THE BUSINESS ADVOCACY FUND
Supporting Private Public Dialogue

Promoting tariff free access for apparel to the United States
A cost benefit analysis

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This is the first in a series of reports intended to offer an assessment of the benefits delivered by selected projects supported by the Business Advocacy Fund compared to the costs incurred by BAF in supporting the project. As we note in our factsheet (available from businessadvocacy.org), cost benefit analysis (CBA) is a technique used to estimate the monetary value of the benefits and the costs to the community to assess whether a proposed initiative is worthwhile. The concept was originally developed by Jules Dupuit, a French engineer, and was further elaborated by a British economist, Alfred Marshall. Much of the practical development, however, came about because of the US Federal Navigation Act of 1936 which required that the US Corps of Engineers carry out projects to improve the waterway system when the total benefits of a project, irrespective of where they accrued, exceeded the costs. Inevitably, there are a large number of assumptions made in preparing a cost benefit analysis and this is particularly true in environments where there is a lack of detailed data. However, we think that it is appropriate to provide these assessments publicly, partly so that interested parties can consider whether the projects offered value for money, but also to provide an opportunity for others to challenge our assumptions and to offer better data on which to base our calculations.

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1. Introduction

The African Growth and Opportunity Act (AGOA)[1] is a United States Trade Act, enacted in 2000 and since renewed to 2025. The legislation enhances market access to the US for qualifying Sub-Saharan African (SSA) countries, by offering duty free access to the US. To qualify and remain eligible for AGOA, each country must be working to improve its rule of law, human rights, and respect for core labour standards.

The original law covered the period to 2008 but in 2004 was extended to 2015. However, the inclusion of apparel, with conditions, was extended, in 2006, up to 2012. A subsequent legislative revision in September 2012 extended the apparel provisions to the end of 2015 to coincide with the expiry of the AGOA legislation.

The apparel provisions are unique in that they grant countries defined by the legislation as "lesser developed" and which have implemented a special apparel visa system, favourable rules of origin (RoO) requirements.

The AGOA legislation was extended on 29 June 2015 by a further 10 years, to 2025.

The African Cotton and Textiles Industry Federation (ACTIF) first approached BAF in 2010 to fund an advocacy project on behalf of 24 national BMOs from 18 Sub-Saharan African countries to lobby for apparel to be included in the period from 2012 to 2015.

In 2014 ACTIF returned to ask for support to lobby for the inclusion of apparel in the 10-year extension from 2015 to 2025.

In both cases, apparel was included, though one may argue over the extent to which ACTIF was responsible. However, they consulted with stakeholders and engaged in dialogue with US policy makers and arguably contributed significantly to the decision to continue including apparel.

In this short report, we aim to show the difference those decisions made to the economy of Kenya over the period.

[1] See https://agoa.info/about-agoa.html

2. The evidence

The US AGOA website helpfully records the imports to the US through the AGOA arrangements and these are shown to 2016 (note that for 2012, the figure represents five months only)[2]. An average of these figures has been taken for the projection from 2017 onwards.

It is known that much of the textiles used in the apparel that is subsequently is exported is imported from Asia. Based on manufacturing industry benchmarks, we have assumed that one third of the sales price is required to procure the textiles and it is further assumed that none of this is spent in Kenya.

There is a cost to transport the apparel to the USA and this is assumed at 5 per cent. Again, it is assumed that none of this is spent in Kenya.

We have estimated the profit at 10 per cent, though this is almost certainly on the high side in the current economic climate. Many of the firms making apparel for export are owned by ex-patriates and it is assumed therefore that much of the profit does not come back into Kenya either. In reality, some of it might, but we are assuming the worst case.

We have made no allowance for inward investment though the industry has attracted considerable investment from Asia and Middle East.[3]

In a cost benefit analysis, it is necessary to allow for the counterfactual – what would have been the position without the reform. In this case, given that the businesses largely set up in Kenya to benefit from the opportunity, and given that apparel companies such as these are fairly footloose, we have assumed that there would be no alternative sales without AGOA and thus there is no deduction.

Figure 1: Summary of economic analysis

			2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
			-5	-4	-3	-2	-1	0	1	2	3	4	5	6	7
Benefits															
Apparel imports to USA from Kenya via AGOA (1)		$'m	129	379	374	367	339	350	350	350	350	350	350	350	350
Costs															
Textiles imported - estimate of final price	33%		(43)	(126)	(125)	(122)	(113)	(117)	(117)	(117)	(117)	(117)	(117)	(117)	(117)
Cost of transport - estimate, but assume leaves country	5%		(6)	(19)	(19)	(18)	(17)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)
Many businesses foreign owned, so estimate of profit not repatriated	10%		(13)	(38)	(37)	(37)	(34)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)
Allowance for what would have happened without AGOA	0%		0	0	0	0	0	0	0	0	0	0	0	0	0
Balance (ie net benefit)			67	196	193	190	175	181	181	181	181	181	181	181	181
Net present value			73	212	205	197	179	181	163	147	132	119	107	97	87
Total benefit		$'m													1,899

[2] https://agoa.info/profiles/kenya.html (accessed May 2016 and 26 April 2017)

[3] agoa.info/news/article/5806-kenya-tipped-to-be-the-next-hub-for-apparel-sourcing.html, accessed 12 May 2017

There are then two further challenges in determining the total benefits: over what period should we count them and what is the level of attribution.

Often, a cost benefit analysis looks ahead five years or thereabouts. In this case, there is a good argument to cover the entire period covered by the legislation, since we know that the legislation is time limited and we know that apparel will now be included until 2025 (though we have actually assumed that it lasts only until the end of 2024 in the summary above). It is also necessary to ensure that benefits and costs are brought back to current values, so we have used net present values for future years, with a discount factor of 11, which represents the approximate borrowing rate. For consistency, we should use the same approach for prior years, in this case compounding. However, instead of using the cost of borrowing, we have used a rate much closer to the level of interest that might be earned on a deposit and used a factor of two (A lower discount factor and a higher compound factor would increase the net benefits, and we are erring on the cautious side).

Often it is difficult to make an assessment of attribution. In this case, attribution is regarded as high, evidenced by the fact that of three reports appearing on the AGOA website on the 'apparel from Kenya' page, two are the BAF sponsored reports written by ACTIF and one is a report from a US consultancy that particularly draws attention to the role played by ACTIF. This gives a total net benefit for the period of both extensions of $1.9bn.

3. Costs

Between 2010 and 2015, BAF supported ACTIF with four grants totalling some KES13m or about $143,000 at an average exchange rate of KES90:$1. However, this rather understates the total cost since ACTIF participated in training programmes and was given advice, guidance and support by the BAF team. The total budget for BAF for the first two phases was $11m. The grant given to ACTIF was about 3 per cent of the total given as grants for advocacy, so a fair proportion of the total cost would be $330,000.

4. Conclusion

By any measure, ACTIF's advocacy achieved not just once but twice considerable success in retaining apparel from Kenya within the ambit of AGOA. This has had, and will continue to have, a major impact on foreign exchange earnings and on jobs in Kenya. KNBS estimates that apparel businesses benefitting from AGOA employ more than 41,000 and the employment rate is growing at more than 10 per cent per year.[4] From the point of view of BAF, the ratio of benefits to costs is around 5,700. So this project scores highly on return on BAF's investment, sustained foreign exchange earnings and sustained employment.

[4] Kenya National Bureau of Statistics, Economic Survey 2016