Gatsby Africa

Textile and Apparel industry in East Africa

Policy Benchmarking Report

Textiles & Apparel

March 2022

TEXTILE AND APPAREL INDUSTRY IN EAST AFRICA

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List of Abbreviations

Abbreviation	Description
AFCFTA	African Continental Free Trade Agreement
AGOA	African Growth Opportunity Act
APTA	Asia-Pacific Trade Agreement
ATUFS	Amended Technology Upgradation Fund Scheme
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
CEPA	Comprehensive Economic Partnership Agreement
CIF	Cost, Insurance and Freight
COMESA	Common Market for Eastern and Southern Africa
DBE	Development Bank of Ethiopia
DEDO	Duty Exemption Drawback Organization
EAC	East African Countries
EBA	Everything But Arms
EDB	Export Development Board
EPZ	Export Processing Zone
EPZA	Export Processing Zone Authority
ETGAMA	Ethiopian Textile and Garment Manufacturing Association
ETIDI	Ethiopian Textiles Industry Development Institute
ETP	Effluent Treatment Plant
FDI	Foreign Direct Investment
FOB	Free On Board
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
MAI	Market Access Initiative
MDA	Market Development Assistance
MSME	Micro, Small & Medium Enterprises
NEMA	National Environmental Management Agency
SADC	South African Development Community
SEZ	Special Economic Zone
SITP	Scheme for Integrated Textile Park
VAT	Value Added Tax
ZLD	Zero Liquid Discharge

1. Introduction

Gatsby Africa (GA) is a private foundation set up by Lord David Sainsbury, with a long history of engaging in East Africa across government, business and society. We are committed to building stronger inclusive economies in East Africa through the transformation of key sectors, working in partnership to catalyse and demonstrate sector transformation across the region.

Whilst economies in East Africa have enjoyed high growth for more than a decade, the benefits of that growth have not been shared widely. With millions of young people joining the labour market each year and climate change adding further pressures, East Africa urgently needs economic transformation -

> ...high-potential sectors can be transformed to benefit many hundreds of thousands of households for the long-term

growth with depth that will radically change economies, rapidly create jobs and offer large numbers of people pathways out of poverty.

We aim to support this by demonstrating how high-potential sectors can be transformed to benefit many hundreds of thousands of households for the long-term. We fund and implement programmes that look to catalyse and influence large-scale and lasting change in priority sectors. We also share what we are learning with others - such as governments and donors - who share our goals.

The Textiles & Apparel portfolio at Gatsby Africa strives towards developing a resilient, inclusive, environmentally, and socially sound Textile and Apparel value chain in East Africa contributing to the creation of 150,000 jobs.

Textile and Apparel Industry Benchmarking Report

The benchmarking project aims at assessing key industry conditions and constraints across the identified East African countries (Kenya, Rwanda, Uganda and Tanzania) in order to understand the interventions required for the growth of the textile and apparel sector in these countries. The study also benchmarks the East African countries with some selected Asian countries of Bangladesh, India and Sri Lanka considering they have more developed textile and apparel value chains. Ethiopia is also included in the Benchmark, considering it is part of the larger East Africa and has been implementing an ambitious Industrial Transformation Programme with a special emphasis on the Textile Industry. Such an analysis would help understand the growth roadmap of these countries and the interventions that have made this growth possible.

The first deliverable of the study was related to country benchmarking in terms of country economics, infrastructure, production scenario, factor costs and licenses. In continuation of that, this report aims to compare the policies available in these countries on the basis of the following factors:

- Fiscal Incentives
- Non-Fiscal Incentives
- Market Access Arrangement

Apart from this, the report also contains a section on buyers' feedback, which highlights the current sourcing scenario from the East African Countries, the challenges they face and their recommendations for the growth of the sector in these countries.

Methodology

Majority of the information in this report has been extracted from the respective countries' Investment Promotion Agencies publications and websites, along with international benchmarking reports.

Some of the information has been obtained from direct feedback from the industry experts and authoritative resources.

> The benchmarking report highlights key industry conditions and constraints across the identified East African Countries

2. Fiscal Incentives

Fiscal incentives are monetary benefits provided to companies or individuals to encourage actions in a desired segment such as investment in a thrust sector. These incentives include capital grants, tax benefits, interest subsidy, skill development subsidy, etc.

All the countries have attractive fiscal incentives. However, India and Ethiopia stand out with additional incentives targeting the

Table 1 - Benchmarking Fiscal Incentives

	Description
Capital Subsidy	Under this subsidy, the government or any organization provides grants or easy credit to cover a share of the upfront capital cost of an asset such as building cost, machinery cost, etc.
Kenya	N/A
Tanzania	50% capital allowances in the first year of use for Plant and Machinery.
Rwanda	Matching grant fund of up to 50% of total project cost, not going beyond US$100,000 in funding.
Ethiopia	Lease financing where bank provides financing for machinery at a reduced initial capital expenditure on a pay as you go scheme.
Uganda	
India	1. Central govt. provides capital subsidy under ATUFS on machinery: 15% in garmenting and technical textile, and 10% in weaving knitting, processing, jute, silk, and handloom sector, up to US$ 4.3 million. 2. Several state governments also provide capital subsidy on plant & machinery up to 70%.
Bangladesh	N/A
Sri Lanka	Enhanced capital allowances of 100-200% of the expenses incurred on depreciable assets depending on the province. Capped between periods of 10-25 years.
Interest Subsidy	Under this subsidy, the government or any organization provides deductions in the interest payments that a company pays for an approved debt. With this aid, the companies or individuals get loans at lower interest rates as compared to prevailing market rates.
Kenya	N/A
Tanzania	N/A
Rwanda	Investment Catalyst fund: Subsidized loans at 10% interest per annum to encourage private sector investments in exports
Ethiopia	Provision of subsidized loan provided highest debt to equity ratio for project finance to domestic manufacturers located: a) In industrial parks - 85%:15% b) Outside industrial parks - 75%:25%
Uganda	Exemption of tax on international Payment of interest on debentures issued outside Uganda. Debentures must be issued outside Uganda for the purpose of raising a loan outside Uganda
India	Various state governments provide interest subsidy of up to 8% for 5 to 7 years.
Bangladesh	N/A
Sri Lanka	N/A
Duty Drawback	Under this subsidy, the government or any organization provides refund of custom and excise duties or any embedded taxes paid on raw materials and service tax paid on the input services used in the manufacture of export goods.
Kenya	1. EPZ companies: Duty exemption on raw materials. 2. Outside EPZ: Duty exemption on raw materials only if exporting outside EAC (Duty paid on importation and redeemed during exports)
Tanzania	Import duty drawback on raw materials used to produce goods for exports and deemed exports. Deemed exports cover locally produced or manufactured goods, which are sold to foreign agencies or entities operating in Tanzania, which are exempt from payment of import duties.

	Description
Rwanda	100% duty free importation of inputs and raw materials including machinery for import and export business.
Ethiopia	100% duty free importation of inputs and raw materials including machinery for export business. Exemption from customs duties and other taxes (VAT, sur tax, withholding and excise tax) on imported capital goods, construction material and machinery spare parts.
Uganda	Duty draws back i.e., customs refunds of all or part of any import duty paid on material inputs imported to produce goods for export or used in a manner for a purpose prescribed as condition for granting duty draw back.
India	India's Advance Licensing Scheme provides duty free imports of: a) Inputs that are incorporated in the export product b) Mandatory spares up to 10% of the CIF value It can also be issued to intermediate supplier and for deemed exports.
Bangladesh	Garment exporters are able to import inputs (i.e., Fabrics and accessories) against their export L/Cs directly. Given this provision, exporters do not need to invest in working capital enabling them to set-up factories with low capital investment.
Sri Lanka	Duty free imports of raw material used to produce goods for exports.
Incentives for Market Development	Under this subsidy, the government or any organization provides assistance to encourage companies or individuals to access and develop markets. This generally includes funding for participation in international fairs, study tours, trade delegations, publicity, etc.
Kenya	Subsidized participation in International Trade Fairs
Tanzania	Subsidized participation in international trade fairs
Rwanda	Subsidized participation in international trade fairs
Ethiopia	Ministry of Trade and other institutions like ETIDI and ETGAMA offer free or cost shared trade fair engagements subsidizing marketing cost on select shows.
Uganda	N/A
India	1. MAI scheme: Financial assistance of up to 65% for undertaking various market access initiatives including marketing activities, market research, capacity building, branding and statutory compliances in importing markets. 2. MDA Scheme: Financial assistance for MSME exporters for participating in international trade fairs/exhibitions, carrying out sector specific studies, initiating anti-dumping cases by MSME, etc.
Bangladesh	N/A
Sri Lanka	Market Access Support Programme by EDB for entrepreneurs, which provide the following assistance on reimbursement basis: a) Up to a maximum of US$5,600 for projects to be completed within 6 months. b) Up to a maximum of US$ 28,000 for projects to be completed within 18 months. 40% of the assistance will be provided at the time of signing the agreement.

