EXPORT PROCESSING ZONES PROGRAM
ANNUAL PERFORMANCE REPORT, 2012

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1.0 Executive Summary

The performance of the EPZ program in the year 2012 showed an upward trend with respect to major indicators in the face of adverse global economic environment especially in the Eurozone which had a ripple effect to the rest of the world as outlined in the subsequent part of this report.

The adverse impact brought about by unfavourable local business environment which was characterized by high cost of production especially power tariffs that remains a challenge towards realization of the EPZ program potential. This was exacerbated by competition from more efficient Asian apparel/garment exporting countries like China, India, Bangladesh, Cambodia and Vietnam among others.

Another challenge to the program is the enlargement of the domestic market to include East Africa Community (EAC) which means that EPZ firms have to sell only 20% of their annual production into the domestic market. This has adversely affected enterprise targeting EAC market.

EPZ program recorded growth in principal indicators like exports, total sales (turnover), capital investment, expenditure on local goods & services and average monthly wage with respect to local employment among others. For instance, exports grew by 2.3%, total sales 4.3% while expenditure on local goods & services rose by 21.3% in the year 2012.

Another recent development within the zone is the implementation of Export Business Accelerator (EBA) – Incubator, in which it has improved venture into the export business by small scale indigenous enterprises (SMEs). With the implementation of this project, local ownership of EPZ companies has risen from 17.3% in 2010 to 25.6% in 2012.

1.1 Introduction

The EPZ program experienced growth in the year 2012 as evidenced by performance of key indicators compared to the previous year.

During the year under review there were activities which took place both at institutional and national level which in one way or another has a bearing to overall development of the country and program.

At the national level was the ongoing implementation of the New Constitution which involved putting the required legal framework to lay foundation for appropriate institutions which would spur socio economic development taking into account the delvoved system of government.

The year 2012 was the fifth in the implementation of the First Medium Term Plan (MTP) 2008 – 2012. It is the foundation for the first phase of implementing *Vision 2030*; Kenya's new, long term policy blue print.The overall objective is to realize a higher and sustainable growth of the economy in a more equitable environment, accompanied by increased employment opportunities. Plans were underway for the preparation of the second MTP covering the period 2013 – 2017.

MTP focuses on improving & modernizing country's infrastructure and increasing of manufacturing & industry in Gross Domestic Product (GDP) as well as manufactured exports in total exports among others. It also aims at reducing the number of people living below poverty line from 46% to 28% by creating 3.5 million additional employment opportunities within the MTP period. EPZ program has contributed towards realization of this objective.

At the institutional level, ongoing implementation of Strategic Plan covering the period 2009-2013 on course that laid emphasis on transformation of EPZ to Special Economic Zones (SEZ). It is expected that this objective of SEZ would be realized sooner than later for the benefits to be enjoyed by the EPZ investors even as initiative towards successor strategic plan is under consideration.

The EPZ program has made her share of contribution to Kenya's economy especially employment creation, attraction of new investments and value addition in terms of local resource utilization (domestic expenditure) among others.

This report provides insight to the national and international economic environment borrowing highlights from *Economic Survey 2013*, EPZ performance analysis under various indicators, impact of African Growth Opportunity Act (AGOA), constraints/challenges, set & actual targets for the year 2012 including projection for 2013, and finally the conclusion.

1.2 National and International Scene

According to *Economic Survey 2013*, the national/ domestic economy posted a real Gross Domestic Product (GDP) growth of 4.6% in 2012 compared to a revised growth of 4.4% in 2011 (chart 1).

Macro economic variables remained generally stable, although a surge in inflation during 2011 prompted tightening of monetary policy stance up to mid 2012. Activities accelerated in Agriculture, Whosale & retail trade and transport & communication which, respectively, accounted for 17.6% 15.2% and 10.8% to overall GDP.

All sectors of the economy recorded positive growth, though expansions were moderate.

