

Africa's opportunity in sourcing – the global dynamics and why it is important now

ITMF Annual Conference, Bali

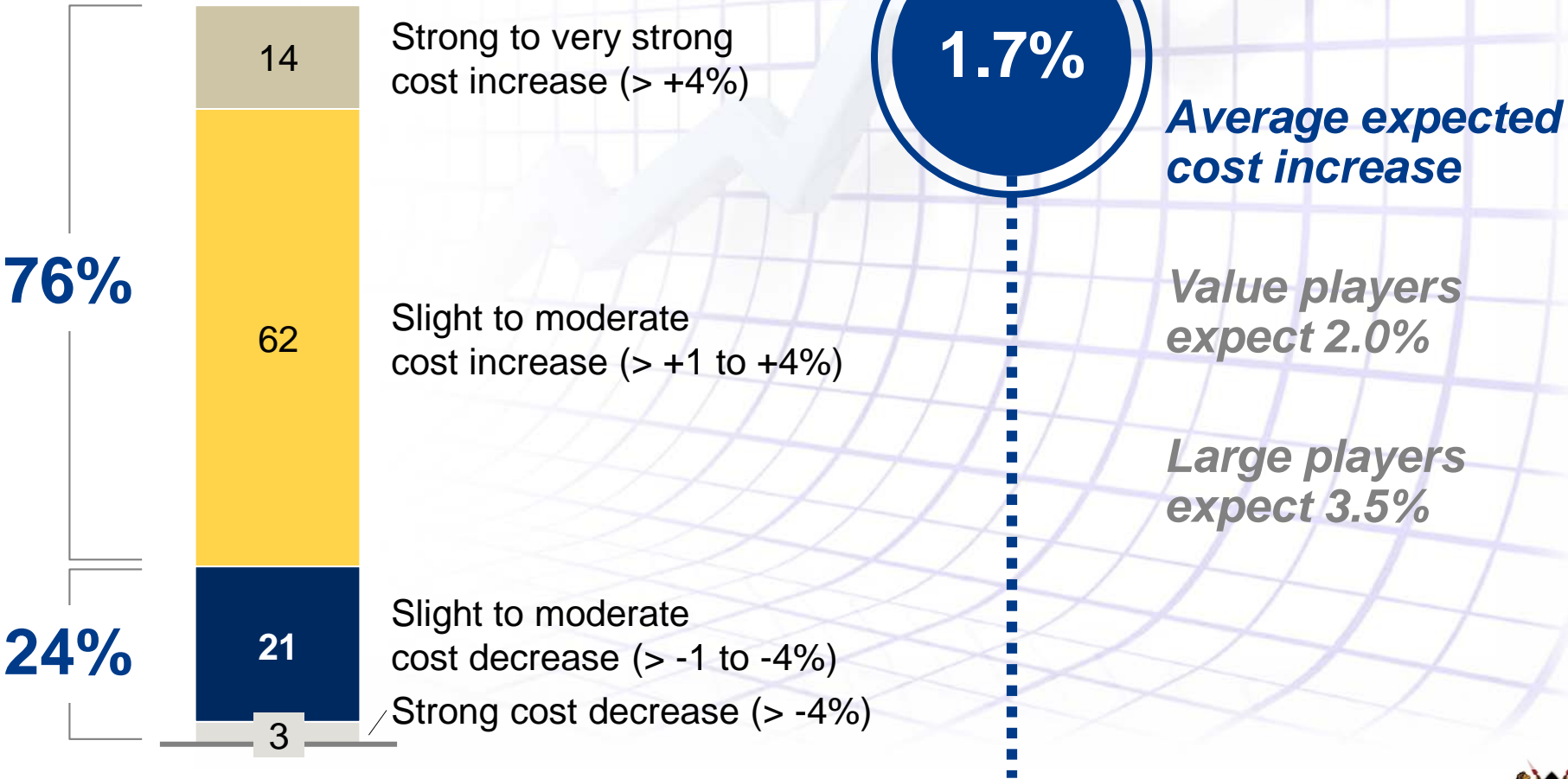
September 2017



Asia has been the primary global sourcing market – 3 out of 4 CPOs expect a sourcing cost increase over the next 12 months

"What is your overall expectation on sourcing cost (price per piece) independent of sourcing country?"