	Description
Tax Benefits	Under this subsidy, the government or any organization exempts or lowers the tax rates to be paid in the business. These may include exemption from paying the corporate tax, value added tax, goods and services tax, etc., exemption of duty on machinery, construction etc., tax on rent, dividends, etc.
Kenya	1. For EPZ commercial licenses: 10-year corporate tax holiday and 10-year withholding tax holiday on remittances to non-residents 2. For SEZ: Corporate taxation at 10% for first 10 years and 15% for the next 10 years and Duty and VAT free domestic sales. 3. 100% investment exemption on capital investment in buildings and machinery for both EPZ and SEZ.
Tanzania	1. For SEZ Developers: Exemption from payment of: a. Taxes & duties for machinery, equipment, heavy duty vehicles, building and construction materials and any other goods of capital nature to be used for infrastructure b. Property tax, corporate tax and withholding tax on rent, dividends and interest for the initial 10 years. c. Stamp duty on any instrument executed in or outside the SEZ relating to transfer, lease or hypothecation of any movable/ immovable property in or situated within SEZ d. VAT on utility charges. 2. For SEZ User: Exemption from payment of: a. Corporate tax for first 10 years b. Withholding tax on rent, dividends and interest for first 10 years c. Withholding tax on interest on foreign sourced loan 3. For SEZ Exporter: Exemption from payment of: a. Taxes & levies imposed by the local govt. authorities for products produced in the SEZ for 10 years. b. VAT on utility and wharfage charges
Rwanda	Preferential corporate income tax rate of 0% to an international company which has its headquarters or regional office in Rwanda, only if it fulfills certain requirements Preferential corporate income tax rate of 15% shall be accorded to a registered investor, exporting at least 50% of turnover of goods and services.
Ethiopia	1. Business Income Tax exemption up to 6 years 2. Export-linked business income tax exemption (additional two years for at least 60% export or supply to exporter) 3. Business Income Tax exemption in industrial parks (additional 2-4 years for industrial park enterprises with 100% export plan and achieve at least 80% export) 4. Loss carries forward for up to 5 years 5. Personal Income Tax (PIT) exemption for expatriate employees.
Uganda	Plant and machinery are exempt from customs duty on importation. Additionally, a VAT deferral facility is available where VAT is deferred on importation of plant and machinery and subsequently waived upon approval by the relevant authorities. A tax holiday of ten years is available to exporters who export at least 80% of their produce of finished goods, subject to certain conditions.
India	N/A

	Description
Bangladesh	Concessionary tax rate of 12% for garment sector & 15% for textile sector as compared to normal tax rate of 35%. (In garment sector, rate is 10% if there is green building certification).* For textile machinery only: 1. 5 to 10 years' tax holiday and reduced tax depending on the area. 2. 100% tax exemption on income and capital gain for projects under Public Private Partnership (PPP) for 10 years. 3. 50% of income derived from export is exempted from tax. 4. Tax exemption on royalties, technical knowhow and technical assistance fees and facilities for their repatriation. 5. Tax exemption on interest paid on foreign loan. 6. Benefits for countries with double taxation avoidance treaty.
Sri Lanka	1. Standard tax rate of 28%; Concessionary rate of 14% for SME as well as for a business of exporting goods & services. 2. VAT Exemption on the following goods: a. Yarn b. Dyes for handloom c. Handloom d. Locally manufactured fabric by any manufacturer who does not enjoy any concessions under the Board of Investment 3. Exemption of Nation Building Tax (NBT) for export-oriented units
Export Benefits	Under this subsidy, the government or any organization provides certain benefits to manufacturers for exporting their products. These may include exemption or lower tax rates, exemption of import duty on raw material, cash incentives on value of goods, etc.
Kenya	Perpetual exemption from VAT and customs import duty on raw material and machinery. VAT exemption also applies on local purchases of goods and services supplied by companies in the Kenyan customs territory or domestic market.
Tanzania	1. Zero-rated VAT on exports. 2. Remission of customs duty, VAT and any other tax charged on raw materials and goods of a capital nature related to production.
Rwanda	Export Guarantee facility up to 80% of value of goods to export.
Ethiopia	1. No export taxes 2. Exemption from customs duties and other taxes on: 3. imported raw material, accessories and packaging material used for export processing 4. Import of personal effects by industrial park residents 5. Customs duties, VAT and other taxes exemption/ zero rating for the export of products 6. Guarantee by DBE that covers 80% of loan and interest provided by commercial banks to exporters with bankable export project.
Uganda	
India	1. The central government reimburses the embedded taxes in the exports of goods through two schemes: a. Duty drawback scheme with a drawback of 1.5%-3% on export value of goods. b. Provision of remission of State Levies on export of garments at 3.5-8.5% 2. Various state governments provide financial assistance of reimbursements of up to 100% of net state taxes for a period of 5-10 years.

	Description
Bangladesh	1. Cash incentives on the FOB value of exports as below: a. New market and product expansion of textile market (except US, Canada, and EU):4% b. Export oriented local textiles (instead of duty drawback and custom bond): 4% c. Additional facility for SME textile: 4% d. Exports of apparel products to EU market: 6% (Additional 2%) e. Diversified jute products, Hessian and sacking (jute finished goods): 5-20% 2. Documentary Credit/LC facilities provided by bank using export Documentary Credit/LC as collateral 3. Export Development Fund (EDF): The EDF is managed by the Forex Reserve and Treasury Management Department (FRTMD) at the Bangladesh Bank headquarters. The EDF is intended to facilitate access to financing in foreign exchange for input procurement by manufacturer-exporters. Authorized banks can borrow funds in US dollars from the EDF against their foreign currency loans and further give to manufacturer-exporters for input procurements. The loan amount is capped at US$ 25 million for member mills of BGMEA (Bangladesh Garment Manufacturers and Exporters Association) and BKMEA (Bangladesh Knitwear Manufacturers and Exporters Association). EDF loan disbursements to Authorized banks in USD is charged interest at six-month USD LIBOR+1 per cent, with the Authorized banks charging at six-month LIBOR+2.5 per cent on their USD loan disbursements to manufacturer-exporters. The present size of the fund is $3.5 billion. (The EDF loans from the central bank are payable by the banks upon receipt of export proceeds within 180 days from the date of disbursement. The timeframe is extendable by the BB up to 270 days in case of a longer period taken for repatriation of export proceeds).
Sri Lanka	1.1 Reduced Tax RatesThe Standard CIT Rate is 24%.The following activities enjoy a reduced tax rate of 14%: - Sale of goods or merchandise including export of goods, where the payment is received in foreign currency.
Skill Development Support	Under this subsidy, the government or any organization provides grants for training and skill development of personnel. These may include re-imbursement of training fee, providing infrastructure for training, etc. Several skill development initiatives are undertaken by brands also in tandem with international organizations, government and manufacturers.
Kenya	Rebate of 200% per employee for training costs. The manufacturers are required to remit an equivalent of US$ 6 per employee to the National Industrial Training Authority (NITA)
Tanzania	In Tanzania, vocational education and training (VET) activities and services are run by around 520 providers and promoted under more than thirty programmes and public-private partnership (PPP) schemes. The existing VET centers are extremely heterogenous with respect to their capacity and training quality, but also with respect to the proportion of long and short courses they can provide. The latter are funded through the Skills Development Levey (SDL)
Rwanda	New Investors based on their investment can get support for skills training as government provided training support for 600 workers for a C&H Factory an FDI, Government plans to set up a skills training center to train 1000 workers in apparel manufacturing
Ethiopia	Skill development and retention cost-sharing grant for domestic industrialists (matching grant for training of local personnel) for textile and leather manufacturing in industrial parks (100% for export). a. Government cost sharing on labor recruitment and training is Year 1: 85%; Year 2: 75%; Year 3: 50%; Year 4: 25% b. Cost-sharing on recruitment of expatriate managers and special technicians is Year 1: 85%; Year 2: 75%; Year 3: 50%; Year 4: 25% (Domestic industrialists who are beneficiaries of the above incentives are expected to match to at least 75% productivity by foreign investors operating in same industrial park in year one, and raise performance to 85% and 100% in years two and three, respectively)
Uganda	

