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VALUE CHAINS IN SMALL SCALE GARMENT PRODUCERS IN NAIROBI:

Challenges in Shifting from the Old Global Regime of Import Substitution to a More Liberalized Global Regime.

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1.0 Introduction

Kenya's industrialisation strategy is gradually moving from import substitution to export-oriented manufacturing. In the import-substitution era, tariff structures, governing trade, favoured industries that were engaged in domestic production rather than those involved in exports. Firms involved in production, during this era, were heavily protected and they dictated commodity flows from one platform to another. Value addition and power in these commodity flows declined as commodities moved from wholesale firms to retailers. The fact that commodity prices were controlled, or regulated, also enhanced the domination of firms in the commodity chains. Retailers, at the lower end of the scale, and consumers had no leeway of organising or configuring production in their favour. The dominant rule of the game for retailers and consumers at the time was "take it or leave it". Firms did not consider product quality, durability and packaging. Retailers and consumers had no choice in procurement. This reality did not last for long, as structural adjustment policies and market liberalisation exposed firms to competition, which they had never experienced before. Large and medium-sized garment firms faced stiff competition from traders who went as far as Britain, Dubai, Italy, Turkey and France to source high quality garments for both men and women. Small garment producers were also not spared by imported second-hand clothes (mitumba), which flooded the Kenyan market after trade liberalisation.

The interesting thing about small-scale garment producers is that instead of collapsing like the large and medium sized firms, small-scale garment produces have increased in number. The other issue is that, except for a few micro and small enterprises, which have taken advantage of outward looking value chains by exporting products to Uganda and Tanzania, the rest of micro and small enterprises have not entered into production for exports. It is against this background that we set out to explore the ways in which micro-and small-Scale enterprises are organising production and trade in a liberalised market.

In liberalised markets, firms are encouraged to diversify their markets by engaging in exports. At the same time, production is organised in a participatory and partnership process, which links together producers, retailers and consumers.

In the year 2000, Nairobi alone had over 6,000 small-scale garment producers and retailers. A majority of these enterprises were founded within five years, before the survey. Several questions that arise out of this is: (i) how do the small-scale enterprises organise themselves from production to distribution? (ii) how have the small firms adjusted themselves from the import substitution regime to the more liberalised global regime? and (iii) what discontinuities have the small firms have experience in adjusting to the new regime?

To answer these questions, we use a conceptual model that draws on two views of industrial development. The first of this is value chain analysis, which provides a systematic way of tracing the stages a product undergoes from conception to production and, finally, to distribution. It also helps in revealing the networks of firms involved in the production process. All in all, value chain analysis contributes to our understanding of the organisation of industry locally, nationally and internationally. The second perspective looks at the business system within which these chains operate. The approach recognises that business does not take place in vacuum, and that other activities and actors help in shaping the character of the firm.

One critical actor is the market or, more precisely, the many markets that firms enter to buy inputs and sell products. With liberalisation, these markets have changed significantly, and we aim to examine how these changes have affected Nairobi's small garment producers. The purpose of this paper is two fold: First, to describe value chains in small garment producers in Nairobi and second, to trace the challenges have experienced by small firms in shifting from the import substitution regime to a more liberalised global regime. Our analysis of the changes brought about by liberalisation, both on current research and earlier

studies, is based on works done by McCormick and others in the late 1980s and early 1990s (McCormick, 1991, 1993, 1996, 1997; McCormick and Ongile, 1993; Ongile and McCormick 1996; McCormick, *et al.* 1997).

The paper is divided into six sections. After this introduction, theory and literature review are presented in section two. Section three discusses the methodology while section four describes the value chains of small garment producers in Nairobi. Section five discusses the shift from import substitution regime to a more liberalized global regime, while section six contains the conclusion of the paper.

2.0 Conceptual Framework

In this paper we use a conceptual framework drawn from two models, namely value chain analysis and the business system approach. We begin by discussing value chain analysis. Value chains consist of design, production and marketing of many products divided among enterprises. They tie production processes with consumption. Value chains take a variety of forms: local, national and international. International chains have been given a lot of attention in the literature while local and national chains have mostly been ignored. This study will attempt to fill these gaps by analysing value chains in small-scale garment producers in Nairobi.

Starting with the work of Gereffi and Korzeniewicz (1994), there is a growing body of theory and literature on value chains. Gereffi, *et al* (2001) defines value chain analysis as a form of conceptualising how global integration takes place. It involves design, production and marketing. Various terminologies have been used to describe value chains, for example global commodity chains, value systems and production networks. According to Sturgeon (2001), value chains are the sequence of productive value-adding activities leading to, and supporting, end use, while production networks are a set of inter-firm relationships that bind a group of firms into a larger economic unit. Humphrey and Schmitz (2001) observe that trade in shoes, clothes and high-value

vegetables is organised by global buyers, who work on behalf of major retailers or brand name companies. They further argue that access to developed country markets has become increasingly dependent on global production networks of lead firms situated in developed countries.

McCormick and Schmitz (2002) observe that the concept of global value chains recognises that the production of goods and services has become globalised. The value chain, therefore, involves activities required to bring a product from its conception to the final consumer. The chain includes all of the production stages of development of a product from its design, sources of raw materials, and intermediate inputs, its marketing and its distribution to the final consumer (McCormick and Schmitz, 2002).

Further, McCormick and Schmitz (2002) identify three dimensions of a value chain: Input-output structure, geographic spread, and governance. The first dimension of the value chain concept consists of the flow of the input-output structure. In this sense, a value chain can be conceptualised as a set of products and services linked together in a sequence of value-adding economic activities. One can trace the cumulative value of a set of physical inputs that are added, at various points, in the structure until their combination results in a final output. It is also possible to use the input-output structure to trace the flow of knowledge and expertise that goes into a product at each stage of the value chain.