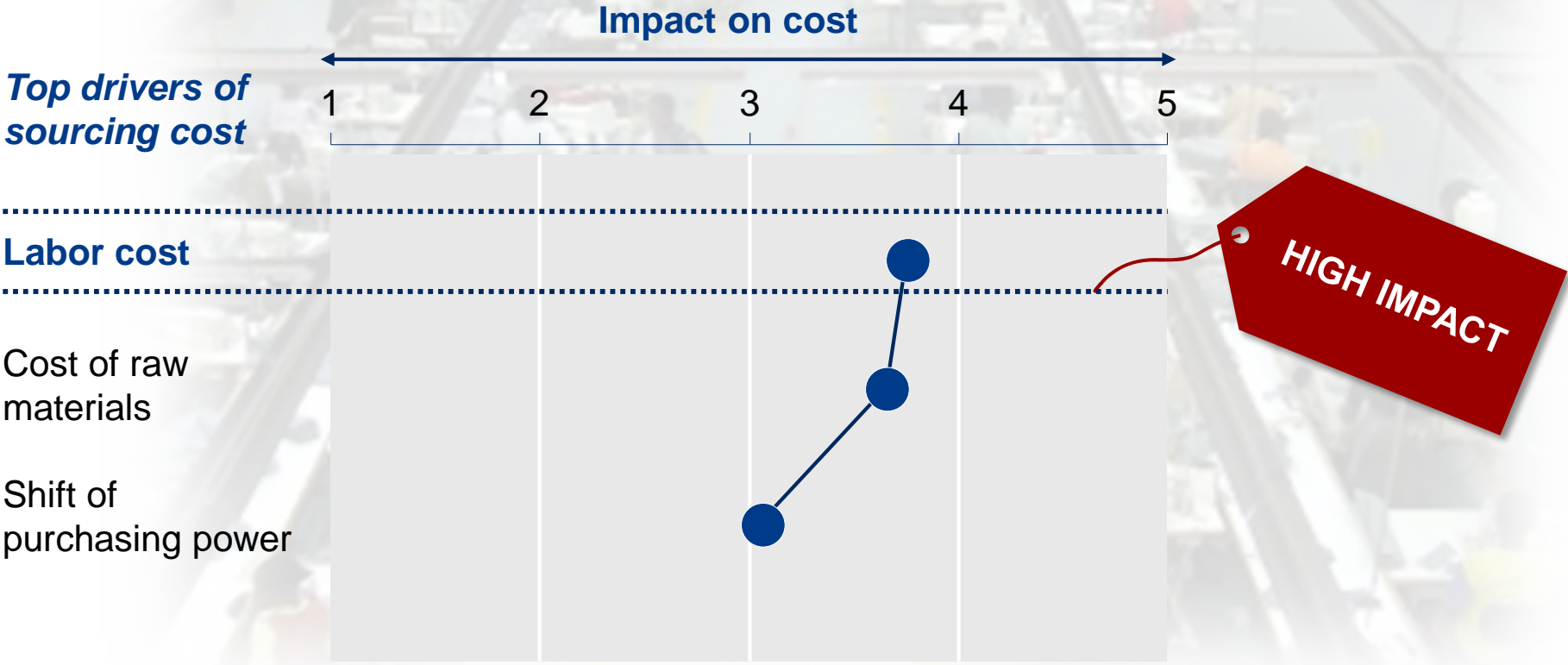
Percent of respondents, n = 29



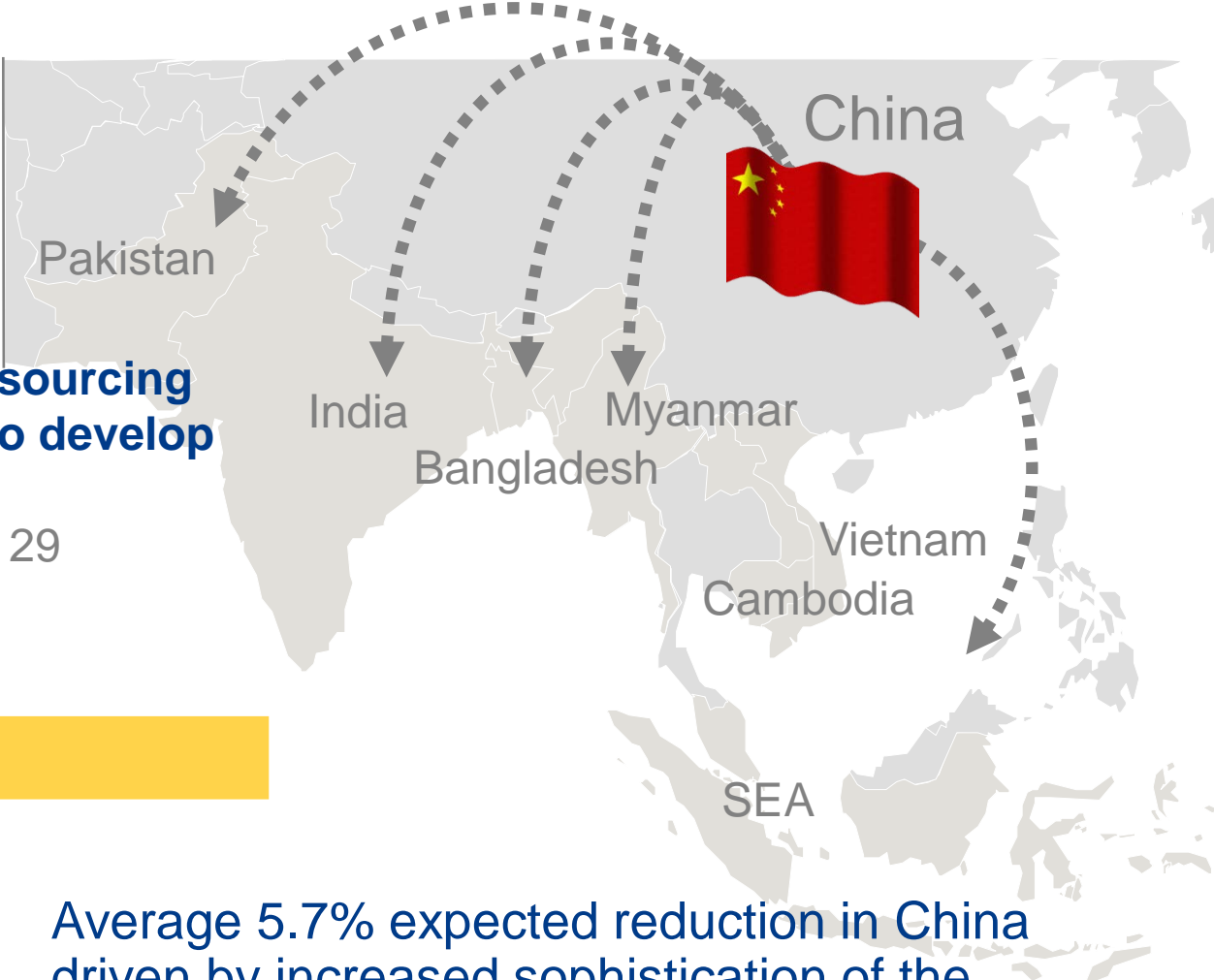
Labor cost is seen as the most impactful driver by most apparel companies

"Which drivers do you expect to have the highest impact on sourcing cost development (price per piece) within next the 12 months?"