	Description
India	1. The Central govt runs several initiatives including Samarth (Scheme for Capacity Building in Textile Sector), which aims to provide demand-driven placement-oriented skilling programme with a budget of approx. US$ 185 million. 2. Several state governments also give financial incentives up to US$ 185/worker/ month for 5 years.
Bangladesh	Skill development initiatives and worker training is undertaken by various buyers in association with International Labour Organization (ILO), Asian Development Bank (ADB), World Bank, GIZ, Bangladesh government, etc.
Sri Lanka	Skill development initiatives such as Sector Skills Development Programme (SSDP) are undertaken by various buyers in association with Asian Development Bank (ADB), etc.
Others	Any other fiscal incentives not listed above
Kenya	No exchange controls on foreign exchange that allows easy repatriation of capitals & profits and domestic & offshore borrowing. For SEZ a. Exemption of Stamp Duty on execution of instruments relating to business activities of the SEZ. b. Exemption from payment of advertisement fees and business service permit fees levied by County Governments. c. Long-term exemption from payment of stamp duty on legal instruments. d. Companies are allowed to have expatriates and obtain work permits for up to 20% of the total workforce, with additional work permits available on request. e. Withholding tax rates on payments made to non-residents (royalties, interest, and management fees) 5%; Dividends paid to non- residents by the SEZ entity, exempt from tax.
Tanzania	The right to transfer outside the country 100% of foreign exchange earned, profits and capital. For SEZ Developers: a. Remission of customs duty, VAT and any other tax payable for import of 1 administrative vehicle, ambulances, firefighting equipment, b. fire fighting vehicles and up to 2 buses for employees' transportation c. Exemption from pre-shipment or destination inspection requirements. For SEZ Users & Exporters: a. Remission of customs duty, VAT and any other tax payable for import of 1 administrative vehicle, ambulances, firefighting equipment, fire fighting vehicles and up to 2 buses for employees' transportation. b. Exemption from pre-shipment or destination inspection requirements. c. Unconditional transferability through any authorized dealer bank in freely convertible currency of: (i) net profits or dividends attributable to the investment (ii) payments in respect of loan servicing where a foreign loan has been obtained (iii) royalties, fees and charges in respect of any technology transfer agreement (iv) the remittance of proceeds (net of all taxes and other obligations) in the event of sale or liquidation of the business enterprises or any interest attributable to the investment (v) payments of emoluments and other benefits to foreign personnel employed in connection with the business enterprise.

	Description
Rwanda	1. Import duty on second-hand raised to $5/kg. 2. Import duty on fabrics and accessories reduced to 0%. 3. Trade credit insurance: A risk mitigation tool that protects against payment default risks.
Ethiopia	1. Project financing where long-term soft loans are provided for local as well as FDI engaged in strategic sectors and investments. 2. Foreign investors can raise up to 60% of their finance through loan from foreign markets. 3. Priority to access foreign exchange market
Uganda	A deduction of 2% of income tax payable is granted to any employer who can prove to the URA that at least 5% of their employees on a full-time basis are people with disabilities.
India	1. Various state govt. provides multiple other incentives such as: a. Wage Subsidy up to US$ 85/person/ month for 5 years b. Power Subsidy of 1.5-3 cents for 5-7 years c. Green measure incentives for establishing ETP, ZLD, etc. 2. Central govt. provides grant of 40% of project cost up to US$ 5.7 million for providing infrastructure facilities for setting up Textile Parks under Scheme for Integrated Textile Parks (SITP). 3. Production Linked Incentive (PLI) scheme for 13 sectors including Textiles. The special incentive was launched in March 2020 aimed boosting domestic manufacturing and cutting down on import bills. Included in the scheme is Rs. 10,683 crore (US$ 1.44 billion) for supporting the growth of manmade fibre and technical textiles over 5-year period. In addition, Rs. 1,480 crore (US$ 211.76 million) was allocated towards a National Technical Textiles Mission. 4. Minimum Support Price (MSP): For every crop year, the government fixes a MSP for cotton varieties. As the seed cotton prices touch the level of MSP, the government makes purchases of the seed cotton at MSP without any quantitative limits. This mechanism has benefitted the cotton farmers as it provides an assured price for their produce as well as timely payments.
Bangladesh	1 For textile machinery only: Accelerated depreciation for machinery and plants. 2. Bonded warehouse facilities: Imported inputs can be cleared through customs against export orders without paying any import duty. Export oriented garment units not taking advantage of these facilities could claim paid duty under DEDO or those utilizing local materials could take 25% cash compensation. 3. 15% cash subsidy on the fabric cost to exporters sourcing fabrics locally 4. There are no restrictions on issuing of work permits for foreign nationals and employees related to projects. 5. Provision of transfer of shares held by foreign shareholders to local investors 6. Royalty, technical know-how and technical assistance fees can be remitted 7. Equal treatment of both local and foreign investment
Sri Lanka	1. Exemption of customs duty and ports & airport development levy on importation of project related capital goods such as machinery and equipment.

Note: The government of Tanzania imposed several restrictions on Tanzanian Shillings lending, deposits and derivatives to non-residents by banks and financial institutions with some exceptions as defined under the Foreign Exchange (Amendment) Regulations 2014 (FEAR).

All the countries have attractive fiscal incentives. However, India and Ethiopia stand out

3. Non-Fiscal Incentives

Non-fiscal incentives are not directly associated to monetary benefits but provide ease of doing business to investors. These incentives generally do not encounter any kind of government fund transfer and are aimed at facilitating investments or activities and not directly funding them.
All the countries have in place some forms of One Stop Shops for ease of investment facilitation. However, the efficiency of these institutions varies from one country to another.

Table 2 - Benchmarking - Non-Fiscal Incentives

	Description
Back-to-Back Letter of Credit (LoC) Facility	Under this incentive, the banks provide discounting of Letter of Credit (LC). It is a short-term credit facility provided by the bank, where the bank purchases the documents or bills of the exporter and in return make him the payment for a security or a fee.
Kenya	N/A
Tanzania	L/C discounting available for select banks depending on rating of issuing bank.
Rwanda	Available
Ethiopia	Available
India	Available
Bangladesh	Available
Sri Lanka	Available including Discounting for proforma invoice and buyers' invoice.
Duty Entitlement Passbook Scheme	Under this incentive, the government neutralizes the incidence of customs duty on the import content of the export product. Generally, the neutralization is provided by way of grant of duty credit against the export product.
Kenya	N/A
Tanzania	N/A
Rwanda	N/A
Ethiopia	Voucher or Duty Draw Back Scheme: Producer exporters, indirect producer exporters, raw material suppliers and exporters are entitled to use any one of the above schemes to import duty free raw materials, semi processed goods and packaging for the purpose of value addition and exporting. In Voucher scheme, beneficiary exporters are issued with voucher book printed and distributed by The Ethiopian Revenue and Customs Authority. Payable duty of imported materials is entered in this book and expected to be processed and exported within a year or duty will be paid including interest. Exporters may apply for extension of duty-free period. In The Duty Draw back Scheme, duty paid on goods imported or purchased locally shall be refunded by the Ethiopian Revenue and Customs Authority within 30 days.
Uganda	
India	N/A*
Bangladesh	Passbooks are issued to Bangladeshi importers who would like to import inputs duty-free for exports. The value of raw material is deducted from the passbook upon export of finished product. These are permitted for use in bonded warehouse set up for these purposes. The passbooks are operated on self-debit and self-credit system.
Sri Lanka	N/A

	Description
Others	Any other non-fiscal incentives not listed above
Kenya	EPZA Investor Support Division provides a one stop shop service for: a. Applications & approvals (within 30 days) Green Channel Port Clearance Green Channel Customs facilitation b. Work permit facilitation c. Available land and factory buildings: zones are developed with the requisite industrial infrastructure d. Rapid project approval and licensing within 30 days (with exception of projects requiring environmental license from NEMA) e. Unrestricted investment by foreigners f. Exemption from PVOC (conformity assessment program applied to products at the respective exporting countries, to ensure their compliance with the applicable Kenyan Technical Regulations and Mandatory Standards or approved specifications)
Tanzania	Automatic permit of employing 5 foreign nationals on the project holding Certificates of Incentives. For SEZ Developer: a. On site customs inspection of goods b. Treatment of goods destined into SEZ as transit cargo For SEZ User: a. Provision of business visa at the point of entry to key technical, management and training staff for 2 months b. Access to competitive, modern and reliable services available within the SEZ c. On site customs inspection of goods within SEZ For SEZ Exporter: a. Provision of business visa at the point of entry to key technical, management and training staff for 2 months b. Access to competitive, modern and reliable services available within the SEZ c. Treatment of goods destined into SEZ as transit cargo
Rwanda	Preference to the local manufacturers such as mandate of 60% of army, police, prisons and schools' uniforms to be sourced locally.
Ethiopia	One Stop Shop Service: Registration of business for investors now takes a matter of hours for most, and generally 1-2 days at most. • After Care Service: Providing support to investors in processing investment related requests such as: • Land for investment: Facilitation Service by the investment Commission • Residence and work permit Facilitation • Approval of environmental impact assessment on investment • Acquiring water, electrical power, and telecom services

	Description
Uganda	
India	Single Window Clearance System provided by various states to promote hassle free investments for investors/manufacturers, etc.
Bangladesh	Single File Clearance System: Once the order is placed with the garments exporter, exporters prepare a file with all product specs, input/output norms, etc. The file goes to BGMEA for approval, who after proper technical due diligence approve it (with changes, if any). This file becomes the single reference point for custom authorities, financial institutions and any other approving body. It enables Bangladeshi apparel exporters to freely import fabric and other inputs duty free and maintain records of imports and exports which can be scrutinized. This system is maintained in physical books.
Sri Lanka	1. 100% foreign ownership permissible 2. All income, proceeds on sale of the investments can be repatriated through an Inward Investment Account opened by the Investor 3. Green channel facilities for obtaining approval of duty-free imports of raw material. This facility is available for enterprises registered with the Board of Investment and allows a fast-track approval procedure completed within 20 minutes, in contrast to 30 minutes taken for ordinary service

All the countries have in place some forms of One Stop Shops for ease of investment facilitation.