The second dimension of the value chain is its geographic spread. The geography of value chains is important (McCormick and Schmitz, 2002). Chains can be global, international, national, regional or local. In global value chains, the design, production, and marketing activities are divided among enterprises, located in different countries (McCormick, 2001). Local, national, and regional chains are geographically limited in the sense that all of their activities take place within a smaller area. In developing countries, most garment chains are sub-national (McCormick and Schmitz 2002). They are characterised by small firms making garments for customers in the immediate

vicinity. Examples of these producers are small firms making uniforms, custom tailors and dressmakers, or small firms making wedding attire.

The third dimension of value chains is the control that different actors have over the activities in a chain. The actors directly control their own activities and are directly or indirectly controlled by other actors. This direct or indirect control in a value chain is called governance. According to Humphrey and Schmitz (2001) governance is the pattern of direct and indirect control in a value chain. Governance in value chains is exercised in different ways and these differences in governance are critical in determining the upgrading prospects of producers in developing countries (McCormick and Schmitz, 2002). In market-driven chains, buyers and sellers deal with each other at arms length. Producers and buyers make independent decisions about what to make and what to buy. In other chains, firms are not totally independent, but form networks of buyers and sellers who interact on a regular basis. In some of these, which are sometimes called balanced networks, power relations between firms are fairly equally distributed. No one firm dominates the other. In other chains, called directed networks, certain firms play a leading role. They specify the producer and what is to be produced, and also monitor the performance of the producing firms. A fourth form of chain governance is the hierarchy. In hierarchies, vertically integrated firms, acting through their own decision-making processes, directly control chain activities.

The second approach to industry, used in this study, is business systems. The business systems approach borrows heavily from New Institutional Economics. According to North (1990) institutions define and limit the set of choices of individuals. Institutions consist of any form of constraints that human beings devise to shape human interactions. Indeed, institutions are the rules of the game. They govern all forms of interactions. Whitley (1992) categorises institutions into three main groups: firms, markets, and societies. Firm level institutions comprise management styles, structures and decision-making processes, owner-employee relations and patterns of growth. Pedersen and

McCormick (1999) applied the business systems approach to study Kenya's industrialisation and found out that, in a typical African state, production and distribution contains several distinct segments. These segments are: parastatal sector, a non-indigenous enterprise sector, and the informal sector. The parastatal sector comprises a formal large-scale sector dominated by multinational firms. Migrant traders or settlers such as Asians in East Africa, whites in Zimbabwe and Lebanese in West Africa, run the non-indigenous sector. Africans dominate the informal sector and it is generally small-scale. Kimuyu (1997) and Fafchamps (1996) argue that the lack of effective institutions, to enforce commercial contracts, contributes to the riskiness of the business environment and makes entrepreneurs restrict their dealings to persons they know or trust.

2.1 Review of Garment Studies in Kenya

The study of small-scale garment producers in the city of Nairobi started as far back as 1986. From the seminal chapter by McCormick (1996), which used a Marxian perspective of class analysis of women in business in Nairobi, the study has evolved to incorporate recent paradigms of New Institution Economics and business systems analysis. All these forms of analysis have been applied in an attempt to understand the underlying factors impacting or influencing small-scale garment producers.

In the 1996 study, McCormick found out that class is a major factor in differentiating women in business. Poor women suffered from limited business opportunities whereas middle class women out performed their petit bourgeois counter parts (McCormick, 1996). In another article McCormick, et al (1996); observed that fundamental barriers, such as access to finance and location, influenced the performance of micro and small enterprises. In more recent works based on institutions and business systems' analytical perspectives, two important attributes of small-scale garment were brought to the limelight. The first one is that, unlike other industries, small garment producers have been able to weave through economic reforms (McCormick et al, 2002a) and the second

one is that small-scale garment producers are now exporting their products (McCormick et al 2000b). The exporting firms were mainly male-owned and had access to supplier credit. These firms were exporting to neighbouring countries of Uganda and Tanzania.

2.2 Theoretical Concerns in Value Chain Analysis

Value chains and the globalisation process analytical perspectives tend to ignore the history behind the spread of industrial capitalism. Industrial capitalism was the base upon which the world economy was founded. Key players in the world capitalism were United States of America and Western European countries. Large heavy industries in regions such as the Ruhr region in Germany, and Birmingham in Britain were centres of industrial capitalism. Firms like General Motors (GM) produced standardised goods for markets situated in several parts of the world. This form of production and market organisation is popularly referred to as Fordism (Scott, and Storper 1986).

Fordism could not survive the world economic crises of the 1970s and 1980s. The great industrial regions in Europe and America declined as firms migrated to other locations in third world countries. The migration of firms leads to the restructing of trade. As the world economy was declining, the Cold War ended with the collapse of the Soviet Union. The collapse of Soviet Union was a blessing for capitalism. It raised the morale of the crippling world economy. At least, capitalism had triumphed over socialism. As this was happening, African countries, like Kenya, were struggling to evolve their own brand of industrial capitalism based on import substitution industrialisation strategy, and agriculture directed by what was then popularly known as African socialism (Kenya: 1965). According to Kennedy (1988), the struggle of ascending to capitalisms was stymied by several obstacles including lack of entrepreneurship, and association of capitalism with western domination.

During the cold world war, African countries could afford to straddle between communism and capitalism. During this era, countries like Kenya were heavily

supported with aid and foreign investments. Indeed, Kenya was the "darling of the west". This advantageous position allowed Kenya to shift between market - based import substitution industrialisation and africanisation programmes Swainson (1981). As a result of this double strategy, production organisation was configured around the import substitution industries, at one edge, and a buoyant informal sector on the other edge. The ISI was heavily protected despite its being dominated by multinational firms and Asians of Kenyan origin, while Africans dominated the informal sector. As long as Africans were subsisting and preserving their lifestyles, everything was okay with the government. The government, therefore, embarked on the construction of African markets in Kariobangi North, Quarry Road, Jericho, Uhuru, Nyayo market and Kenyatta market.