Price stability was the main focus of monetary policy in 2012. The Central Bank Rate (CBR) was maintained at 18.0% level up to June 2012 and gradually eased the tightening to 11.0% in November 2012 as the pressure on inflation reduced. Inflation eased from annual average of 14.0% in 2011 to 9.4% in 2012, partly reflecting better harvests occasioned by favourable weather conditions and tightening of monetary policy during the first half of 2012.

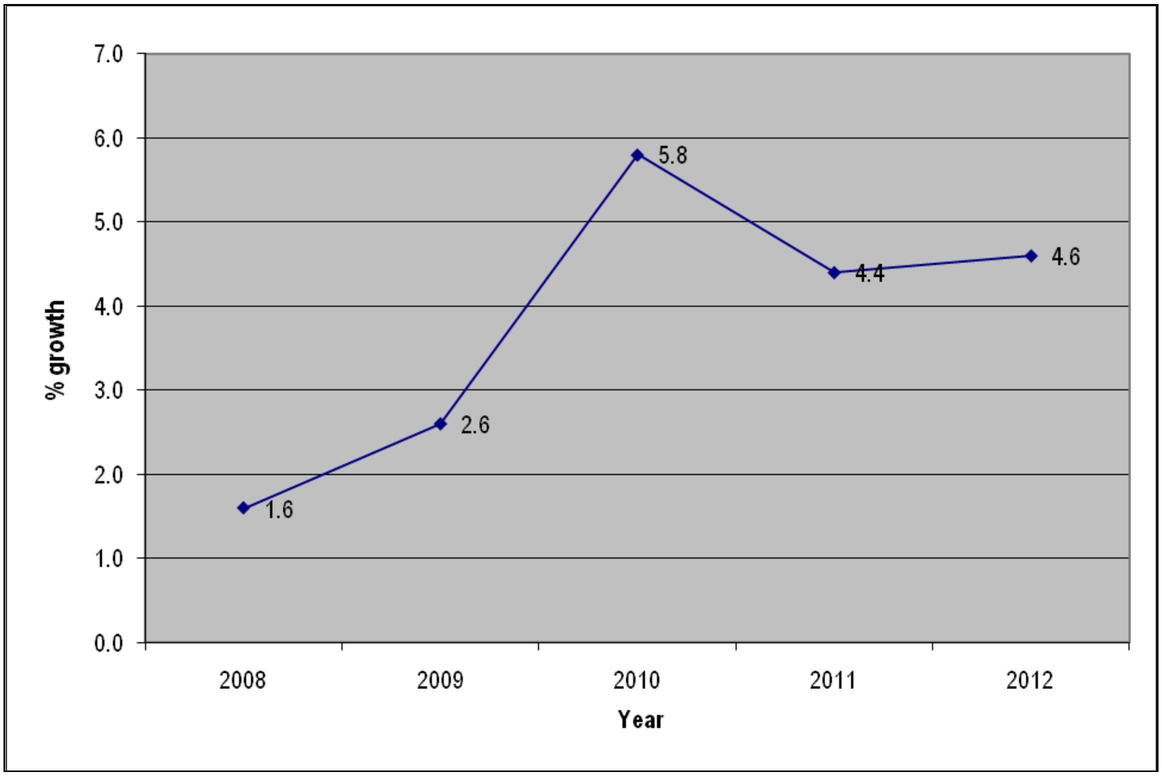
At the international scene, the world real GDP, grew by 3.2% in 2012 compared to a growth of 3.9% in 2011. The reduced growth led to slowed world trade and uncertainty in advance economies which also affected performance in emerging market and developing economies.

Growth in the Organization of Economic Cooperation and Development (OECD) economies slowed by 1.4% in 2012 compared to 1.8% in 2011.

The Euro Area's real GDP recorded a decline of 0.4% in 2012 compared to a growth of 1.5% in 2011. Sub Suharan Africa's (SSA) real GDP expanded marginally by 5.3% in 2012 compared to 5.2% in 2011.

The East Africa Community's (EAC) real GDP remained constant at 5.5% in both 2012 and 2011. This was as a result of pressure on food and fuel prices easing up following a surge in 2011.