*In India, this scheme was discontinued in September 2011.

4. Market Access Arrangement

Generally, the East African countries have more market access into the key markets of EU and US, which is one of the key factors for investment attraction.
Ethiopia is currently suspended from AGOA, which was a major advantage to accessing the US apparel market.

4.1 Market Access Arrangement

Table 3 - Benchmarking - Market Access Arrangement

Country	Kenya	Tanzania	Rwanda	Ethiopia	Uganda	India	Bangladesh	Sri Lanka
USA	Duty Free under AGOA	Duty Free under AGOA	Duty Free under AGOA	Duty Free under AGOA*.	Duty Free under AGOA			Tariff reduction on certain textile & apparel commodities under GSP
Europe	EPA	EBA	EBA	EBA	EBA	20% tariff reduction under GSP	EBA	Duty free imports under GSP+
Japan	8.4% under MFN	GSP	GSP	GSP	GSP	Duty Free under CEPA		8.4% under MFN
China						10-40% margin of preference on certain textile & apparel commodities under APTA	Duty free quota free apparel imports 20-40% margin of preference on certain textile & apparel commodities under APTA	5-50% margin of preference on certain textile & apparel commodities under APTA
East Africa	FTA under COMESA Ratified under AFCFTA	FTA under SADC Ratified under AFCFTA	FTA under COMESA Ratified under AFCFTA	FTA under COMESA Ratified under AFCFTA	FTA under COMESA Ratified under AfCFTA			

*In November 2021, US President Joe Biden announced that Ethiopia would be suspended from AGOA eligibility due to alleged human rights violations in contravention of the AGOA statute. This became effective in January 2022. This has affected the sourcing plans of a number of brands and manufacturers.

4.2 Impact of AGOA suspension in Ethiopia

- In November 2021, US President Joe Biden announced that Ethiopia would be suspended from AGOA eligibility due to alleged human rights violations in contravention of the AGOA statute. This became effective in January 2022. This has affected the sourcing plans of several brands and manufacturers.
- AGOA Trade privilege has been a key driver for inward investments and job creation for Ethiopia since the launch of the growth and transformation industrialisation programme in 2016. By 2019, 70% of the Ethiopia's Textile and Apparel exports were destined for the United States, up from 15% in 2014.
- It is estimated that at least 56,000 jobs in the Industrial Parks-mostly women aged between 18-25 years- are directly at risk because of AGOA suspension.
- Considering that international buyers from the United States can place orders up to one year in advance, the full effect of the suspension will only become visible towards the end of 2022.
- Several advocacy actions have since been initiated to lobby for the lifting the of the suspension of AGOA in Ethiopia. Several public comments have been published in the United States Trade Representative website in support of the lifting of the suspension USTR during the annual eligibility reviews.

East African countries have more market access into the key markets of EU and US

5. Top Suppliers of Apparel to US Market between 2010 and 2021

Table 4 - Top Suppliers of Apparel to US Market vs EAC in 2010

		2010	%
1	China	US$ 30.1 Bn	39.8%
2	Viet Nam	US$ 6 Bn	8.0%
3	Indonesia	US$ 4.6 Bn	6.1%
4	Bangladesh	US$ 4 Bn	5.4%
5	Mexico	US$ 3.7 Bn	4.9%
6	EAC (Kenya, Uganda, Tanzania & Rwanda)	US$ 0.2 Bn	0.3%
7	Others	US$ 26.8 Bn	35.5%
	Total	US$ 70.6 Bn	100%

Table 5 - Top Suppliers of Apparel to US Market vs EAC in 2015

		2015	%
1	China	US$ 32.3 Bn	36.2%
2	Vietnam	US$ 10.9 Bn	12.2%
3	Bangladesh	US$ 5.5 Bn	6.1%
4	Indonesia	US$ 5.1 Bn	5.8%
5	India	US$ 3.9 Bn	4.3%
6	EAC (Kenya, Uganda, Tanzania & Rwanda)	US$ 0.4 Bn	0.5%
7	Others	US$ 31 Bn	34.9%
	Total	US$ 89 Bn	100%

Figure 1 - Top Suppliers of Apparel to US Market vs EAC in 2010

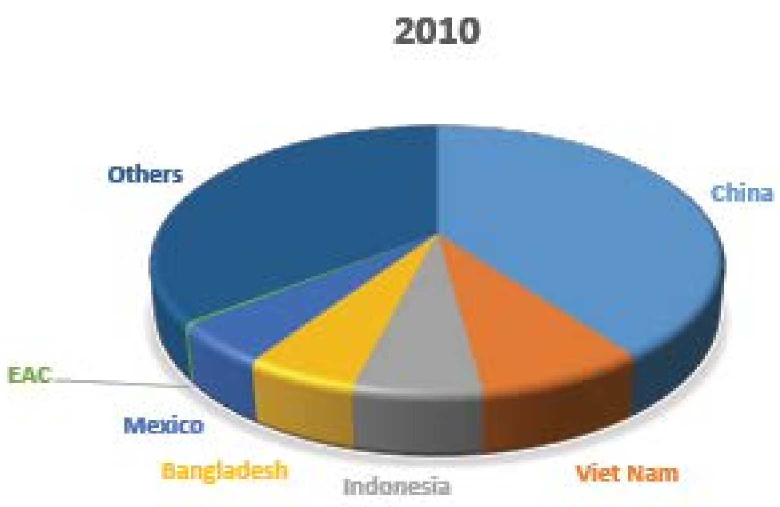


Figure 2 - Top Suppliers of Apparel to US Market vs EAC in 2015

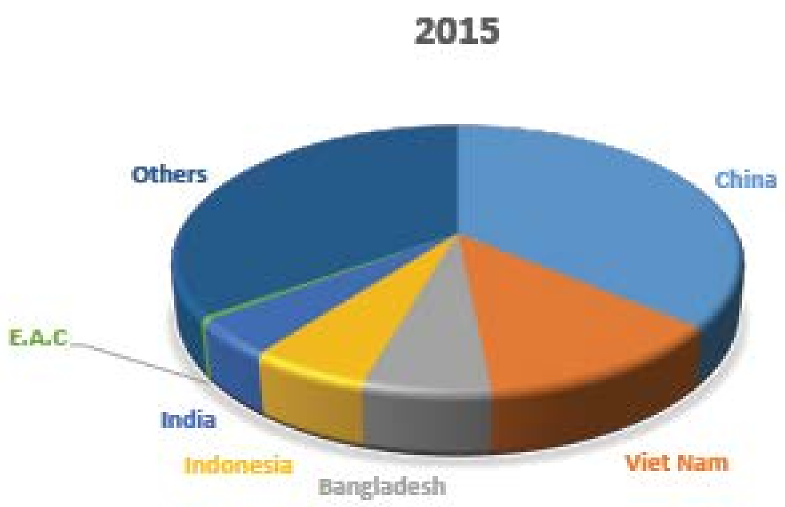


Table 6 - Top Suppliers of Apparel to US Market vs EAC in 2020

		2020	Percentage
1	China	US$ 19.50 Bn	27.5%
2	Vietnam	US$ 13.20 Bn	18.5%
3	Bangladesh	US$ 5.30 Bn	7.4%
4	Indonesia	US$ 3.70 Bn	5.2%
5	India	US$ 3.20 Bn	4.5%
6	EAC	US$ 0.43 Bn	0.6%
7	Others	US$ 25.9 Bn	36.3%
	Total	US$ 71.2 Bn	100%

Table 7 - Top Suppliers of Apparel to US Market vs EAC in 2021

		2021	%
1	China	US$ 22 Bn	25.2%
2	Vietnam	US$ 15.1 Bn	17.3%
3	Bangladesh	US$ 7.2 Bn	8.3%
4	India	US$ 4.4 Bn	5.1%
5	Indonesia	US$ 4.3 Bn	5.0%
6	EAC	US$ 0.5 Bn	0.6%
7	Others	US$ 34.3 Bn	38.4%
	Total	US$ 87.3 Bn	100%