The success of ISI was, however, short-lived. Kenya became heavily indebted and could not pay her debts. Aid providers recommended for the restructuring and reorganising of production. This was to take place within the context of globalisation. Globalisation, which meant the integration of countries into the world economy, production and trade was organised around networks of firms of buyers and retailers. Firms in Africa, in general, and Kenya, in particular, were encouraged to shift from import substitution to export-oriented manufacturing. The extent to which this has taken place is the focus of this study.

The shift was precipitated by structural adjustment and market liberalisation. The private sector and markets were the main tools for allocating resources and propelling industrialisation. Export processing zones were built in order to attract investors in manufacturing for exports. Micro and small enterprises in the informal sector were also included to manufacture products in the restructuring process (Kenya, 1986).

2.3 Market Liberalisation in Kenya

Kenya's industry, in general, and the textile and garment industry, in particular, is in the doldrums. Many firms have closed down while those surviving are barely breaking even. This decline is mainly due to structural adjustments and the subsequent liberalisation that found most, previously protected, industries unprepared for the removal of protection and opening up of markets to imports. Small enterprises, on the other hand, are multiplying in number. Markets in Kenya were liberalised in the early 1990s. This liberalisation has had a significant implication for industry in general and textile and garment firms in particular. The textile and garment industry grew rapidly in the post-independence period and then stagnated and declined. Market liberalisation of the 1990s has, apparently, been at the root of many problems in the textile and garment industry. The particular way in which liberalisation was implemented in Kenya had important effects on small-scale garment producers. Tariff reductions and the growth of informal, uncustomed imports gave producers a wider range of inputs than were previously available. At the same time, massive imports of both new and second-hand garments created very stiff competition for Kenyan-made clothing. Formal sector clothing production peaked in the early 1980s. Between 1989 and 1999, output plunged by approximately 60 per cent, forcing many firms to close down and others to cut employment and production (McCormick *et al.* 1999).

3.0 Methodology

The study uses two data sets obtained at different times within a span of about 10 years. One data set was obtained in 1989 and the other in 2000. Data gathering in both years was preceded by a full census of all garment producers and retailers in the city of Nairobi. The censuses were carried out by groups of well-trained research assistants who combed all markets and buildings in the city of Nairobi in search of garment producers and retailers. The census of the 1989 identified 2,421 micro and small firms, while that of 2000 reported 6,323 firms. Of these, manufacturers numbered 2,200 in 1989 and 4,178 in 2000.

After the censuses, sampling frames were constructed and samples for interviews were selected. The sample for the 1989 survey covered 268 firms, ranging from micro to large-scale, while that of 2000 contained 125 micro and small firms only. The 1989 sample was stratified by size of the firms. The sample for 2000 was constructed using a three-way stratification, i.e. location within the city, main product, and firm size as measured by employment. Two hundred firms were selected but, due to limited resources, approximately two-thirds of the firms (63%) were interviewed. In order to make the two data sets comparable, large firms (with 50 or more employees) were removed from the 1989 sample. This gives a total of 245 firms for 1989 to be compared with the 125 firms surveyed in 2000.

4.0 Small scale garment producer's characteristics

Research in the year 2000 was undertaken with a conscious understanding of the important position of producing firms within a chain of activities, an awareness that was missing in the 1989 study. Our discussion in this section, therefore, draws only on the 2000 sample survey of 125 firms. This is the main outlook for garment producers: sole proprietorships, or own-account workers, 90.4%, partnerships, 88%, and limited liability companies 0.8%. This implies that small-scale garment producers in Nairobi are mainly sole proprietorships, or own-account workers. In terms of literacy levels, entrepreneurs in small-scale garment producers are drawn from different levels of education. Some have completed primary (40.3 %) and secondary education (56.3%). Very few of the entrepreneurs have post-secondary education, including university education (3.4%).

Small enterprises were located in several parts of the city's densely populated areas, including the central business district (CBD). Although majority are concentrated in the eastern part of the city (57.6%). The next largest group of enterprises were located in the southern part of the city (19.2%). Firms located in the western part of the city accounted for 14.4% while those located in the CBD were 8.8%. The firms covered in the survey are generally small. The

number of employees in the enterprises ranged from one worker to 16 workers and mean employment was three workers. Small-scale garment producers make a variety of products. These include: men's suits, women's dresses, trousers, shirts, blouses, cardigans, pullovers, uniforms and African attire. However, for purposes of analysis we confine ourselves to four chains. These are mainly: men's wear, women's garments, cardigans and specialised wear. The specialised commodity groups contain those making uniforms, African attire, and wedding garments.

4.1 Input-output structures

The delineation of the input- output structure starts from designs. Small-scale garment producers draw their designs from pattern books, printed sources, garments in shops, and garments brought by customers. There are significant differences in the sources of small-scale producers designs on the basis of type. Men's wear firms are more likely to draw their designs from garments brought in by customers (50.9%). Women's wear producers mainly source their designs from pattern books (37.3%) and garments brought in by customers (29.4%). Firms in the cardigan value chain are more likely to draw their designs from printed sources, mainly pattern books (41.7%) and other printed sources such as newspapers and style sheets. Specialised producers draw their designs mainly from pattern books (42.9%). There are, however, no differences in the main source of product designs by size of the firm. Firms from all categories draw design from same places.