Assessment of respondents, 1 = no impact, 5 = very high impact

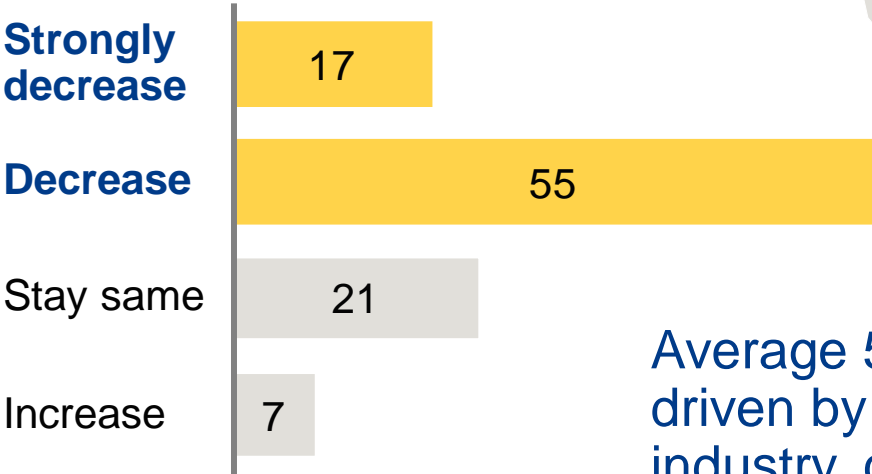


While China will always be a major player in the sourcing game, big players are looking elsewhere to diversify



"How do you expect your sourcing share (value) from China to develop during the next 5 years?"

Percent of respondents, n = 29



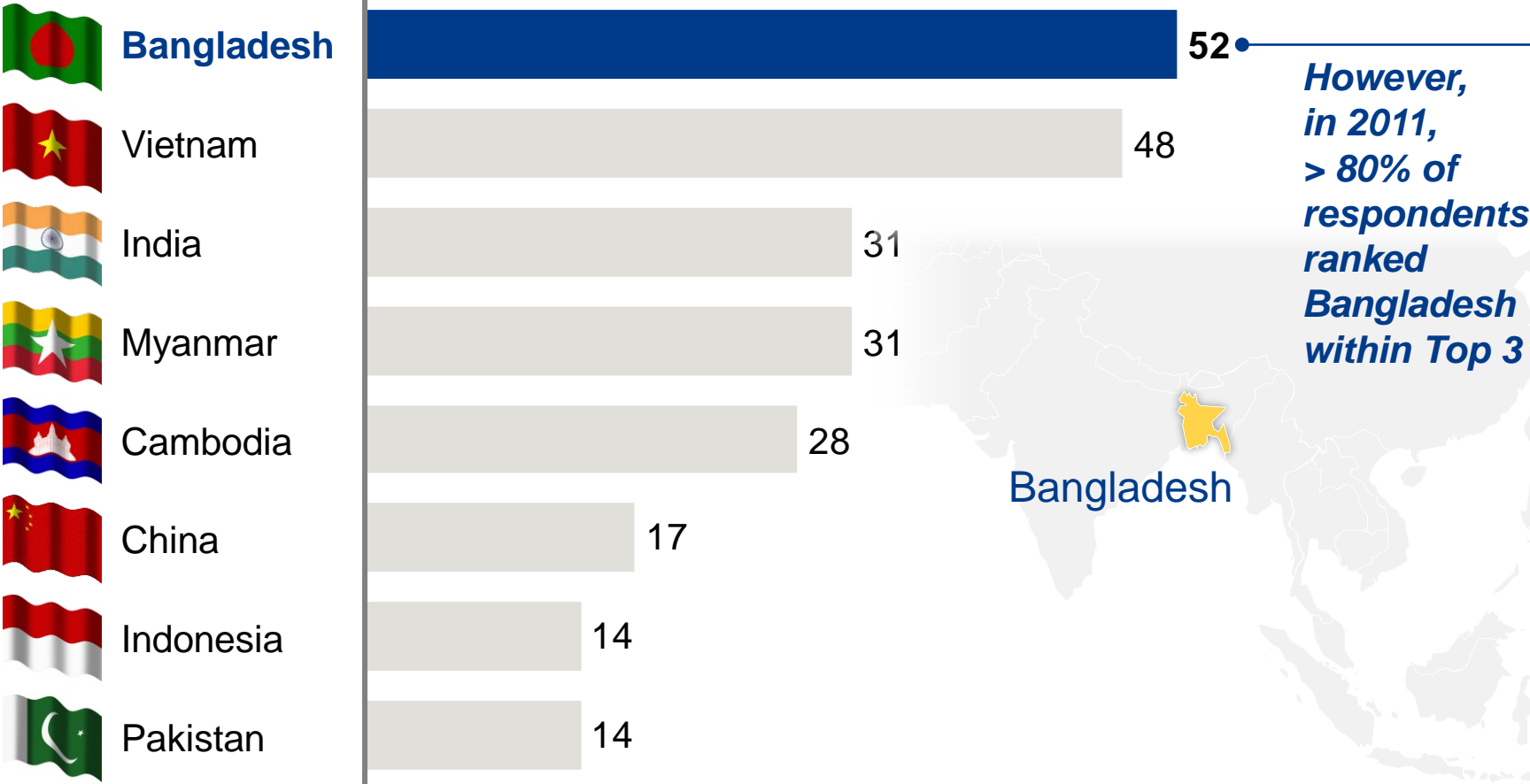
Average 5.7% expected reduction in China driven by increased sophistication of the industry, cost increase, and infrastructure issues



A number of other Asian countries have been top of mind as alternative sourcing destinations

"What will be the Top 3 country hotspots over the next 5 years?"