Figure 3 - Top Suppliers of Apparel to US Market vs EAC in 2020

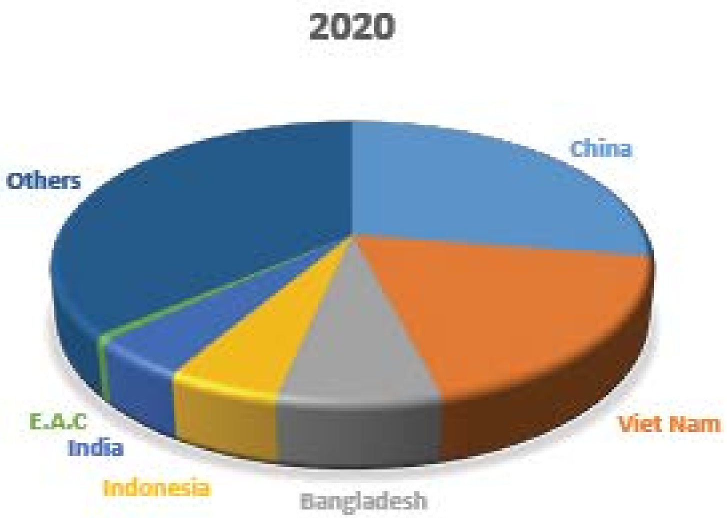
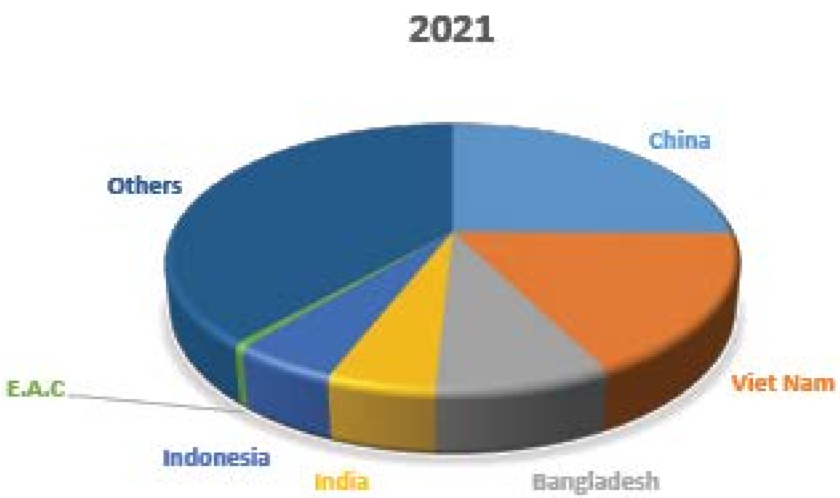


Figure 4 - Top Suppliers of Apparel to US Market vs EAC in 2021



6. Top Suppliers of Apparel to EU Market between 2010 and 2020

Table 8 - Top Suppliers of Apparel to EU-28 Market vs EAC in 2010

		2010	%
1	China	US$ 38.6 Billion	45.4%
2	Turkey	US$ 10.7 Billion	12.6%
3	Bangladesh	US$ 8.2 Billion	9.7%
4	India	US$ 5.7 Billion	6.8%
5	Tunisia	US$ 3.0 Billion	3.6%
6	E.A.C	US$ 0.003 Billion	0.0%
7	Others	US$ 18.6 Billion	21.9%
	Total	US$ 85 Billion	100.0%

Table 9 - Top Suppliers of Apparel to EU-28 Market vs EAC in 2015

		2015	%
1	China	US$ 33.4 Billion	37.0%
2	Bangladesh	US$ 15.4 Billion	17.1%
3	Turkey	US$ 10.5 Billion	11.6%
4	India	US$ 5.7 Billion	6.3%
5	Cambodia	US$ 3.3 Billion	3.7%
6	E.A.C	US$ 0.005 Billion	0.0%
7	Others	US$ 21.7 Billion	24.2%
	Total	US$ 90.1 Billion	100.0%

Figure 5 - Top Suppliers of Apparel to EU-28 Market vs EAC in 2010

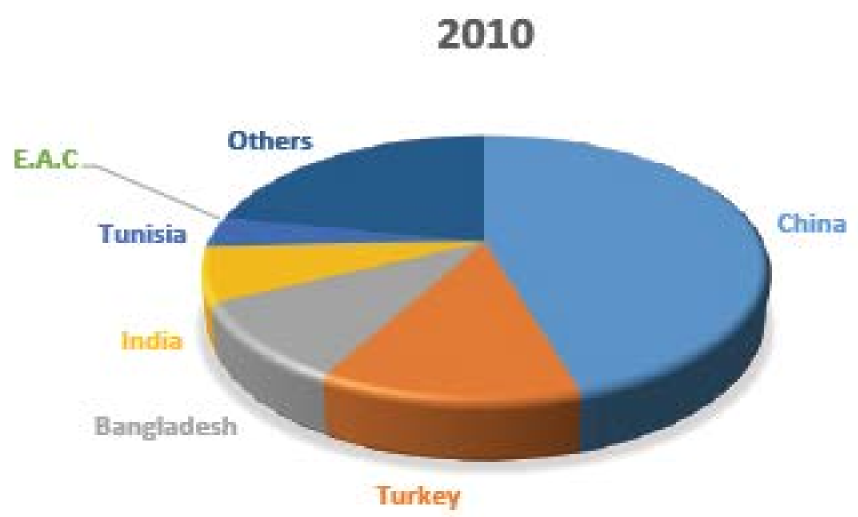


Figure 6 - Top Suppliers of Apparel to EU-28 Market vs EAC in 2015

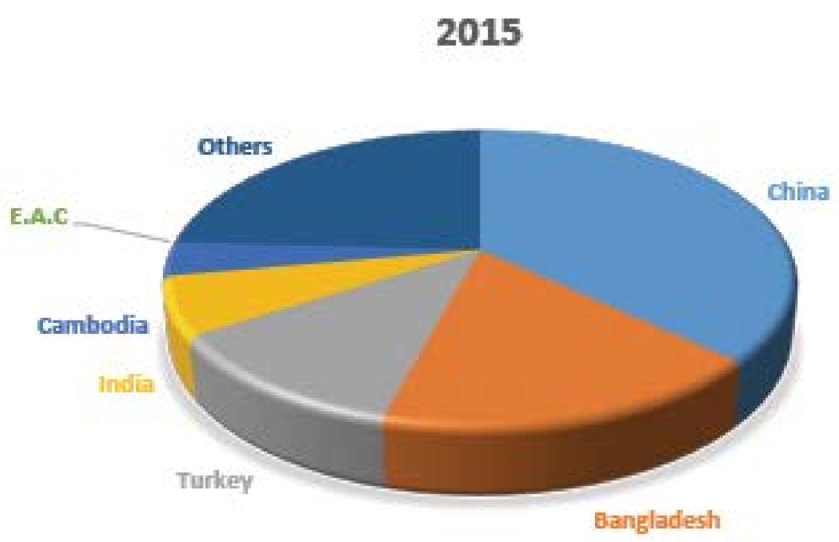
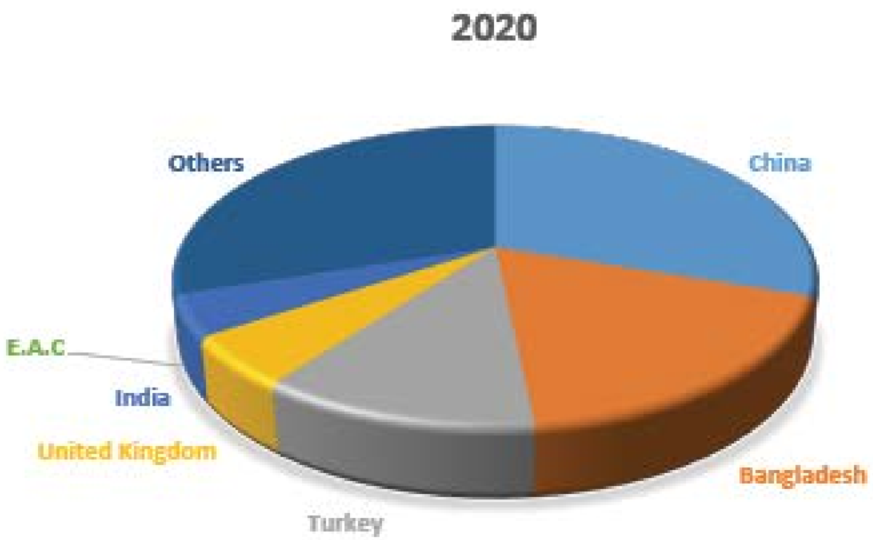


Table 10 - Top Suppliers of Apparel to EU-28 Market vs EAC in 2020

		2020	%
1	China	US$ 23.9 Bn	30.19%
2	Bangladesh	US$ 14.4 Bn	18.19%
3	Turkey	US$ 9.3 Billion	11.85%
4	United Kingdom	US$ 4.2 Bn	5.37%
5	India	US$ 3 Bn	4.39%
6	E.A.C	0.013 Bn	0.02%
7	Others	23.7 Bn	29.99%
	Total	79.1 Bn	100.00%

