NEXT STOP, AFRICA?
WHY AND HOW INDIAN COMPANIES ARE EXPLORING INVESTMENTS IN EAST AFRICA’S APPAREL SECTOR

INVESTMENT CONTEXT

The global textile and apparel sector is changing. Production costs are rising in established manufacturing hubs, consumer patterns in traditional markets are evolving, and demand for products is increasing in developing countries. New regions, such as East Africa, are emerging as exporters. The number of buyers and suppliers who are shifting their operations to the continent is growing.

Diversification of supply, sustainability considerations and opportunities to reduce production lead times are among the reasons for buyers to move. Suppliers are driven by lower production costs, duty-free market access to key export destinations and opportunities to develop local retail. Countries in East Africa differ in their business environment and investment opportunities.

Since 2015, the Supporting Indian Trade and Investment for Africa (SITA) project has supported Indian companies in understanding, analysing and seizing new market and investment opportunities in the textile and apparel sector across East Africa.

Through its investor engagement, SITA has gained unique insights into the investment context in India and select East African countries, including drivers for international expansion, and investor decision-making processes. As a result of their favourable business environment and investment opportunities, to date, potential Indian investors have shown most interest in Ethiopia and Kenya.

This case study profiles select Indian companies SITA has engaged with and summarises key lessons learned from the project’s interventions in the sector.

SITAS INTERVENTION MILESTONES:

- As a result of 16 investment promotion visits both to India and East Africa, 280 Indian companies have greater awareness about investment opportunities.
- SITA’s deep engagement with eight companies has resulted in investment by two Indian companies in Ethiopia’s growing garment industry.
INVESTOR ENGAGEMENT

As of June 2019, two large Indian textile and apparel manufacturers have invested in garmenting units in one of Ethiopia’s industrial parks as a result of engagement with SITA. After careful evaluation of different options, two smaller Indian garment manufacturers decided against investment in Africa for the time being.

These four companies (profiled below) illustrate practical examples about why and how companies make investment decisions.

“We did not have Africa on our radar. Within 36 hours of being in Ethiopia we decided to invest”

K. P. Ramasamy,
Founder and Chairman, KPR Mill Ltd

KPR Mill Ltd is one of the largest vertically integrated apparel manufacturing companies in India. Before attending an investment awareness-raising seminar facilitated by SITA in India in July 2017, the company had not considered international expansion to East Africa. A few days into their first trip to Ethiopia, KPR decided to make an investment in April 2018.

Less than nine months later, their shed in Ethiopia’s Mekelle Industrial Park was fully equipped and hundreds of workers were being trained. KPR shipped their first containers to Europe and the United States at the beginning of 2019, and officially inaugurated its first overseas garment manufacturing unit in May 2019. So far, KPR have created over 800 jobs in Ethiopia.

“We are proud to say that we started the first company in Mekelle.”

T. S. Kumar,
Vice President of Production,
SCM Garments Private Limited

SCM Garments Ltd’s decision-making process was equally fast. The textile and garment company from South India was initially thinking about expanding into one of India’s neighbouring countries. After meeting Ethiopian government officials during a SITA-facilitated investment promotion mission to India, SCM organized a trip to Ethiopia. Less than a month after their trip, they finalized their decision to invest in Mekelle. SCM started exporting from Ethiopia in mid 2018 and are proud to be among the first movers to set up in Mekelle.

“We do not make decisions based on a gut feel.”

Suresh P,
Zodiac Clothing Co. Ltd

Zodiac Clothing Company Ltd produces men’s clothing and accessories for their own stores, other retailers in India, as well as global export.

Given their business focus, Zodiac requires higher-skilled workers compared to other companies producing simpler garments. Recently, it has become more challenging for Zodiac to recruit skilled factory staff in India. This is due to rising costs of living, particularly in areas around Zodiac’s production facilities in South India, as well as increasing interest among Indians to take jobs in other sectors. Staying competitive in the domestic retail as well as global export market has become increasingly challenging.

Consequently, Zodiac started to explore opportunities for expansion in Bangladesh. Through SITA, the company also evaluated opportunities in Kenya and Ethiopia. After thorough assessment, Zodiac’s management opted for investment in Bangladesh. Given their immediate business priorities, the company felt Bangladesh presented a more viable option for expansion for the time being.

“As a small company like ours, we did not want to be the first mover.”

Karan Jain,
Director, Pooja International

Pooja International specializes in premium children’s wear for international buyers. As a result of an increasingly competitive production environment in North India, Pooja started to contemplate international expansion in 2016. They considered Bangladesh and Sri Lanka, but thought East Africa might be a more suitable investment destination.