Percent of respondents who ranked the respective countries within Top 3, n = 29



The potential for Africa is tremendous

Africa today

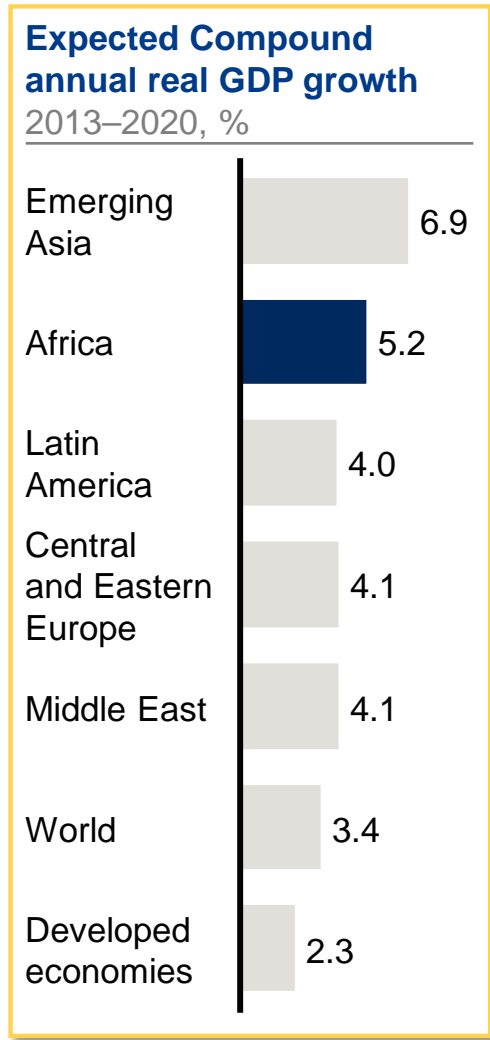
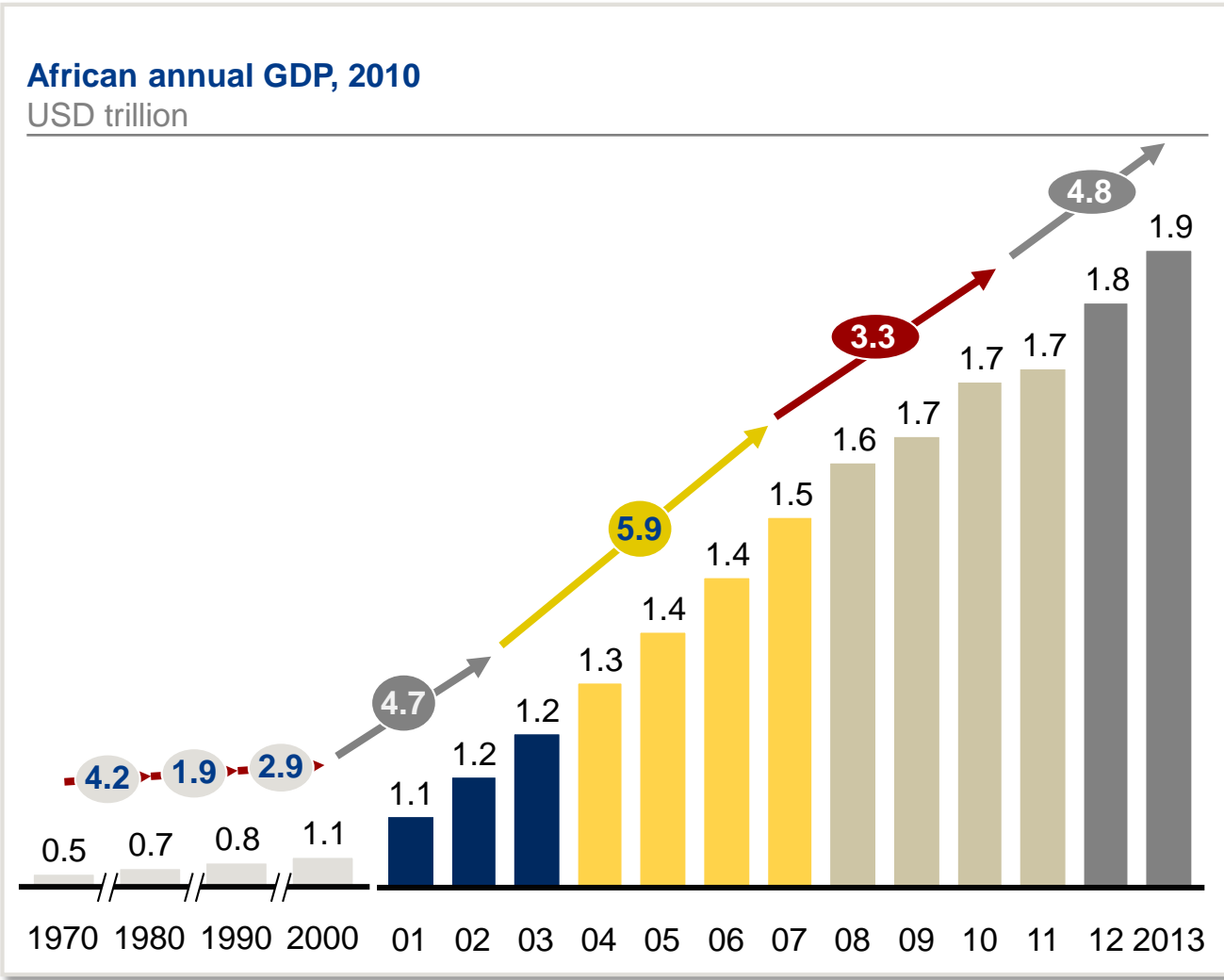
2020