Figure 7 - Top Suppliers of Apparel to EU-28 Market vs EAC in 2020



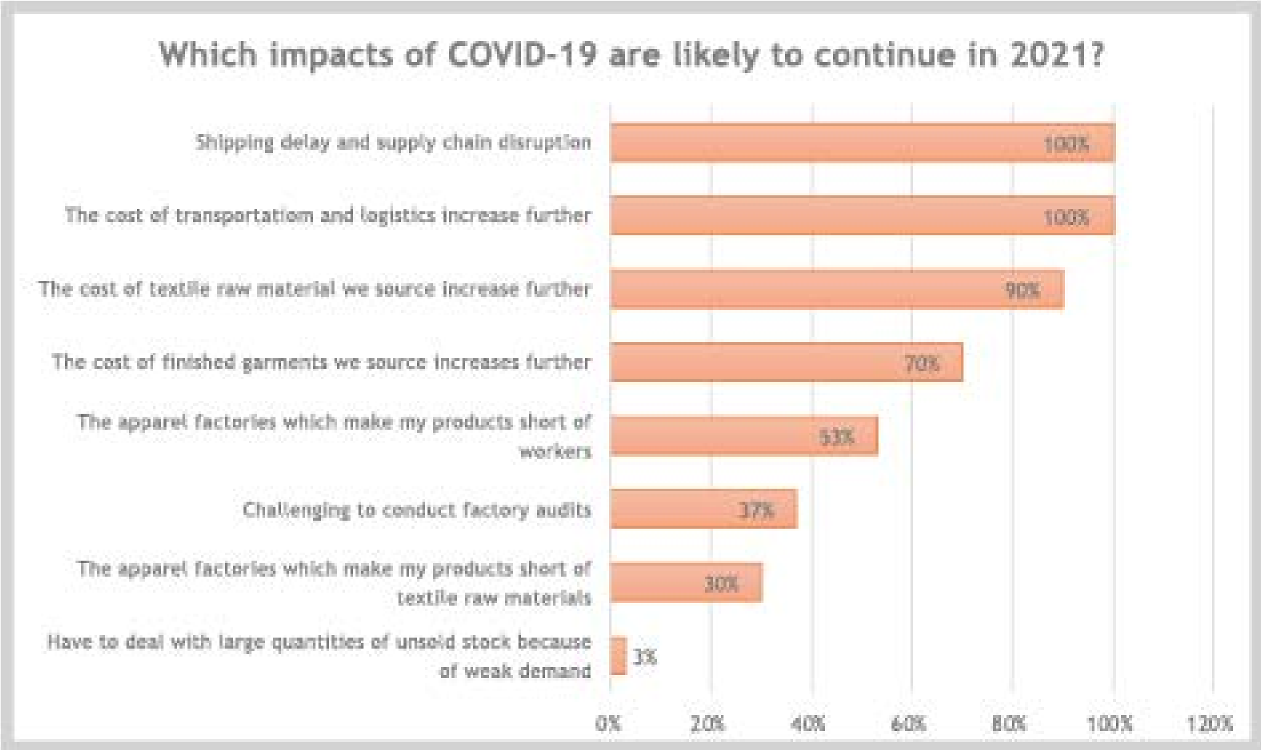
7. Key Perspectives of US Fashion Companies in 2021

In July 2021, the United States Fashion Industry Association published its eighth annual Fashion Industry Benchmarking Survey, which captures key sentiments of their members that include brands, retailers, importers, and wholesalers of textiles and apparel.
Below are the highlights of key issues that were captured from the United States Fashion Industry Benchmarking Survey.

6.1 Continued Impact of Covid-19 on sourcing

COVID-19 remains the top business challenge facing U.S. fashion companies in 2021, particularly adding pressures on the supply side.

Figure 8 - Continued Impact of Covid 19 on Sourcing



Around 60 percent of the respondents expect a full recovery of their sourcing value or volume to the pre-COVID level by 2022.

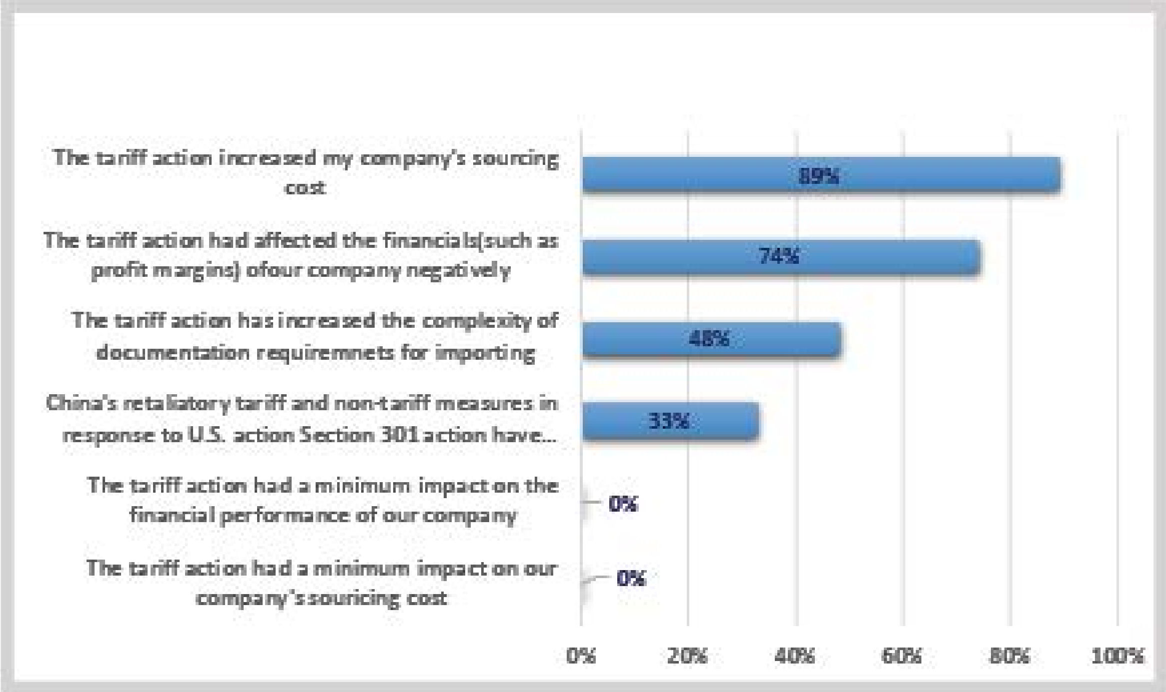
6.2 Increasing Sourcing Costs

The surging sourcing costs remain a significant concern to U.S. fashion companies in 2021.

97 percent of respondents anticipate the sourcing cost to increase further in 2021. Out of this, 37 percent expect a “substantial increase” from 2020.