Chart 1: Real GDP growth rate (%), 2008 to 2012



Source: Economic survey, 2013

1.3 Performance by key sectors of the economy

1.3.1 Agriculture

Economic Survey 2013 indicated that agricultural sector recorded mixed performance in 2012. Agriculture value added at constant prices increased by 3.8% in 2012 compared to a growth 1.5% in 2011.

Coffee production increased by 35% from 36.3 thousand tonnes in 2010/11 crop year to 49.0 thousand tonnes in 2011/12. Area under coffee bushes remained at 2011 levels in 2012. The high production was attributed to favourable weather conditions experienced in the coffee growing areas and maturing of high quality coffee varieties. The average yield per hectare for estates increased from 417kg/ha to 553kg/ha while that for cooperatives improved from 163kg/ha in 2011 to 207 kg/ha in 2012.

The area under tea increased from 187.8 thousand hectares in 2011 to 190.6 thousand hectares in 2012.However, tea production decreased by 2.2% from 377.9 thousand tonnes in 2011 to 369.4 thousand tonnes in 2012. This is attributed to a 5.3% decline in production from estates. As a result, the share of tea produced by estates reduced from 42.2% in 2011 to 40.9% in 2012. Although production of small holder recorded a marginal drop, its share rose from 57.8% in 2011 to 59.1% in 2012. The low yield was a result of frost attack in some parts of tea growing regions in addition to the dry spell experienced in the first quarter of 2012.

The horticulture subsector registered a depressed performance for the second consecutive year as the quantity of fresh produce contracted by 4.9% in 2012. The total quantity of exported flowers, fruits and vegetables decreased from 216.2 thousand tonnes in 2011 to 205.7 thousand tonnes in 2012. However, the total value of fesh horticultural exports increased marginally in the same period, rising to Kshs 89.9 billion in 2012 from Kshs 88.6 billion in 2011. The volume of cut flowers and vegetables went down by 1.5% and 16.2%; respectively in 2012 while that of exported fruits rose by 14.9%. Cut flowers remained the leading horticultural commodity exported to foreign markets, accounting for more than half of the total volume exported in 2012. The value of flowers exported increased by Kshs 6.2 billion above the 2011 level, adequately compensating for the decrease in the value of vegetables. Horticultural commodity prices were competitive in the year under review, with cut flowers and fruits each recording more than a 10.0% increase in unit price during this year.

Sugar sub sector indicated that the area under cane increased by 19.1% from 179.5 thousand hectares in 2011 to 213.7 thousand hectares in 2012. This increase was attributed to increased cane prices, better management and increased cane demand. Total cane deliveries increased by 9.4% from 5.3 million tonnes in 2011 to 5.8 million tonnes in 2012. This increase was mainly attributed to a larger crushing capacity arising from the commissioning of two new sugar mills.

The quantity of milk delivered to dairy processors recorded a significant drop from 549.0 million litres in 2011 to 495.2 million litres in 2012, after posting growths in the last three years.

Livestock subsector showed high demand for meat products during the year under review. The number of cattle slaughtered in abattoirs rose from 2,103.5 thousand heads in 2011 to 2,194.2 thousand heads in 2012. Over the same period the number of goats and sheep slaughtered increased by 1.5% to reach 5,924.2 thousand head. The pigs slaughtered increased for the second year running, rising from 223.5 thousand in 2011 to 235.4 thousand in 2012.

1.3.2 Manufacturing.

Manufacturing sector registered a growth rate of 3.1% in 2012compared to a growth of 3.4% in 2011 (chart 2). The sector continued experiencing challenges that included high production costs, high cost of credit, competition from imported goods and also uncertainties related to the 2013 general elections.

Ispite of these constraints, there were significant increases in production of motor vehicles, trailers and semi trailers, paper & paper products, basic pharmaceutical products, textile and tobacco products. However, a marginal decline was noted in the performance of food industry.

