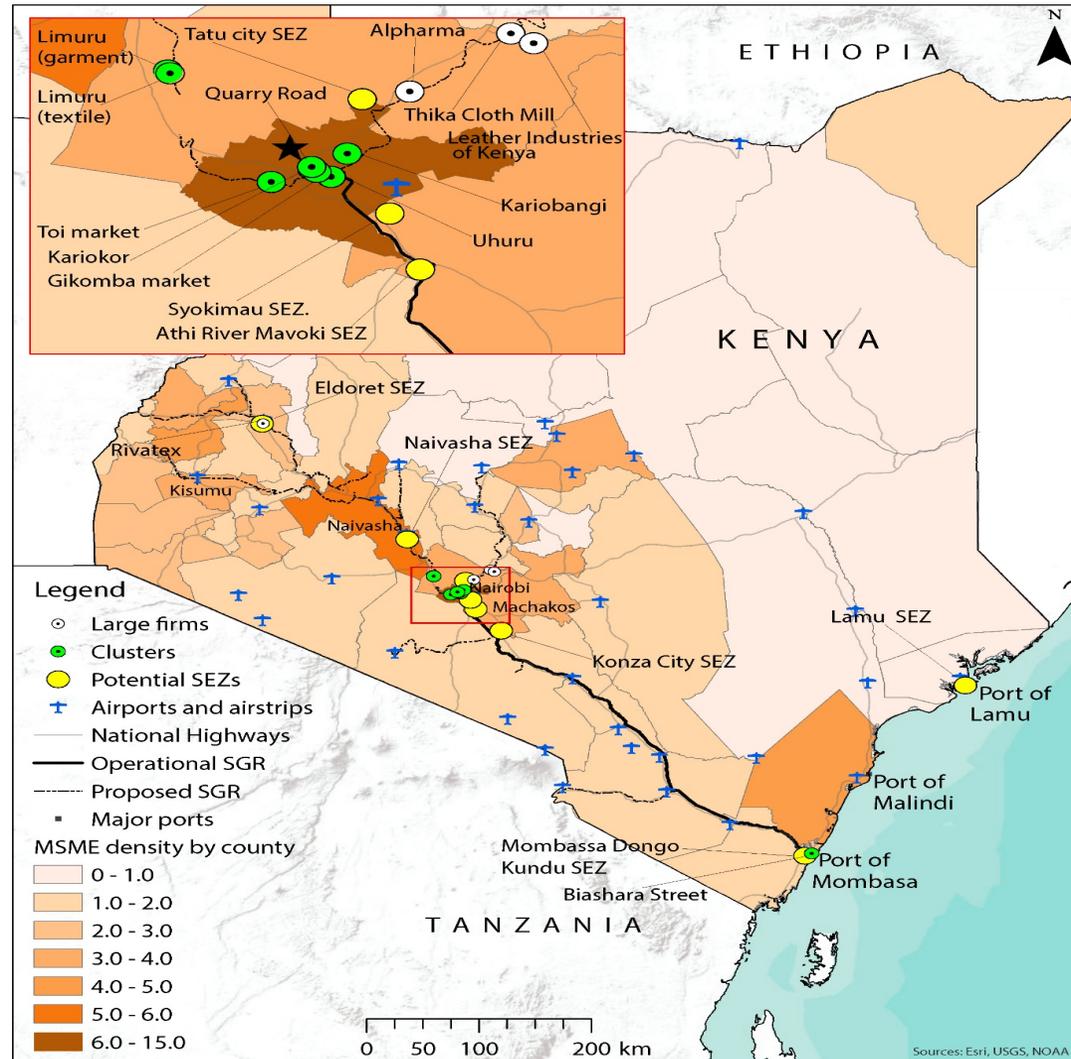
REPORT SUMMARY

- Discusses the role of MSMEs in Kenyan manufacturing and job creation
- Analyses pathways for integrating MSMEs into value chains and economic zones and strengthening clusters
- Develops a baseline of MSME capabilities, constraints and pathways of participation in leather, textiles and garments value chains and zones, using primary data
- Presents key policy measures crucial for supporting MSMEs and value chains; and
- Highlights three practical steps forward.