6.3 Impact of US-China Tariff War

Figure 9 - Impact of US-China Tariff War on companies’ sourcing costs

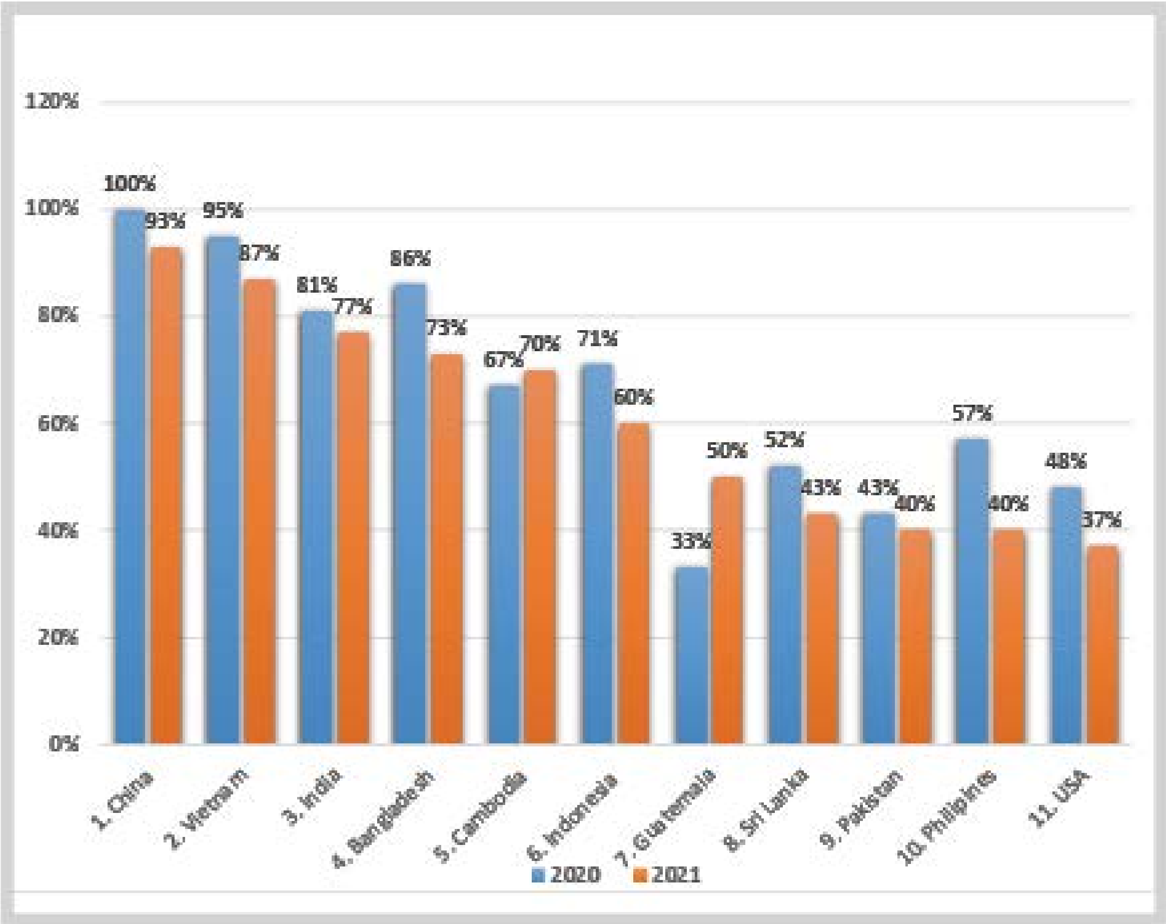


About 90 percent of respondents indicated that the U.S.-China tariff war directly increased their company’s sourcing cost in 2021

USVSCHINA

6.4 Asia is still the dominant apparel sourcing base for U.S. fashion companies

Figure 10 - Respondent's Top Sourcing Bases in 2021



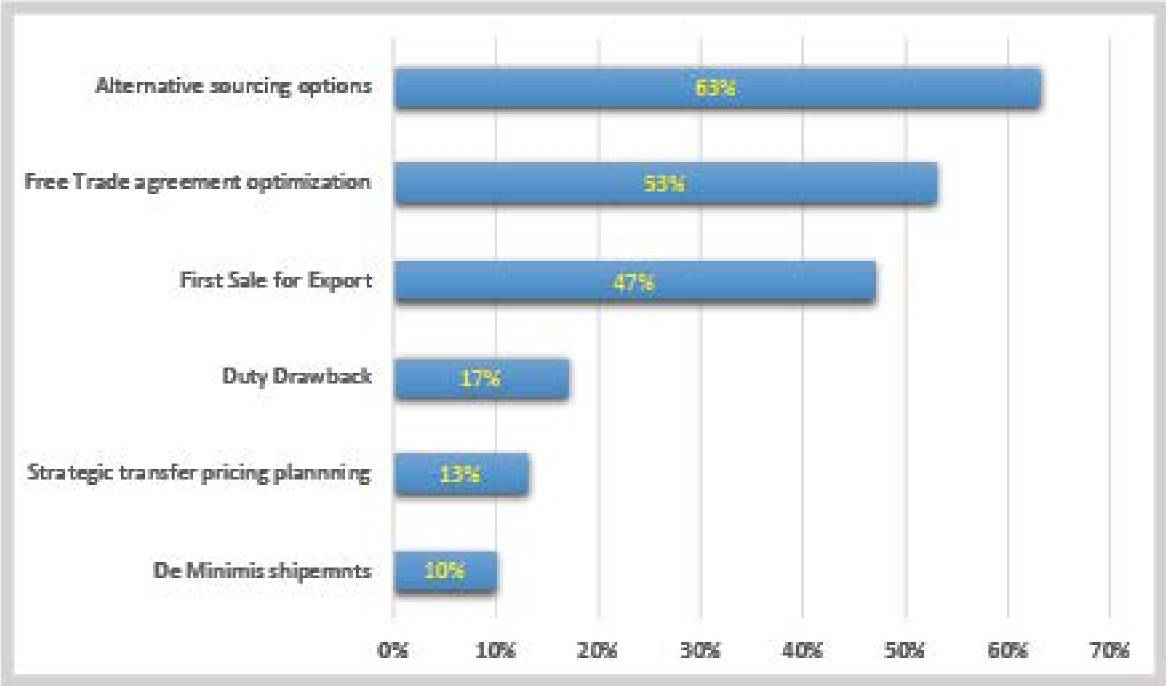
The dominance of Asia as a sourcing destination remains unshakeable with the respondents expected to continue sourcing from China (93 percent), Vietnam (87 percent), India (77 percent), and Bangladesh (73 percent).

Asia also remains a dominant sourcing base for textile intermediaries for the US fashion companies with China plus at least 1-2 additional Asian countries topping the list among the respondents.

6.5 U.S. fashion companies continue to reduce their China exposure.

Respondents see "finding a new sourcing base other than China" as a more critical challenge in 2021 (As priority, Ranks 4th in 2021 vs. 6th in 2020, 7th in 2018, and 13th in 2017).

Figure 11 - Customer strategy options to mitigate customs cost



Most U.S. fashion companies still plan to source from China in short to medium terms. However, 63 percent of respondents plan to decrease sourcing from China further over the next two years.

Most respondents still see China as a competitive and balanced sourcing base from a business perspective. Few other sourcing countries can match China's flexibility and agility, production capacity, speed to market, and sourcing cost. As China's role in the textile and apparel supply chain goes far beyond garment production and continues to expand, becomes ever more challenging to find China's alternatives.

Allegations of forced labour in China's Xinjiang Uygur Autonomous Region (XUAR) significantly hurt China's long-term prospect as a preferred sourcing base by U.S. fashion companies. China also suffered the most significant drop in its labour and compliance rating in 2021.

6.6 U.S. fashion companies actively explore new sourcing opportunities.

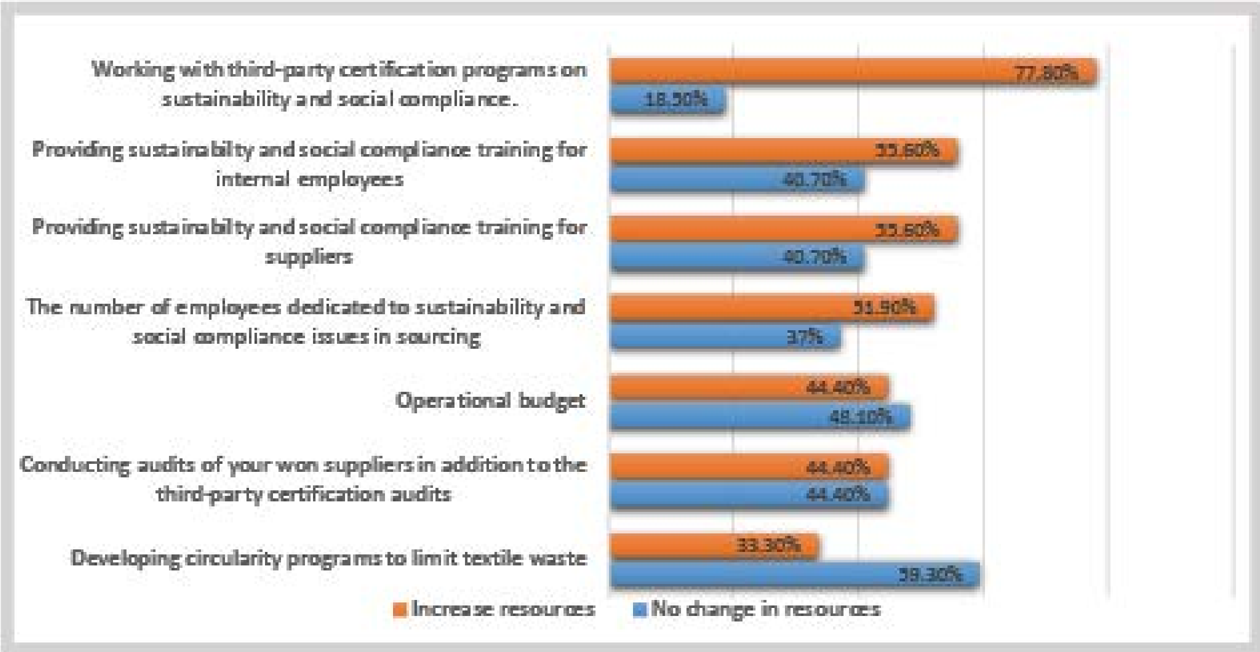
85 percent plan to increase sourcing from a few Asian countries over the next two years, including India, Bangladesh, Indonesia, Philippines, Vietnam, and Cambodia as alternatives to sourcing from China. Vietnam remains a hot sourcing destination. However, respondents turn more conservative this year about Vietnam's growth potential due to rising cost concerns and trade uncertainties caused by the Section 301 investigation.

U.S. fashion companies are interested in sourcing more from Bangladesh over the next two years. Respondents say apparel "Made in Bangladesh" enjoys a prominent price advantage over many other Asian suppliers.