GDP	= Brazil or Russia	\$2.4 trillion	→	\$3.9 trillion
Consumer spend	= 1.45 x Russia	\$1.8 billion	→	\$2.4 trillion
Households > \$5 000 income	= 55% of India	134 million	→	166 million
Urbanisation	= China	40%	→	45% (2025)
Working-age population	= 1.3 x Europe	628 million	→	1.2 billion (2040)



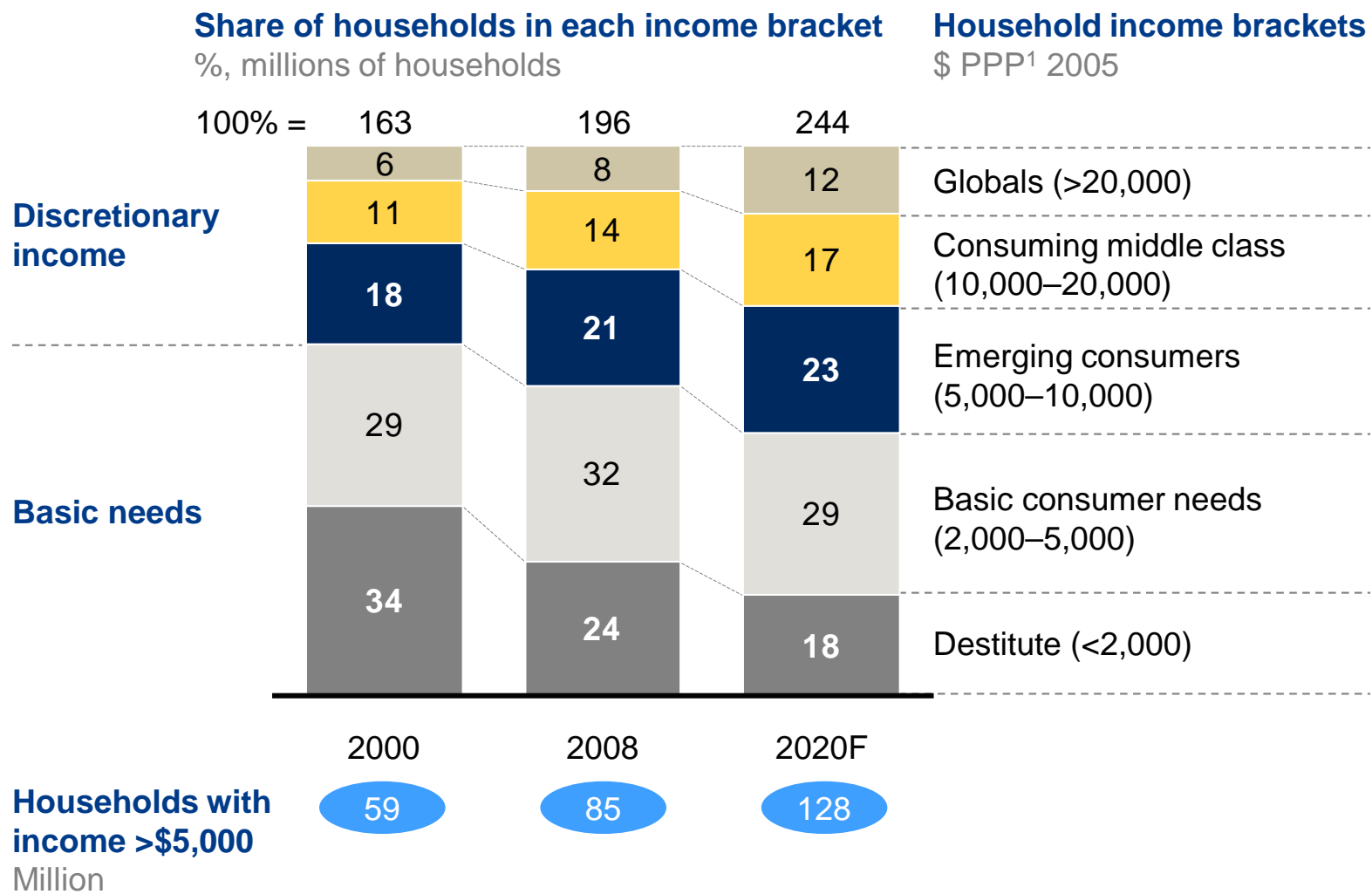
Since 2000, Africa has seen strong economic growth and is projected to be the world's second-fastest growing region to 2020

○ Compound annual growth rate, %





By 2020, more than half of African households will have discretionary spending power