Table 4.1 Main sources of product designs, by type of firms:

Source of product design	Men's wear		Women's wear		Cardigans		Specialized wear	
	No. of firms	%	No. of firms	%	No. of firms	%	No. of firms	%
Book of pattern	19	34.5	19	37.3	5	41.7	3	42.9
Other printed sources	7	12.7	6	11.8	3	25.0	-	-
Garments in shops	1	1.8	10	19.6	1	8.3	2	28.6
Garments brought by customers	28	50.9	1	8.3	2	16.7	2	28.6
Others	-		1	2.0	1	8.3	-	-
Totals	**55**	**99.9**	**51**	**100.1**	**12**	**100**	**7**	**100.1**

Source: Field survey 2000

Distribution to Individuals Buying Products for their own use.

Organisation of distribution channels is critical to the whole issue of production and trade in the liberalised era. In the import substitution era the consumer was at the mercy of the producer but in the liberalised market the consumer is the deciding factor of price. Producers have to align with consumers and know their tastes. Goods must be distributed in a manner that makes the consumer satisfied. Producers can reach consumers directly or through intermediaries, but whichever way the producers choose they must try to satisfy consumer needs. The producers have about seven platforms through which they distribute final products to the consumers. The object of distribution is to make the consumers satisfied with the product. The producer should also be able to reap his/her benefits. The producers and consumers should be able to negotiate in a manner that leaves all satisfied in a real market situation. Prices are the key determinant of the relationship between the consumers and producer. Unfortunately, the markets in which the consumer and the producer operate from are far from perfect. Institutions such as class, custom and power have a bearing on consumer and producer satisfaction. Producers and customers negotiate in order

to arrive at mutually satisfactory prices and also ensure future customers to the producers. Consumers have power over the negotiation process. Nearly all the producers sell their products to individual customers who buy products for their own use. This means that the consumer has an upper hand in controlling products in the individual's platform. However, by relying on these distribution channels, small-scale garment producers limit their volume of production. They cannot produce in bulk or enjoy economies of scale. The small-scale garment producers do not want to let go of this individual customers platform even after liberalisation. Large proportions of small scale garment producers in both 1989 and 2000 trade in the individual customer platforms.

Significant proportions of small-scale garment producers trade in "business buying products for their own use" platform. The small-scale garment producers trading in this platform differ by type of commodity produced (Table 4.2). Men's wear commodity chain was leading in the proportions of firms selling to business buying products for their own use platform. This may reflect the fact that men's suits are not sold in second hand clothes' markets or as cheap imports. It may also reflect male customers' purchasing behaviour. They are conservative in the way they dress and are reluctant to change their dressing styles.

Table 4.2: Firms distributing products to businesses buying for their own use.

Business buying for own use	Men's wear		Women's wear		Cardigans		Specialised wear	
	No. of firms	%	No. of firms	%	No. of firms	%	No. of firms	%
Yes	19	34.5	6	11.8	2	16.7	2	28.6
No	36	65.5	45	88.2	10	83.3	5	71.4
Total	55	100	51	100	12	100	7	100

Source: survey 2000
Differences are significant at 0.5%

Distribution to Wholesalers and Retailers

Small-scale garment producers trade in a similar manner in wholesale and retail trader's platform. This form of trading applies to all the four commodities of small-scale garment producers. Wholesale and retail traders are intermediaries between garment producers and consumers (Table 4.3). In this platform, the producers have no direct relationship with the customers. It is the wholesaler or retailer who leads the direction of trade. The wholesale or retail trader purchases products in bulk and distributes them to consumers. In this platform, the consumer's role in configuring the mode of production is reduced. Consumer's power to negotiate with the producer is also minimal. The wholesale and/or retail trader controls production and trade.

Table 4.3 Distributing to wholesalers and Traders

	Men's wear		Women's wear		Cardigans		Specialised wear	
	No. of firms	%	No. of firms	%	No. of firms	%	No. of firms	%
Yes	9	16.4	15	29.4	5	41.7	2	28.6
No	46	83.6	36	70.6	7	58.3	5	71.4
Total	**55**	**100**	**51**	**100**	**12**	**100**	7	**100**

Source: Survey 2000

Difference are significant at 0.05%

Distribution to Retail shops and Markets in Nairobi

Distribution of small-scale garment producers to retail shops and markets in Nairobi is another intermediary mediated platform. Twenty one firms trade in this platform, and all the four commodities are represented. Specialised-wear products dominate in this platform. There are differences in the way small scale garment producers distribute products to retail shops and markets in Nairobi. Slightly over half of the firms making specialised wear sold products to retail shops or markets in Nairobi (Table 4.4). The rest of the firms in men's wear, women's wear, cardigan and pullovers and specialised wear sold small portions of their products to retail shops and markets in Nairobi. The failure of firms to

sell products to retail shops or markets in Nairobi has significant implications on the local (Nairobi) organisation of production. It reflects a rather disjointed form of production rather than an integrated one. This, perhaps, reflects the nature of a city divided on the basis of social and economic characteristics.

Table 4.4 Distributing to retailers and markets in Nairobi

	Men's wear		Women's wear		Cardigans		Specialised wear	
	No. of firms	%	No. of firms	%	No. of firms	%	No. of firms	%
Yes	7	12.7	8	15.7	2	16.7	4	57.1
No	48	87.3	43	84.3	10	83.3	3	42.9
Total	**55**	**100**	**51**	**100**	**12**	**100**	**7**	**100**

Source: Survey 2000

Difference are significant at 0.05%

Again there is no direct link between the customer and the producer. The intermediary serves as the link between the producer and consumer. The retail shops and market traders in Nairobi are the ones who serve as intermediaries between producers and consumers. Traders spend more time with consumers of different types and understand them. They, therefore, know consumers' tastes. The small-scale garment producer does not have such time because most small-scale garment producers have no division of labour in their production process. The owner does nearly all the activities involved in the production process. Once the producer sells his commodity to retailers traders and/or wholesalers, he/she looses control of the product as well as identity. This is made worse by the fact that small-scale garment producers have no brand names for their products. Investing time and money in consumer's needs is very important for business upgrading. Unfortunately, small-scale garment produces are not doing so.