Production of beverages produced in 2012 increased by 3.1% compared to a 5.3% growth in 2011. The production of beer rose by 5.0% while that quantity of soft drinks dropped by 3.3% to stand at 364.4 millon litres during the same period. Production of tobacco products went up by 7.5% in 2012.

Manufacture of wood and wood products dropped by 4.2% in 2012. However, production of paper and paper products increased by 11.9% during the same period. The growth was supported by increase in manufacture of exercise books, cartons and toilet paper by 19.3%, 11.2 and 1.5% respectively.

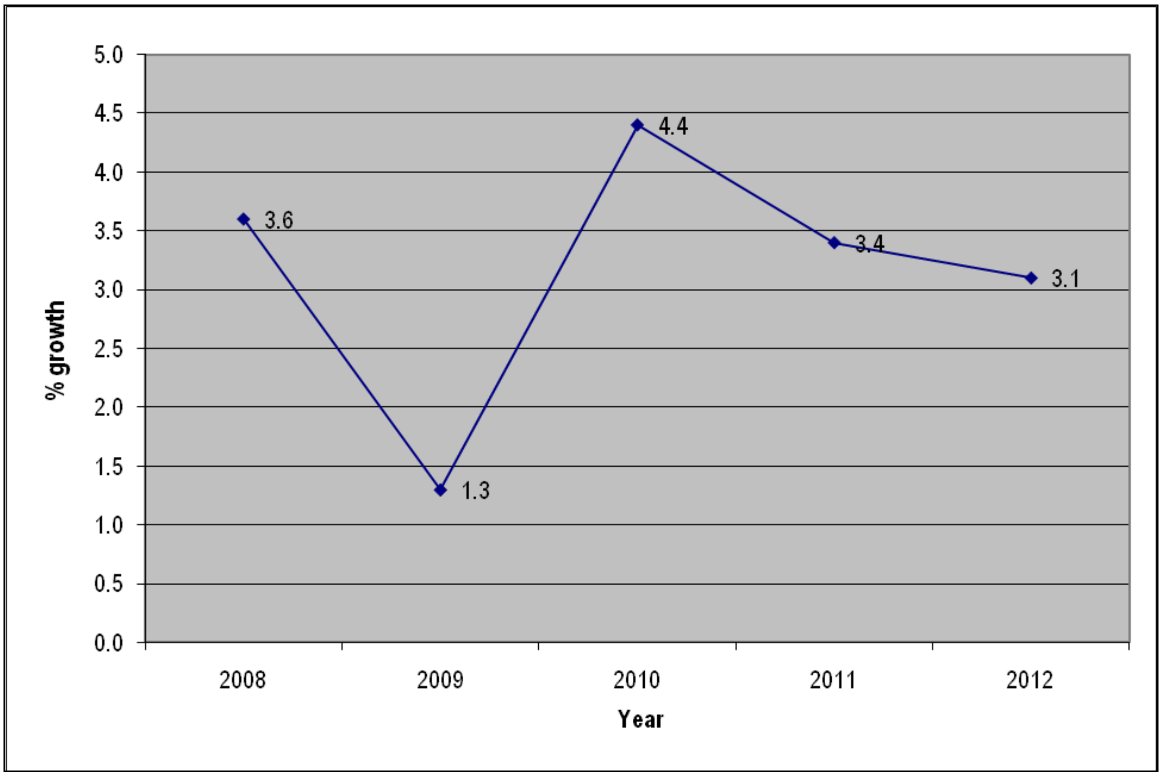
The chemical and chemical products subsector dropped marginally by 1.2% in 2012.
Pharmaceuticals subsector grew by 10.8% during the review period. Production of rubber and plastic products registered a growth of 7.0% in 2012. Manufacture of rubber tyres increased by 14.0% while in the plastic category, the quantities of plastic pipes, plastic bags and plastic tanks produced rose by 21.6%, 6.2% and 2.9% respectively.

Production of basic metals subsector dropped by 3.5% in 2012 after registering remarkable growths in the last two years.