After attending a SITA awareness-raising seminar about Ethiopia in India, the family management team undertook two trips to Ethiopia and made an initial decision to invest.

Based on further research and engagement with existing investors, Pooja reconsidered and decided it was not the right time for their business to undertake any international investment. Instability around some of their European buyers played a key role in Pooja’s decision.
LESSONS LEARNED

The wealth of experience that SITA has built over four years offers a unique insight into business decision-making in a South-South investment context. The following lessons can be drawn from SITA’s interventions to facilitate international investment in the textile and apparel sector:

Larger companies make faster decisions. KPR and SCM have made investment decisions within very short time frames. Zodiac and Pooja took much longer to evaluate different factors and options. This may not be too surprising since smaller companies face bigger investment risks. Both Pooja and Zodiac had reservations about being among the first investors in a new context.

Family companies are able to make faster decisions. Many Indian companies operating in the textile and apparel sector are family businesses, in which the decision-making process tends to be faster compared to corporates with more formal governance structures.

Investment decisions are primarily made based on commercial considerations. Yet other factors matter. There are several factors and issues that make investors feel at ease in an unknown environment. The level of engagement with and availability of host country institutions and senior-level decision makers is crucial. Once an initial level of comfort had been established, the businesses further evaluated commercial factors and investment risks.

Size and type of company determine investment criteria. The ecosystem in the host country played a greater role in the small companies’ investment decisions compared to the larger ones. Further, both smaller companies produce more complex garments so, for them, availability of skilled labour was a key determinant.

Trust plays a critical role for investor engagement. Indian sector organizations have helped to convene companies for SITA’s initial investment awareness-raising initiatives in India. The existing trust between the associations and their members has played a role in achieving strong participation at these meetings. The fact that ITC is an established global trade organization has also helped to attract interest and instil confidence among Indian investors.

Anchor buyers are a key success factor for investment decisions. Both KPR and SCM made sourcing agreements with their longstanding buyers before deciding to invest. For Pooja, the lack of an anchor buyer was one of the reasons that they decided against investing. Even buyers consider pre-agreements as critical for expansion in young environments such as Ethiopia.

Mutual cultural understanding matters. Investors are aware of the need to understand and adapt to local cultures while also building on successful existing ways of doing business. In addition to technical training, training on soft skills is widely implemented for local staff. Some international staff also receive language training.

SITA has been instrumental throughout the whole investment cycle. The two companies that made investments did not consider Africa as a potential investment destination prior to engaging with SITA. The other two had started to think about international opportunities, but neither of them had undertaken concrete further steps towards Africa. Investment delegation missions to India facilitated by SITA were an effective tool for initial awareness-raising and introduction to relevant host country stakeholders. After this, the four companies opted for different ways of exploring further opportunities with varying levels of support from SITA. There is no clear evidence that companies of a certain size opt for more or less external support.
FOR MORE INFORMATION

This case study is a summary version. The full report documenting learning and best practice for investment engagement and South-South linkages in the leather sector arising from SITA's interventions is available upon request.

This case study is part of a series to document learning and best practice. Other sectors include chilli production in Rwanda, leather shoe manufacturing in Uganda, and institutional strengthening through peer-to-peer learning in the sunflower oil sector in the United Republic of Tanzania and Uganda. It is based on interviews with companies, sector associations, government representatives, investment authorities, members of SITA, as well as review of available secondary data.

The primary audience includes development partners working in South-South trade and investment, organizations that seek to support economic development, and institutional stakeholders, including East African government representatives and investment authorities.

To find out more visit http://www.voicesofsita.com

ABOUT SITA

Supporting Indian Trade and Investment for Africa (SITA) is a project financed by the United Kingdoms' Foreign, Commonwealth & Development Office (FCDO) and runs from 2015-2022.

SITA's objective is to improve the competitiveness of select value chains (textiles and apparel, pulses, spices, sunflower oil and leather) of five East African countries (the Federal Democratic Republic of Ethiopia, the Republic of Kenya, the Republic of Uganda, the Republic of Rwanda and the United Republic of Tanzania) through provision of partnerships with institutions and business from the Republic of India.

ABOUT ITC

The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations and works towards creating ‘trade impact for good’. ITC assists small and medium-sized enterprises in developing and transition economies to become more competitive in global markets, thereby contributing to sustainable economic development and achieving the United Nations Sustainable Development Goals.

ABOUT FCDO

The Foreign, Commonwealth & Development Office (FCDO) pursues its national interests and projects the UK as a force for good in the world. FCDO promotes the interests of British citizens, safeguards the UK’s security, defends its values, reduces poverty and tackles global challenges with its international partners.

FCDO is a ministerial department, supported by 12 agencies and public bodies.

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