Distribution to Retailers and Market outside Nairobi (other parts of Kenya)

The whole process of production organisation, distribution, and trade needs to be better understood. How are small-scale garment producers integrated into the production and distribution mechanisms? How do they negotiate for power and identity in the production processe? Venturing into markets outside Nairobi is one way of participating in national production and trade. It is also another way of diversifying and capturing markets outside Nairobi. Small-scale cardigan producers are leading in the distribution of products to retail shops and markets outside Nairobi. A quarter of women's wear producers are also supplying retail shops and markets outside Nairobi distribution platform. They are trying to venture into platforms that are outside national production and trade (Table 4.5). Movement to this platform is fairly difficult. Some firm's owners do it themselves or use traders who visit small-scale garment producers.

Firms, in all the four value chains, reported selling products to retail shops and markets in other parts of Kenya. This is revealed through the following figures: 42.9% of firms in the specialised category and 25.5% of firms dealing in women's wear, sold their products to shops and markets in other parts of Kenya. However, only 16.4% of firms in men's wear chain sold products to markets and shops in other parts of Kenya.

Table 4.5: Distribution of Products to Shops and Markets in other parts of Kenya

Response	Men's wear		Women's wear		Cardigans		Specialised wear	
	No. of firms	%	No. of firms	%	No. of firms	%	No. of firms	%
Yes	9	16.4	13	25.5	4	33.3	3	42.9
No	46	83.6	38	74.5	8	66.7	4	57.1
Total	55	100	51	100	12	100	7	100

Source: Survey 2000

4.1.5 Distribution to large Retail Chains (Uchumi, Nakumatt and Y fashions)

Large retail chains largely control global trade in garments; Kenya has two main retail chains Uchumi and Nakumatt supermarkets. These two retail chains sell a substantial share of garment products. Few small-scale garment producers are making in roads into these distribution platforms. Firms in specialised wear commodity category were leading in supplying retail chains with products. Firms in cardigan and women's wear also significantly supply products to these large retail chains.

4.1.6 Distribution to Foreign Buyer (Exports)

Exporters and foreign buyers are also entering the small-scale garment producer's production and trade. About 10% of small-scale garment producers are using this platform to distribute some of their products. Firms making specialised commodities (42.9%) areleading in this endeavour. They sell products mainly to Uganda and Tanzania. Firm owners, participating in this platform, travel to Uganda and Tanzania to sell their products. One of the exporters indicated that he travels to Uganda and stays there until all products are sold, while Another one stated that he sells products to Ugandan traders who visit the market. He also stated that he is using the Kenya Export Trade Authority (KETA) to penetrate the export market.

4.2 Suppliers to small scale garment producers

The main inputs for small-scale garment producers are new cloth and knitting thread. Other supplies include: lining or facing material, sewing thread, buttons, zips, snaps, buckles, lace, braid and elastic. There are no significant differences in where the main materials are made, respect to firm size. Firms in all the four-value chain categories use both Kenyan and imported raw materials. In all the value chains, more firms obtain their main raw materials from local sources.

There are several local suppliers of raw materials. These sources are: factories, wholesalers, retailers and customers. However, there are no significant

differences between the various suppliers by type of product. Approximately, half of the firms source from wholesalers and retailers (see Table 4.6).

Table 4.6: Source of raw materials: Compare 1989-2000

Source	Men's wear		Women's wear		Cardigans		Specialised wear	
	No. Of firms	%	No. Of firms	%	No. Of firms	%	No. Of firms	%
Factory	1	1.8	1	2	-	-	1	14.3
Wholesaler	30	54.5	30	58.8	9	75	2	28.6
Retailer	22	40	19	37.3	3	25	4	57.1
Customer/ Contract	2	3.6	1	2	-	-	-	-
Totals	55	99.9	51	100	12	100	7	100

Source: Own Field Survey

Note: Differences not significant at 5% level.

The suppliers are located in several parts of the city (Table 4.7). Firms in the four value chains source their material from different parts of the city. Most of the suppliers to the firms in the men's wear value chain (45.5%) are located in Nairobi's city centre. The city centre is the traditional centre of business activity and has always had many fabric wholesale and retail shops. Most suppliers of firms in the women's wear value chain are located in Eastleigh (46.0.%). Eastleigh is an emerging centre of imported textiles, cloth and garment. Suppliers of firms in the specialised value chain are most likely to be located in Nairobi's city centre.

Significant differences exist in terms of size and suppliers of raw materials for small-scale producers. It is not surprising that the largest firms source from factories, while smaller ones buy from wholesalers and retailers, and the tiniest ones source their materials from customers. Firms sourcing their materials from factories have a mean workforce of 10 workers. Firms buying from wholesalers and retailers have a mean employment of three workers. Those getting their materials from customers have a mean employment of one worker.

Table 4.7: Location of input suppliers.

Location	Men's wear		Women's wear		Cardigans		Specialised wear	
	No. Of firms	%	No. Of Firms	%	No. of firms	%	No. of firms	%
City centre	25	45.5	17	34	5	41.7	6	85.7
Industrial area	1	1.8	1	2	-	-	-	-
Eastleigh	12	21.8	23	46	-	-	-	-
This market	8	14.5	4	8	7	58.3	-	-
Hawkers	-	-	1	2	-	-	-	-
Gikomba	8	14.5	3	6	-	-	1	14.3
Customer	1	1.8	-	-	-	-	-	-
Tanzania	-	-	1	2	-	-	-	-
Totals	**55**	**99.9**	**50**	**100**	**12**	**100**	**7**	**100**

Source: Survey 2000

Differences are significant at 0.1%

There is a relationship between firm-size and the location of suppliers. Large firms source their materials from Nairobi's industrial area. Industrial area, is the designated area in Nairobi, for factories of all types. Most of the medium and large clothing and textile firms are located there. Suppliers to firms with a mean of 10 workers are located in the industrial area. Firms sourcing materials from the CBD had a mean employment of four workers while firms sourcing materials from Eastleigh, Tanzania, markets and immediate neighbourhood had a mean employment of three workers. Firms with the smallest mean employment source their materials from mobile sellers or hawkers. Therefore, hawkers or mobile sellers and customers supplied materials to firms with a mean employment of one worker.