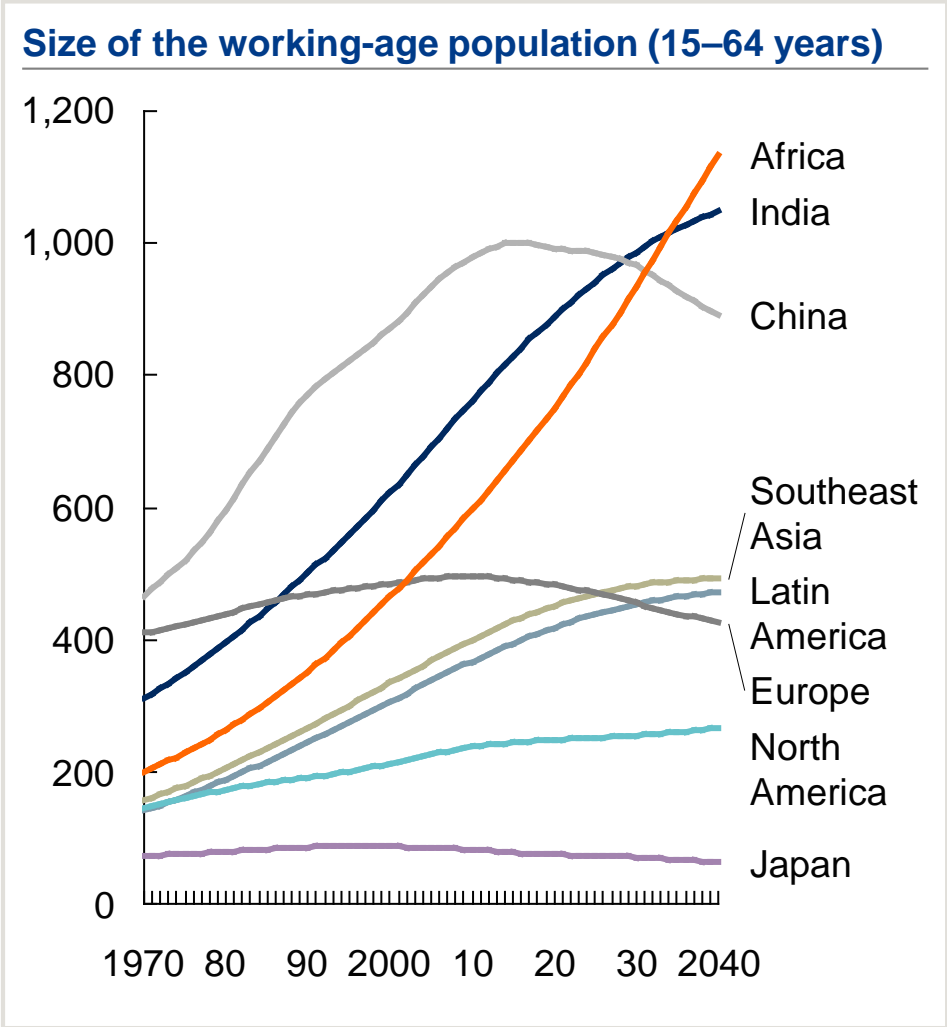
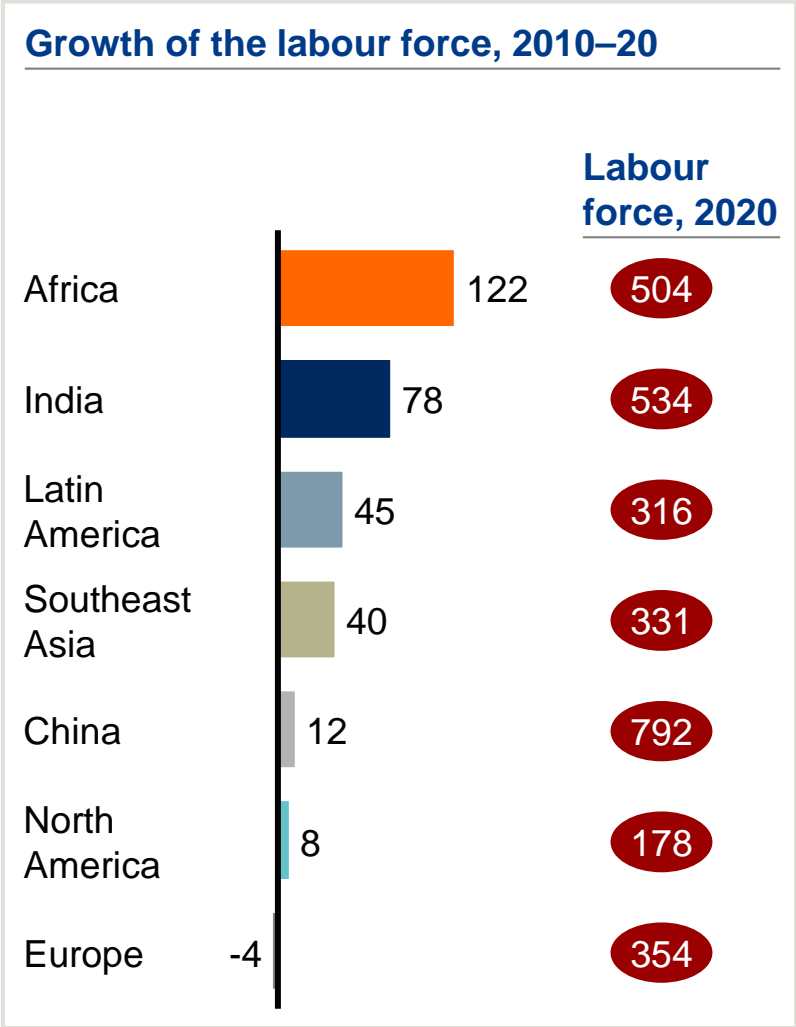


¹ Purchasing power parity adjusts for price differences in identical goods across countries to reflect differences in purchasing power in each country



Africa's labour force will grow by 122 million during this decade, and will be the largest in the world by 2035