MSMES ARE A KEY FACTOR BEHIND INDUSTRIALISATION AND EMPLOYMENT IN KENYA

- MSMEs constitute approximately 80% of Kenyan businesses and together employ close to 14.9 million
- Approximately 7.4 million MSMEs in Kenya collectively contribute about a third of the country's GDP
- The manufacture of wearing apparel (41.6% of licensed MSMEs or 72,602 firms) is key manufacturing activities undertaken by MSMEs.
- Only around 1% of MSMEs are involved in leather-related and textiles manufacture
- Almost 90% of firms in textiles, wearing apparel and leather manufacture are categorised as 'micro', and only 10% of leather-producing firms are categorised as medium-sized

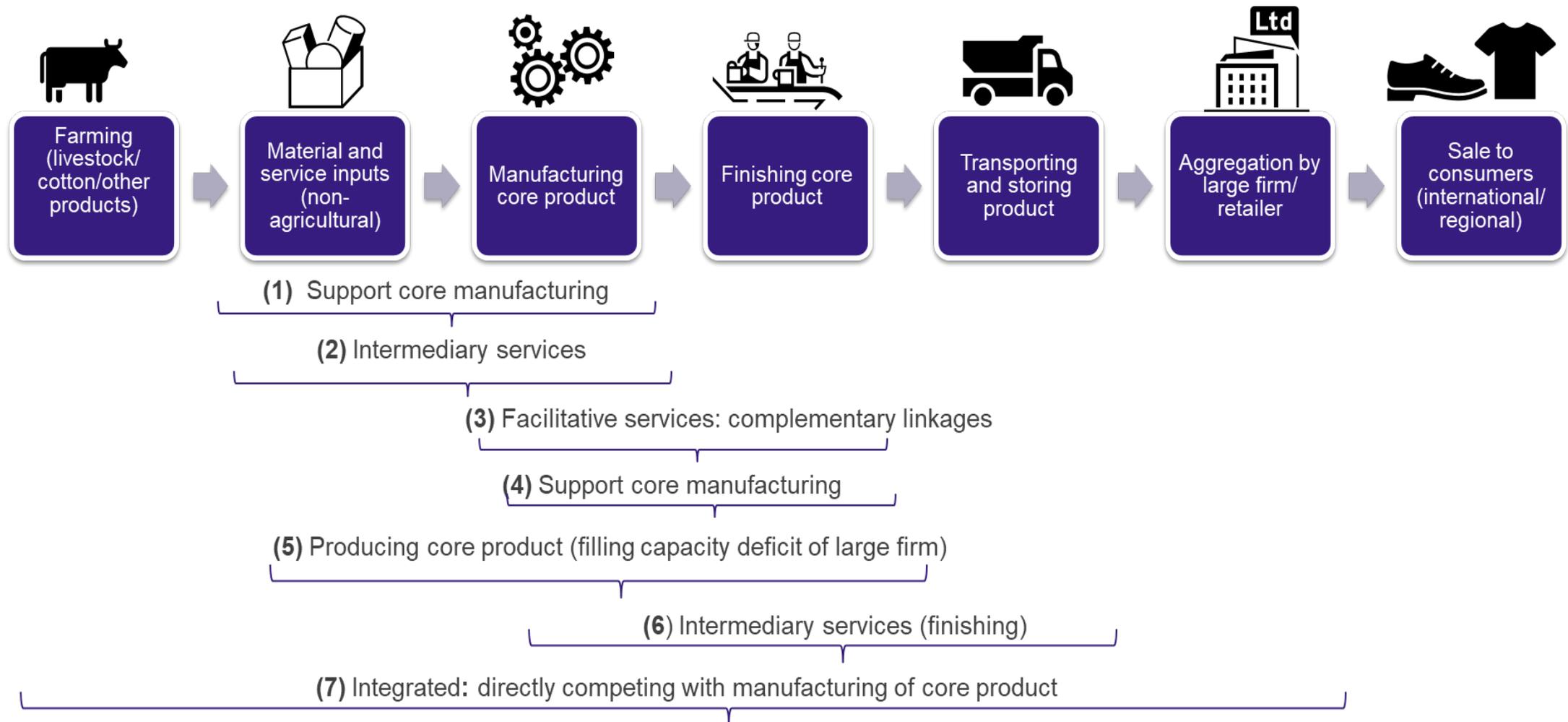
MAP OF ECONOMIC ZONES, MSMES AND LEATHER AND GARMENT CLUSTERS IN KENYA



PATHWAYS FOR INTEGRATING MSMEs INTO VALUE CHAINS

- There are seven conceptual pathways through which MSMEs can link into value chains:
 - *backward linkages* (supporting manufacturing of core parts required for intermediary products (1); providing intermediary services (2))
 - *complementary linkages* (facilitating services not directly linked to manufacture of the product (3))
 - *forward and logistical linkages* (manufacturing part of the final product (4); producing the core product (5); offering finishing services (6))
 - *integrated linkages* (where MSMEs have relatively integrated backward and forward linkages and compete with large firms (7)).