The respondents also expressed interested in sourcing more from Sub-Saharan Africa by leveraging the African Growth and Opportunity Act (AGOA). Replace AGOA with a permanent free trade agreement that requires reciprocal tariff cuts and continues to allow the "third country fabric provision is respondents' most preferred policy option after AGOA expires in 2025.

6.7 Major commitment to sustainability and social compliance

Figure 12 - Allocation of resources for sustainability and compliance over the next 2 years



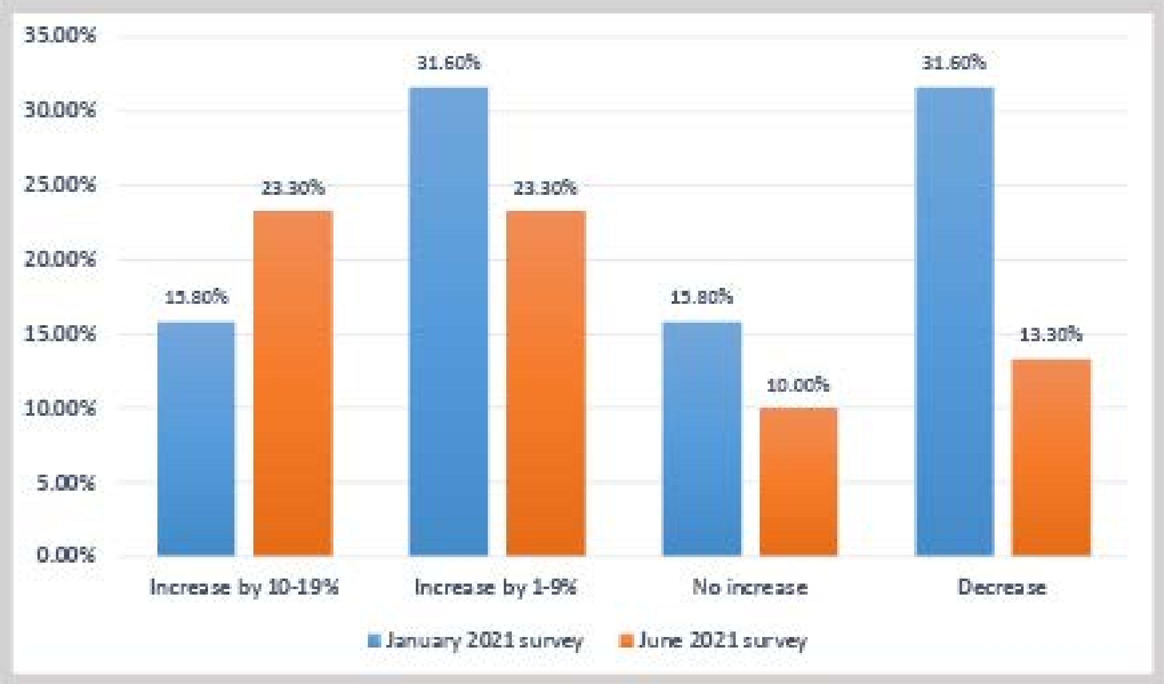
80%

80 percent of respondents say they plan to allocate MORE resources to sustainability and social compliance over the next two years (i.e., through 2023), up from 70 percent in 2020 and 63 percent in 2019. About one-third of respondents call for "clearer regulation and legal guidelines" regarding supply chain mapping and transparency.

Respondents highlighted that U.S. textile and apparel trade policy can play a role in addressing climate change, particularly through lowered tariff rates for sustainable imports, reducing the cost pressure for sustainable sourcing, and enhancing regulatory coherence with U.S. trading partners.

6.8 Majority of the US Fashion Companies project increased sourcing values in 2021

Figure 13 - Outlook on Apparel Sourcing Value: 2021 vs 2020



76%

76 percent of respondents expect their sourcing value or volume to increase in 2021 from 2020, including more than half that anticipate a two-digit growth

8. Other Notable Trends:

8.1 Sustainability and Recycled fibres

According to the Textile Exchange, Recycled fibers are increasingly forming a significant part of the companies' sustainable material strategy with more than 25% of respondents intending to utilize them.

The recent increase in the use of rPET (recycled polyethylene terephthalate) from plastic bottles is expected to continue, with the open-loop recycled polyester playing the biggest role. This is due to a number of reasons, one of them being it's the price is lower compared to other recycled materials and commitments to more circular materials.

8.2 Digitization: The changing face of design

The industry continues to make clear progress in digitization, including digitization of interfaces, introducing advanced analytics, improving operational and design processes, and aiding transparency.

The shift in consumer shopping habits has led to the popularity of digital space. The digital space has gained popularity. Majority of respondents in the McKinsey Survey demonstrated a shift towards 29% of companies plan to utilize virtual 3Design to test products and plan to render 70% of their products virtually.

Virtual digitization has enabled companies to reduce lead times as samples are approved online and reduce the carbon footprint which has become a major issue in recent times and reduction in wastage. Non-physical fitting for products is also becoming a popular trend with the availability of the Metaverse which enables the consumer to fit products online.

Appendix: Data Sources

Chapter: Fiscal Incentives

- 11/197/2016-E&MDA, Ministry of Commerce and Industry, Department of Commerce, E&MDA Section and Marketing Development Assistance Scheme, Department of Commerce, MSME Sector
- According to a speech by the Cabinet Secretary of Industrialization (May 2019), a new SME policy is currently in the final stages that will include interest subsidies for SMEs.
- African Trade Insurance Agency
- Bangladesh Investment Handbook, 2020
- Bangladesh Investment Development Authority (BIDA)
- Benchmarking Fiscal Incentives
- Board of Investment, Sri Lanka
- Development Bank of Rwanda
- Documents published in Gazette of India, Ministry of Finance & Ministry of Textiles and State Governments' websites
- Duty Exemption and Remission Schemes, Directorate General of Foreign Trade, Ministry of Commerce and Industry
- EPZA
- Ethiopian Investment Centre
- Ethiopian Investment Centre: Development Bank of Ethiopia finances full cost of machinery including installation cost after which the repayment is done over a period and ownership is transferred upon full repayment at an interest.
- Export Development Board
- Export Growth Facility Eligibility Criteria
- Export Promotion Council
- Inland Revenue Department
- Kenya Association of Manufacturers (KAM)
- Kenya Investment Authority
- Kenya Revenue Authority
- Ministry of Rural Development, Scheme for Capacity Building in Textile Sector, Ministry of Textiles and state governments' websites
- Ministry of Trade and Industry
- New Gazette Notice Rwanda
- Part I Section I of Gazette of India, Ministry of Textiles
- Published government documents from Ministry of Textiles & Office of Textile Commissioner, Government of India and state governments' websites
- Skilling-Tanzania-ACE-Working-Paper-6
- State governments' websites
- Strategy to Transform the Textile, Apparel and Leather Sectors in Rwanda
- Strategy to Transform the Textile, Apparel and Leather Sectors, Ministry of Trade & Industry
- Tanzania Investment Centre
- Textile Development Unit
- Uganda Revenue Authority
- Union Budget 2021-22, Ministry of Finance, India, retrieved from: https://www.drishtiias.com/current-affairs-news-analysis-editorials/news-analysis/03-02-2021

Chapter: Non-Fiscal Incentives

- AFCFTA - The agreement initially requires members to remove tariffs from 90% of goods, allowing free access to commodities, goods, and services across the continent. It does not come into effect until 22 of the signing countries ratify the agreement.
- Board of Investment, Sri Lanka
- Business of Fashion Magazine, https://www.businessoffashion.com/news/global-markets/pvh-corp-will-close-its-manufacturing-facility-in-ethiopia/
- East African Community
- EPZA
- EPZA, Tanzania
- Ethiopian Investment Commission
- European Commission
- Government Information Centre, Sri Lanka
- HKTDC
- Japan Customs
- Office of Textiles and Apparel (OTEXA)
- Primary Research
- Strategy to Transform the Textile, Apparel and Leather Sectors, Ministry of Trade & Industry

Chapter: Top Suppliers of Apparel to US Market between 2010 and 2021

- UN Comtrade, Direct data

Chapter: Top Suppliers of Apparel to EU Market between 2010 and 2020

- UN Comtrade, Direct data

Chapter: Key Perspectives of US Fashion Companies in 2021

- 2021 Fashion Industry Benchmarking Survey, Retrieved from: https://www.usfashionindustry.com/about/about-the-fashion-industry
- McKinsey Apparel CPO Survey (2021), Revamping Fashion Sourcing: Speed and flexibility to the fore. Retrieved from: https://www.mckinsey.com/industries/retail/our-insights/revamping-fashion-sourcing-speed-and-flexibility-to-the-fore
- "Textile Exchange Preferred Fibre and Materials Market Report 2021," Textile Exchange, August 2021, textileexchange.org/textile-exchange-preferred-fiber-andmaterials-market-report-2021/.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