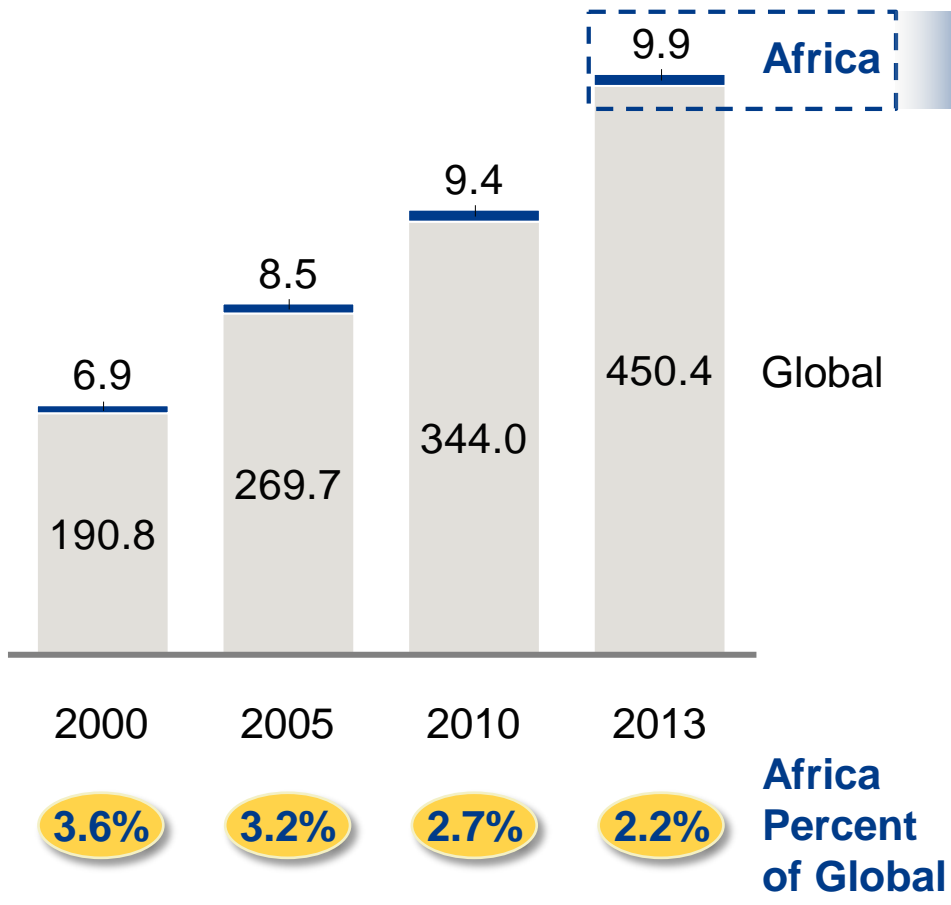
Million people



The Sub-Saharan export market for apparel has been growing

Export value of clothing

Billions of USD at current prices



Africa's largest suppliers

Growth¹
USDm

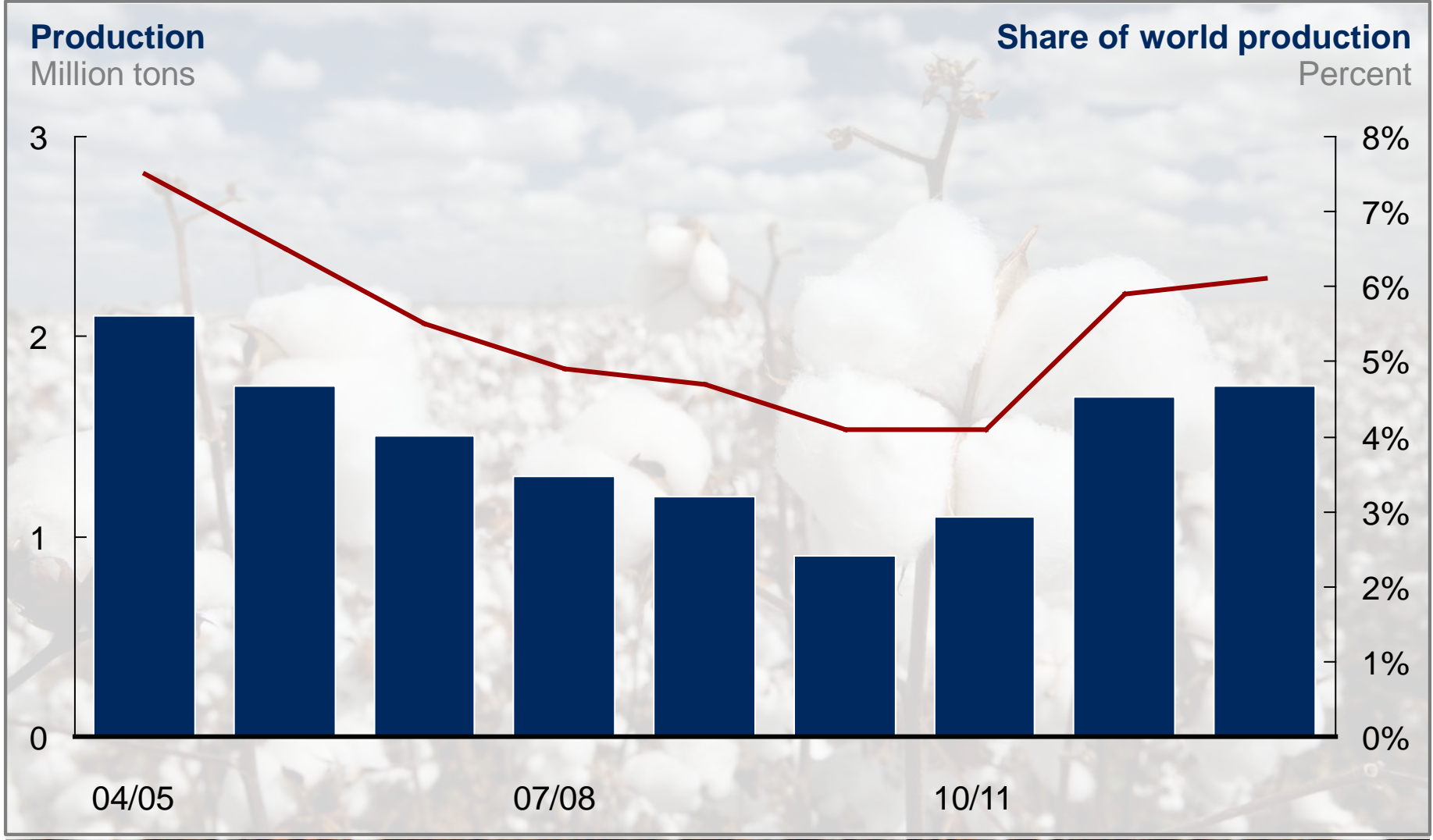
Region	Country	Growth ¹ USDm
Sub-Saharan	Kenya	90.3
	Madagascar	33.3
	Ethiopia	24.3
	Tanzania	5.3
	Swaziland	3.6
	Lesotho	-15.1
	Botswana	-72.2
North African	Morocco	114.9
	Egypt	87.7
	Tunisia	-286.9