4.3 Variations in Distribution by Firm Size

Use of the various distribution channels also varies by firm size. All the firms in our sample sell to individuals, but many also sell through other channels. On average, those selling through other channels are significantly larger. The largest ones are those distributing their products to exporters and foreign buyers. These

have five workers, compared to the overall average of two workers. Firms distributing to businesses buying for their own use have a mean employment of four workers, compared to only two workers for other firms. The same is true for those that sell to wholesalers and retailers in Nairobi, retailers in other parts of the country, and large retail chains. In each case, the firms using these channels have a mean employment of four workers, compared to two workers for those not using the channel. Size is, therefore, crucial for firms to be able to distribute products outside their individual customers and thus participate in large markets.

5.0 Micro and Small Enterprises Shift

As mentioned earlier, one data set was collected in 1989 before liberalisation while the other was collected in 2000. Liberalisation is part of the World Bank and IMF initiated policies to revive African economies. The reform policies included stabilisation, which involved taking action to reduce government budget deficits and reduce balance of payment problems, as well as reduce the rate of inflation. The reforms also involved the adoption of policies geared forward improved resource allocation, increased economic efficiency and expand growth potential. Liberalisation generally, consisted of the removal of import controls and tariff reduction. Market liberalisation, in particular, involved privatisation, financial market liberalisation and product market liberalisation. In terms of impact, therefore, liberalisation initiated competition to previously protected industries.

5.1 Entrepreneurial characteristics

Market liberalisation, and other economic reforms embraced by the Kenyan government in 1990s, generated a lot of changes to the economy, in general, and micro and small enterprises in particular. The liberalised market demanded a special cadre of entrepreneurs with a knack for new ideas and information regarding markets, sourcing of raw materials, and finance. The key issues addressed by the study at this point are: (i) to find out the character of

entrepreneurs joining small-scale garment production and (ii) firm characteristics.

There were no fundamental differences in the gender of the entrepreneurs between 1989 and 2000. In 1989, 28.6% of the small scale garment producers were male, while 71.4% were female. In 2000, 28.8% of the entrepreneurs were male while 71.2% were female. Level of education is a critical variable in small-scale enterprises (Kinyanjui, 1996). Entrepreneurs with higher levels of education performed better than those with no education. The general pattern of entrepreneur's education in 1989 and 2000 is different (Table 5.1).

Table 5.1 |The Entrepreneurs Level of education, in 1989 and 2000 Surveys

Level of education	1989		2000	
	No. of firms	%	No. of firms	%
None	6	2.4	-	-
Primary	110	44.9	48	40.3
Secondary	104	42.4	67	56.3
Post secondary	25	10.2	4	3.4
Total	**245**	**99.9**	**119**	**100**

Source: survey data 1989 and 2000

Differences are significant at 0.01%

Differences are also apparent in entrepreneurs' professional or technical qualifications (Table 5.2). The proportion of entrepreneurs with no technical or professional qualifications was higher in 2000 (56.8%) than in 1989 (42.9%). However, the proportion of entrepreneurs with government grade tests (42.4%) in 1989 was higher than that of 2000 (22.4%). Entrepreneurs with professional qualification were more (17.6%) in 2000 than in 1989 (2.4%). These professional qualifications were in teaching, nursing, secretarial, and sales and marketing. Entrepreneurs with certified public accounts (CPA) professional qualifications were only reported in 1989. It may be that more entrepreneurs with professional qualification were running businesses in the year 2000 (17.6%) as compared to 1989 (2.4%) because of the job cuts that were taking place in the private and public sector. The businesses might be seen as a safety

net, providing extra income to compensate for falling incomes, high inflation, and security in the event of job loss.

Table 5.2 Professional or technical qualification

Professional or technical qualification	1989		2000	
	No. of firms	%	No. of firms	%
None	105	42.9	71	56.8
Government trade test	104	42.4	28	22.4
Professional	6	2.4	22	17.6
CPA	6	2.4	-	-
Others	24	9.8	4	3.2
Total	**245**	**99.9**	**125**	**100**

Source: Survey data 1989, 2000

Differences were significant at 0.01%

Entrepreneurs in the two survey years differed in the type of work they did before starting their businesses (Table 5.3). Entrepreneurs with no previous occupation were 40.0% in 1989 and 25.6% in 2000. The proportion of employees engaged in regular workers previously doing work similar to what they are now doing more than tripled at between 1989 (6.9%) and 2000 (24.0%). However, entrepreneurs who were previously involved in farming were 15.1% in 1989, but by 2000 only 1.6% had been involved in farming. Entrepreneurs who were engaged in other businesses were 17.6% in 2000 compared to only 6.5% in 1989. Entrepreneurs who had previously been in formal employment in 2000 were 17.6%, compared to 1.2% in 1989. It appears that people from different backgrounds are joining garment-making because of its ease of entry. All that is required is a simple sewing machine that is readily available in the city centre and employment of trained *fundi*.

Note

1. *Fundi* is a Swahili word for artisan or expert, and is commonly used to refer to tailors, dressmakers, etc

Tailoring training is easily available on the job or in dressmaking schools. Tailoring is also offered in primary and secondary schools. Raw materials for

garment making are also available from customers. This eases the start-up costs. The differences in entrepreneurs' backgrounds, no doubt, reflect the high unemployment rates and, to a lesser extent, the retrenchments that have been taking place in the private and public sectors.