Production of basic non metallic mineral products rose by 3.2 in 2012. Cement production, which forms bulk of this sub sector, increased substantially over the last five year. Cement production registered a growth of 3.6% to stand at 4,639.7 thousand tonnes in 2012 from 4,478.4 thousand tonnes in 2011.

Total formal employment in the manufacturing sector registered a growth from 271.5 thousand persons in 2011 to 277.9 thousand persons in 2012.

Chart 2: Manufacturing sector growth rate (%), 2008 to 2012.



Source: Economic Survey 2013

1.3.3 Other sectors

In 2012, merchandise trade deficit widened to Kshs 856,740 million from Kshs 788,145 million recorded in 2011. The volume of trade expanded by 4.4% compared to a growth of 33.6% in 2011. The value of domestic exports declined marginally by 1% which was more than compensated by a 35.7% increase in the value of re-exports resulting into an increase in total exports from Kshs 512.6 billion in 2011 to Kshs 517.8 billion in 2012. The major foreign exchange earners in the review period were tea, horticulture, coffee and articles of apparels & clothing, collectively accounting for 47.0% of the total domestic earinings.

Total electricity generation increased by 3.9% from 7,559 Gwh in 2011 to 7,851.2 Gwh in 2012. This is explained by a 21.6% increase in hydro generation which accounted for 50.7% of total electricity generation. Thermal and geothermal sources accounted for 28.0% and 19.3% of the total electricity generation, respectively, during the same period. Total demand of electricity expanded by 2.2% to 6,414.4 million Kilo watt hour (kwh) in 2012.

Total installed capacity of electricity expanded by 4.7% to 1,606.1 MW in 2012 from 1,534.3 MW in 2011.

Total quantity of petroleum products imported into the country decreased from 4,285.7 thousand tonnes in 2011 to 4,142.5 thousand tonnes in 2012. Imports of refined fuels rose to 2,803.4 thousand tonnes in 2012 from 2,235.6 thousand tonnes in 2011. Total import bill of petroleum products dropped by 3.2% to Kshs 326.9 billion in 2012.

Tourism sector remained resilient inspite of the Eurozone crisis, insecurity fears and uncertainities related to the 2013 general elections. The overall tourism earnings decreased by 1.9% to stand at Kshs 96.0 billion in 2012 from Kshs 97.9 billion in 2011. The number of international arrivals decreased from 1,822.9 thousand in 2011 to 1,710.8 thosand in 2012 due to slow down in the global economy, especially in the Euro zone, coupled with negative travel advisories following security concerns.

Transport and communications sector grew by 4.4% to Kshs 736.6 billion in 2012. Road transport subsector accounted for 54.6% of the total value of output. The Port of Mombasa recorded 9.9% growth in total throughput handled.

In pipeline transport subsector, throughput of white petroleum products rose by 14.2% from 4,257.4 thousand cubic metres in 2011 to 4,855.6 thousand cubic metres realized in 2012.

Building and construction sector achieved improved performance in 2012 with a growth of 4.8% in the review period, an improvement in growth of 4.3% recorded in 2011. Cement consumption rose by 1.7% from 3,870.9 thousand tonnes in 2011 to 3,937.3 thousand tonnes in 2012.

Loans and advances from commercial banks to the building and construction sector grew from Kshs 50,805.0 million in 2011 to Kshs

69,183.0 million in 2012, reflecting a 36.2% increase compared to 55.7% in 2011.

1.4 Outlook

The prospects of a stable macroeconomic environment look promising in the year 2013. Inflation and interest rates seem to be headed to levels supportive of desirable economic growth. Oil prices were relatively higher during the first quarter of 2013 compared to the same quarter in 2012

Having gone through a peaceful electioneering period, the political climate looks suitable of maintaining a conducive environment for economic activities to thrive.

Manufacturing sector is likely to sustain a growth path similar to that of 2012 given its reliance on agriculture, electricity and financial intermediation sectors. Hotels and restaurants could benefit from a resurgence of international visitor arrivals on account of improved global economic growth. Other sectors are likely to record growth levels attained in 2012.