¹ Absolute growth 2010 - 2013



Cotton production from Africa is increasing in the share of World production

— Share of world production
■ Production



Africa enjoys duty free access to the US through AGOA and to the EU through the Economic Partnership Agreement

■ Africa
■ ROW

Textile and apparel imports USD billions



Africa currently makes up
USD 935 m (<1%)
of textile and apparel
imports to the US and
USD 9.3 bn (4%)
to the EU



We believe in a bright future for Africa – and for Kenya in particular

Kenya is the largest apparel exporter under AGOA in Sub-Saharan Africa

The sector has seen over 12% export growth per year and has emerged as a prominent focus for Kenya's economic development programme



Kenya has a number of advantages that give us leverage in global and regional markets

Advantages	
Global	 Agricultural potential 
	 Favorable trade agreements 
	 Cheaper labour than Asia 
Regional	 Mombasa port 
	 Educated labour force 
	 Highly developed ICT / telecom 
	 Advanced banking sector 
	 Most sophisticated private sector 

SOURCE: World Bank Indicators, Ease of Doing Business 2015, Enterprise Survey 2014, ILO minimum wage database



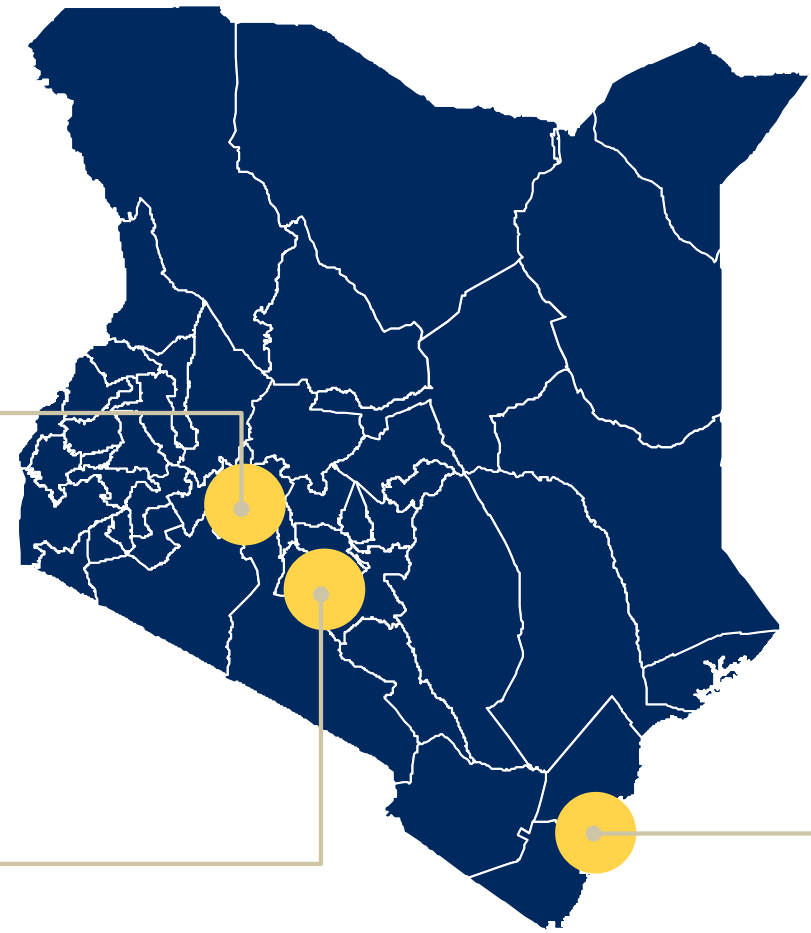
We have three industrial parks dedicated to the development of textiles and apparel

Naivasha textile cluster

- Close to geothermal power and steam
- Skilled labour from Naivasha town
- Competitive cost base

Athi River Industrial park

- Close to skilled labour in Nairobi
- Best trained managers in the region
- On site training
- Connected to major highway and railway to port



Mombasa Industrial park

- Close to Mombasa port
- Skilled labour from Mombasa town
- Established garment manufacturing companies
- Nearby training facilities
- Competitive cost base and incentives



As a Government, we are making strides towards creating a competitive environment to support the growth of this industry



Labour

- **Large and capable labour force** of over 17 million people
- **Labour cost is competitive:** minimum wage rates in from \$92 to \$130 per month for a typical sewing machine operator



Raw materials

- **80% of land (about 350,000 h.a.) in Kenya are suitable for cotton production** with the potential to yield long staple cotton harvests



Energy

- **Green power** - eighth largest producer of geothermal power in the world
- **Steam is a major advantage** - low costs of \$2 - \$3 per tonne
- **Access to zones with power between \$0.05-0.09 kw/h**



Infrastructure

- **Two strategic ports**, Mombasa and Lamu, connect East African region and the world
- **New railways, in addition to existing high quality roads**, will allow quick and easy transport to the sea



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