Table 5.3 Entrepreneurs' Previous occupations in 1989 and 2000

Previous Occupation	1989		2000	
	No. of firms	%	No. of firms	%
None	98	40	32	25.6
Worked as regular or casual	17	6.9	30	24
Farming	37	15.1	2	1.6
Other businesses	16	6.5	22	17.6
Formal employment	3	1.2	22	17.6
House wife	14	5.7	6	4.8
Teacher	38	15.5	4	3.2
Secretary	14	5.7	4	3.2
Other	8	3.3	3	2.4
Total	**245**	**100**	**125**	**100**

Source: Survey data 1989, 2000

Differences are significant at 0.01%

Entrepreneurs cited different reasons for starting their businesses. The reasons varied at between 1989 and 2000, (Table 5.4). There were more entrepreneurs (32.2%) starting businesses out of interest in 1989 than in 2000 (25.6%). More entrepreneurs (39.2%) reported going into business because they needed an income in 2000. Similarly more entrepreneurs went into businesses in 2000 because they were trained for the job (21.6%). Slightly less than a quarter of businesses (24.5%) in the 1989 survey went into garment making because they thought that it would be profitable. Other reasons why entrepreneurs went into business were the fact that the spouse chose the business, for them, lack of

alternative and the need for self-employment. Only 4.1% of the entrepreneurs in 1989 inherited their business. The comparative figure for 2000 was only 0.8%.

The lack of inherited businesses in the year 2000 reflects the absence of continuity in business from one generation to the next. This largely reflects the fact that among Africans, property is shared out between siblings rather than being passed on to the next generation as one unit. Income and the need to make money are critical factors making people to go into business. In 1989 " out of interest" was the most important motivation (32.2%), but by 2000 it had been replaced by the need to generate income (39.2%). The differences in motives for going into business between 1989 and 2000 may be due to the lack of safety nets caused by the ongoing reforms and devaluations, which have made life extremely difficult. Starting small businesses has become the easiest option for the majority of people.

Table 5.4 Reasons for going into business

Reasons for going into business	1989		2000	
	No. of firms	%	No. of firms	%
Out of interest	79	32.2	32	25.6
Need to generate income	54	22	49	39.2
Trained for the job	33	13.5	27	21.6
Thought it would be profitable	60	24.5	-	-
Inherited business	10	4.1	1	0.8
Spouse chose it	6	2.4	-	-
No alternative	-	-	5	4
Self employment	-	-	11	8.8
Others	3	1.2	-	-
Total	**244**	**99.9**	**125**	**100**

Source: Survey data 1989, 2000

Differences are significant at 0.01%

In respect to business management, record keeping is often associated with education. Many assume that more educated entrepreneurs will be more likely to keep records than those with less education. This, however, was not the case

here. Although entrepreneurs were more educated in 2000, the proportion that keeps business records remained the same.

5.2 Firm characteristics and behaviour

We also compared the characteristics and behaviour of the firms between 1989 and 2000. Under this broad heading, we include products, sources of initial capital, sources of supply, product markets, turnover, and labour productivity. Changes occurred in the type of main products produced in 2000 (Table 5.5). The proportion of firms producing men's wear increased from 21.6% in 1989 to 44% in 2000. The proportion of firms producing cardigans rose from 2.4% in 1989 to 9.6% in 2000. However, the number of firms producing women's wear and those making specialised products decreased in the same period. The decline in firms making women's wear was the largest. This may reflect the changes taking place in garments trade, whereby many retail traders are importing ready-made women's garments from different parts of the world. A visit to one exhibition hall in Muindi Bingu Street revealed that close to 80% of the garment exhibitors were trading in women clothes. Facilities for men's wear were very limited. These exhibitions are offering competition to women's wear makers. In addition to this, women's wear producers are also experiencing competition from second-hand clothing traders.

On the other hand the increase in men's wear producers may, largely, reflect men's conservative nature of dressing and the fact that suits are treated as the official dress code for men. Male consumers are unlikely to shop in places like Quarry Road, where shopping involves digging deeply into mountains of second-hand clothes. Men may not have the patience to do so. Men found digging into these mountains of clothes were traders who purchased products for re-sale in more organised markets. Marginal changes in specialised wear are attributable to the fact that entrepreneurs in this category target speciality markets of African attire, wedding parties and uniforms. The garment speciality markets were not affected by market liberalisation.

Table 5.5 Types of product

Type of product	1989		2000	
	No. of firms	%	No. of firms	%
Men's wear	53	21.6	55	44
Women's wear	172	70.2	51	40.8
Cardigans	6	2.4	12	9.6
Specialised wear	14	5.7	7	5.6
Total	**245**	**99.9**	**125**	**100**

Source: Survey data: 1989, 2000

Differences are significant at 0.01%

5.3 Sources of Start up capital

There are significant differences between 1989 and 2000 in the source of start-up capital (see Table 5.6). Although "own savings" continue to be, by far, the most important source of funding, it decreased from 69.4% in 1989 to 55.6% in 2000. Rising in importance between 1989 and 2000 were gift/loan from spouse (from 17.4% to 22.6%), gift from relative (from 4.5% to 16.1%), and loans from friends (from 1.2% to 4.0%). Surprisingly, given the growing prevalence of micro-finance institutions, (MFIs), no businesses in 2000 reported starting with an NGO loan. This may be because most MFIs now lend, almost exclusively, to existing businesses and do not avail starting capital.