The world real trade is projected to grow by 4.7% in 2013 compared to a growth of 2.8% in 2012.

Within the domestic scene, the Government final consumption is likely to grow substantially as County Governments take shape while the new Government implements its policies. Private consumption is also likely to rise substantially as market and business confidence builds up.

2.0 EPZ Performance for the year 2012

2.1 Overview of the program

In the year 2012, most of the performance indicators for EPZ program exhibited an upward trend compared to the year 2011.

The number of gazetted zones rose to 47 in year under review from 45 in 2011.

Exports and total sales value increased by 2.3% and 4.3% to stand at Kshs 39,962 million and Kshs 44,273 million respectively. Sales to the domestic market also exhibited an upward trend from Kshs 2,553million in 2011 to Kshs 3,322 million in 2012.

Direct local employment expanded marginally by 10.8 % from 32,043 persons recorded in 2011 to 35,501 persons in 2012, as a result of some EPZ firms which expanded their operations.

Cumulative capital investment in form of equipment, machinery and other funds invested by the 82 operational enterprises increased by 45.6% to Kshs 38,535 million in 2012 from Kshs 26,468 million recorded in the previous year.

Imports also rose by 16.5 % to stand at Ksh 24,973 million in the year under review reflecting increase of activity within the zones and by extension international trade.

Expenditure on local goods and services increased by 21.0%, in 2012 to stand at Kshs 18,097 million from Kshs 14,921 million recorded in the year 2011. This translates to an average of Kshs 1,508 million being injected into the economy by EPZ firms monthly in the year 2012 compared to Kshs 1,244 million in the previous year. These resources go to the payment of local workers salaries, local supply of inputs/consumables; electricity, telecommunication, water, rent and transportation among others, which at the end of the day stimulate demand and growth of the domestic economy. These expenditures explain growth in areas surrounding EPZ zones in their respective geographic locations.

Summary of the performance indicators is outlined on table 1.

Table 1: Performance of EPZ Key Indicators: 2008 - 2012

Indicator	2008	2009	2010	2011	2012	Growth % (2011 v/s 2012)
Gazetted zones (no.)	38	41	42	45	47	4.4
Investors enquiries	218	162	229	240	117	-51.3
Projects approved (no)	24	21	19	28	20	-28.6
Enterprises Operating (no.)	77	83	75	79	82	3.8
Employment – (Kenyans) [a]	30,187	30,115	31,026	32,043	35,501	10.8
Employment - (Expatriates) [b]	471	508	476	421	428	1.7
Total Employment (No)=a+b	***30,658***	***30,623***	***31,502***	***32,464***	***35,929***	***10.7***
Total sales (Kshs. million)**	31,262	26,798	32,348	42,442	44,273	4.3
Exports (Kshs. million)	28,094	23,948	28,998	39,067	39,962	2.3
Domestic Sales (Kshs. million)	2,536	2,214	2,389	2,553	3,322	30.1
Imports (Kshs. million)	16,348	12,672	16,518	21,443	24,973	16.5
Investment Kshs. million	21,701	21,507	23,563	26,468	38,535	45.6
Expenditure on local Purchases (Kshs million)[1]	4,476	3,942	4,661	6,276	8,027	27.9
Expenditure on local Salaries (Kshs million)[2]	3,044	3,274	3,583	3,769	4,509	19.6
Expenditure on power (Kshs million)3	575	488	522	701	757	8.0
Expenditure on Telecommunication (Kshs million)4	88	90	135	61	66	8.2
Expenditure on water (Kshs million)5	55	58	71	87	117	34.5
Other domestic expenditure (Kshs million)[6]	3,127	3,180	4,315	4,024	4,619	14.8
Total Domestic Expenditure (Kshs million) = 1+2+3+4+5+6*	***11,365***	***11,032***	***13,287***	***14,921***	***18,097***	***21.3***

* *Foreign exchange equivalent injected into the economy*
*** Inclusive of exports, domestic sales and sales to EPZ/MUB & Duty Free Agencies*