PATHWAYS FOR INTEGRATING MSMES INTO VALUE CHAINS



Characteristics and existing pathways of MSMEs in value chains

	Characteristics of MSMEs in the value chain	Pathways of MSMEs in value chains
Leather	Most of the MSME capabilities range from low to medium as the focus is on backward linkages; tasks are not very complex and there are low levels of mechanisation.	<ul style="list-style-type: none"> 1: Slaughtering and skinning 1: Tanning raw hides 2: Livestock brokers and agents for wet-blue 3: Performing cleaning services and providing food 4: Producing upper soles for shoes and stitching of shoes, and other accessories 6: Fast fashion design capabilities, for local, regional and international markets 7: Competition (e.g. with Kariokor cluster) 7: Producing and exporting leather
Textiles	MSMEs perform relatively low value-added and low-complexity work, and lack capacity to be subcontractors. They primarily perform tasks such as intermediary services (brokers, transport) and basic finishing work.	<ul style="list-style-type: none"> 1: Cotton farming and coffee husk for boilers 1: Cotton input providers, such as of pesticides, seeds 2: Cotton brokers 2: Road transport and water supply services 3: Cleaning the factory floor and amenities 4: Dyes, chemicals for fabric finishing 4: Handlooms and embroidery 6: Supplying road transport
Garments	Tasks are low-capability and low-complexity, as MSMEs have limited capacity to design and brand products where more value-addition is possible.	<ul style="list-style-type: none"> 2: Fabric import services 3: Cleaning the factory floor and amenities 4: Manufacturing local accessories 5: Subcontracting 6: Designing and branding for artisanal goods 6: Supplying road transport 7: Competition

CONSTRAINTS TO MSME INTEGRATION

- **General**

- Lack of information
- MSME support systems: Technology, technical and business skills
- Access to finance

- **Textiles Sector**

- Low yields of cotton production
- Improper agronomic practices
- Use of obsolete technologies in spinning and yarn formation

- **Garments Sector**

- Rise of cheap and illegal imports
- Lack of technology to carry out routine tasks such as cutting
- Lack of local capacity and skills to perform higher value-added work
- Uneven playing field that supports the growth of large players

Leather Sector

- Poor quality of hides and skins
- Lack of hygiene in slaughterhouses
- High cost of power
- High import tariffs
- Dependence on old technology

POLICY MEASURES CRUCIAL FOR SUPPORTING MSMES AND VALUE CHAINS

- Provision of information along the value chain (business advisory, knowledge management support)
- Strengthening clusters through improving access to finance, technology, business management skills and technical skills, by encouraging partnerships with incubator and accelerator programmes that better integrate them into value chains and economic zones
- Safeguards against illicit trade
- Provision of economic fundamentals such as infrastructure, skills and finance (e.g. through incubator and accelerator services, MSE Fund-and others)
- Promotion of market access
- Enhancement of existing dedicated institutions such as MSEA and KIE

CRUCIAL ROLE OF MIOTC IN STRENGTHENING THE ROLE OF MSMEs IN LEATHER, TEXTILES AND GARMENTS VALUE CHAINS

- Continue policy reviews and reforms to promote inclusivity of MSMEs
- Establish the MSME digital portal, which will host a database of MSME profiles that will provide a basis for credit- and trust-rating to facilitate de-risking and improve access to funding. MOITC requires support in collating all relevant data and information on the value chains sought by MSMEs
- Finalise the MSME financing policy, which seeks to establish a Credit Guarantee Scheme and to operationalise the MSE fund, which is provided for under the MSE Act
- Strengthen institutions dealing with MSEs – that is, MSEA and KIE.

THE ROLE OF COUNTY GOVERNMENT IN SUPPORTING MSMEs

- Under the devolved government structure, county governments have their own initiatives targeting MSMEs , which complement efforts by national government
- County governments are fairly independent, and thus vary in terms of the extent of support deployed to MSMEs as well as the approach used.
- In order to more effectively harness county capabilities towards MSME development, the following measures will be important:
 - development of a framework by MOITC in consultation with county governments to ensure more effective coordination and complementarity in efforts to target MSMEs. This may include the development of a list of priority MSME value chains for each county
 - better engagement by county governments on land under their ownership that could be assigned to county MSME initiatives
 - a stronger role for counties in providing marketing opportunities, such as organising trade fairs for MSMEs.

WHAT NEXT?

- Restructure MSME support structures such as MSEA by feeding into current reviews by the Government of Kenya
- Introduce/ strengthen more and better-dedicated incubator and accelerator programmes such programmes provided by KIE
- Involve county governments: Develop a framework for engagement with and by county governments in coordination with MOITC and private sector actors.



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