Table 5.6 Sources of start-up capital

Sources of start up capital	1989		2000	
	No. of firms	%	No. of firms	%
Own savings	168	69.4	69	55.6
Savings or resources from partners	9	3.7	-	-
Gift or loan from spouse	42	17.4	28	22.6
Gift or loan from relative	11	4.5	20	16.1
Loan from friends	3	1.2	5	4
Loan from commercial banks	5	2.1	2	1.6
Grantor loan from NGOs	2	0.8	-	-
Others	2	0.8	-	-
Total	242	99.9	124	99.9

Source. Survey data 1989, 2000

Differences are significant at 0.01

Small garment firms were asked to indicate their main source(s) of supply. They reported obtaining material from factories, wholesalers, retailers, mitumba dealers, and customers (Table 5.7). Although wholesalers were the most important source in both 1989 and 2000, the proportion using them declined from 70.8% to 56.8%. At the same time, retailers gained in importance, more than doubling from 18.8% to 38.4%. Reasons for the change need further investigation. It could be that firms do not have adequate capital to make bulk purchases. We found no firms sourcing raw materials from mitumba dealers in 2000, although in 1989, 7.1% of firms reported using fabric from mitumba garments. This also needs further study, because at the census stage, enumerators reported observing firms using mitumba T-shirts to make children's underwear. The proportion of firms sourcing raw materials from customers rose from 0.8% in 1989 to 2.4% in 2000. This may reflect the increase in production for individuals (see below), many of whom bring their own cloth. However, it is

interesting to note, that very few firms considered the customer a *main* source of materials.

Table 5.7: Sources of raw material

Source of raw material	1989		2000	
	No. of firms	%	No. of firms	%
Factory	6	2.5	3	2.4
Wholesalers	170	70.8	71	56.8
Retailer	45	18.8	48	38.4
Mitumba dealer	17	7.1	-	-
Customer	2	0.8	3	2.4
Total	**240**	**100**	**125**	**100**

Source: Survey data 1989, 2000

Differences are significant at 0.01%

Distribution platforms also changed significantly in the period between 1989 and 2000. Most notably, the proportion of firms selling to individuals buying for their own use increased from 78.8% in 1989 to 100% in 2000. Slightly less than a quarter of firms in 2000 sold their products to wholesalers and retailers. The corresponding proportion for 1989 was 17.1%. There are differences in businesses selling to retail shops or markets in Nairobi. Only 3.7% of firms in 1989 sold their products to retail shops or markets in Nairobi. In 2000, firms selling to retail shops and markets in Nairobi were 16.8%. On the other hand, the proportion of firms selling to wholesalers increased slightly, reaching nearly a quarter in 2000. More striking is the increase in firms selling to retail shops or markets in Nairobi, which quadrupled from 3.7% in 1989 to 16.8% in 2000.

As part of the analysis for changes in business behaviour we sought to find out whether small-scale garment producers turnover and productivity has changed over the years. Recalling the sharp decline in formal-sector production, we expected to find a significant decline. In fact, we found no significant difference in either turnover or productivity between 1989 and 2000. The mean yearly turnover for 1989 was Ksh. 133,602 while that of 2000 was Ksh. 131,257. The

mean productivity per worker in 2000 was Ksh. 24,962, compared to Ksh 22,885 in 1989. In contrast to larger firms, Nairobi's small garment producers have managed to maintain both their turnover and their labour productivity in the face of market liberalisation.

6.0 CONCLUSIONS

The analysis shows that the small-scale garment producers are amazingly resilient. Their number nearly doubled between 1989 and 2000. More importantly, they have managed to maintain stability in both their turnover and productivity in this difficult era of market liberalisation. They have shifted sources of supply to take advantage of new goods available since liberalisation. They have also made inroads into Nairobi's formal retail markets. A few are also making inroads to the more lucrative markets of large retail chain buyers and exporters.

In terms of commodity value chains' size, the small-scale garment producers have narrow and short value chains. The network and links clustered around small-scale garment producers are limited in nature and extent. For example, few firms are linked to wholesalers or retailers on the supply side. In the distribution side, the small-scale producers are linked to individual customers. They have limited links with businesses, wholesalers and retailers from other locations, large retail chains and exporters and/or foreign buyers. These limited value chains ensure that small-scale garment producers do not enjoy bulk production or economies of scale in production.

These chains are market-driven. Very small firms, whose owners are both workers and managers, dominate the scene. Some of these producers may be overwhelmed by the various activities they perform in the value chain because they fail to separate the stages of production. The development challenge of the small-scale garment producers is how to upgrade.

Our analysis suggests two possible paths to upgrading. Firms can either opt for higher value products or for higher volume. Attempting the first way are those making African wear, wedding attire, and other specialised products. Only a tiny proportion of firms have chosen this route, but it remains an important option. The other possibility – higher volume – appears especially promising, given the growing importance of national retail chains and the new opportunities presented by the export market. National retail chains, such as Uchumi, Nakumatt and Y-Fashions, are expanding in Nairobi and other major towns. They are popular because they offer one-stop shopping for garments, food, and household goods. Further investigation is needed to better understand their quality and design requirements and their purchasing regulations, but they would appear to be the next step up for many small producers.

Distribution could also be extended to exports, especially now that Kenya is an accredited member of the African Growth and Opportunity Act (AGOA), which allows for the duty-free exportation of garments to the USA. In order for small-scale garment producers to take advantage of AGOA, they need to be able to assure buyers of consistent quality and timely delivery.

Also noteworthy is the fact that consumers play an important role in small-scale garment producer's organisation. Small-scale garment producers, therefore, need to diversify their distribution platforms and form alliances. They also need to established links with consumers. The study has also noted that participating in export is a major venture yet to be fully exploited by for small-scale garment producers and should, therefore, be encouraged.

Note

In order to make turnover and productivity comparable to that of 2000 we converted the 1989 turnover and productivity figures to 2000 prices by multiplying the 1989 prices with a price index of 4.69, reflecting the change in the price index for the period. The index used was the garments and footwear component of the middle-income consumer price

index for Nairobi as reported in the relevant Statistical Abstracts (Kenya, various years).

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