2.2 Project Approvals

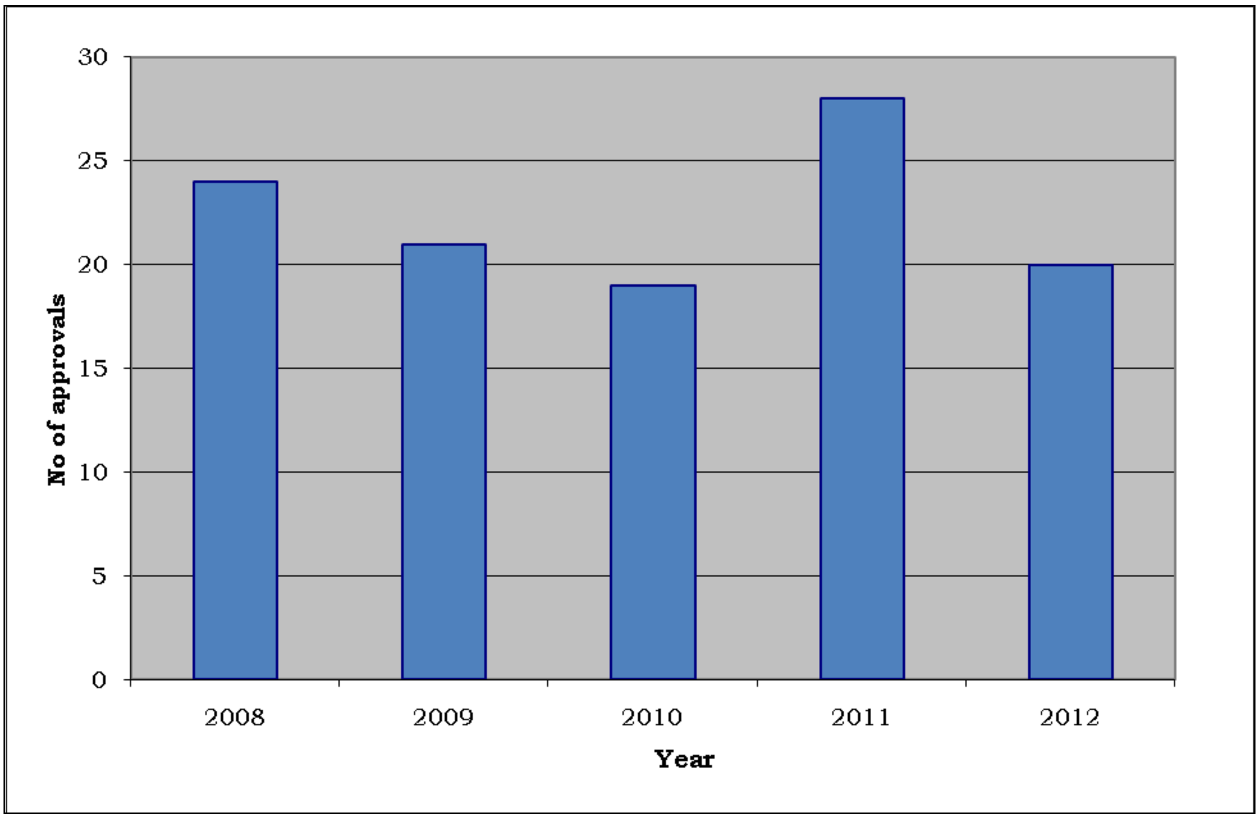
There were 20 approvals with a potential investment of Kshs 3.8 billion, 5,026 jobs and year one sales valued at Kshs 7.3 billion in the year 2012 compared with 28 approvals with a potential investment of Kshs 5.7 billion, 2,072 jobs and year one sales valued at Kshs 29.4 billion in the previous year.

Table 2 and chart 3 has more details.

Table 2: Projects Approved, Expected jobs, Investment & Sales from 2006 - 2012

Year	Number of projects approved	Jobs (number)	Investment (Kshs million)	Year One Sales (Kshs million)
2006	21	4,216	2,918	5,957
2007	18	8,270	2,999	8,008
2008	24	2,432	3,450	8,819
2009	21	2,769	2,496	4,471
2010	19	7,826	1,742	7,826
2011	28	2,072	5,734	29,400
2012	20	5,026	3,798	7,311

Chart 3: Trend of number of projects approved from 2008 - 2012



2.3 Status on gazetted zones

The number of gazetted zones as at the end of December 2012 stood at 47 from 45 during the previous year, out of which 45 are privately owned and operated, while 2 were public.

Eight zones are located in the County of Nairobi, 20 in Mombasa, 5 in Kilifi, 4 in Machakos, 2 in Kiambu, one each in Muranga, Kajiado, Taita

Taveta, Elgeyo Marakwet, Nandi, Uasin Gishu, Laikipia and Meru. Zones are located in 13 Counties (which constituted 5 of the former provinces). Table 3 has more details on location of the zones.

Two new zones were gazetted (Organic Growers & Packers EPZ Ltd and Barnes EPZ Ltd) in the course of 2012 while during year 2011 four zones were gazetted; namely; Hopetoun EPZ Ltd, Keben Business Park EPZ Ltd, Forest Gate EPZ Ltd and P.J Dave Timau Flowers EPZ Ltd.

Table 3b: Geographical distribution of zones per County, 2012

County	Former Province	Number of zones
Nairobi	Nairobi	8
Mackakos	Eastern	4
Kajiado	Rift Valley	1
Mombasa	Coast	20
Kilifi	Coast	5
Taita Taveta	Coast	1
Kiambu	Central	2
Muranga	Central	1
Elgeyo Marakwet	Rift Valley	1
Uasin Gishu	Rift Valley	1
Laikipia	Rift Valley	1
Nandi	Rift Valley	1
Meru	Eastern	1
Total: 13	**5**	**47**

Table 3 shows that 55.3% of zones 2012 were concentrated in Coast Counties compared to 56.8% in 2011.

2.4 Performance of Operational Zones

2.4.1 Athi River Zone

This zone was developed by use of public resources at the cost of US $ 30 million (Kshs 2,535.6 million) to put up the infrastructure and initial industrial buildings. When the investment used to develop phases I & II of Export Business Accelerator (Incubator) of Kshs 140.0 million & Kshs 111.4 million respectively is taken into account total public investment increases to Kshs 2,787.0 million. It is managed by the Authority on behalf of the Government.

The zone has two categories of industrial buildings, one put up by the public and the other by private developers (Trans fleet EPZ Ltd and

Capital Industrial Park EPZ Ltd) that have invested to gather for demand from the EPZ investors, especially with the advent of AGOA.

The public put up 12 industrial units with a total built up area of 160, 500 square feet which were being fully occupied by EPZ enterprises, thereby recording 100.0 % occupancy.

Transfleet EPZ Ltd has constructed 18 industrial units with total built up area of about 290,628 square feet. All the godowns have been leased by four garments enterprises; New Wide Garments K. EPZ Ltd (which took over Protex Kenya Kenya EPZ Ltd), Global Apparels K. EPZ Ltd and Royal Garments Industries EPZ Ltd, hence registering 100% occupancy.

Capital Industrial Park EPZ Ltd put up a total area of 221,000 square feet; although it has remained largely unoccupied for some time, it now hosts two firms namely; Red Dot Distrubiton EPZ Ltd and Reltex Tarpaulin Africa EPZ Ltd which occupy cumulative built up space of 78,000 square feet; representing occupancy of 35.3%.

The zone had 40 operating enterprises in the year 2012, compared to 35 recorded in 2011. Ivee Infusion EPZ Ltd is one of the enterprise at an advanced stage of setting up operations within the zone.

The firms located in the zone are involved in production of a range of activities from garments, pharmaceuticals, darts board, service, agro processing, food processing and electrical goods among other activities.

Regarding the performance of Export Business Accelerator (EBA), it hosted five operational incubates (Avenue Fresh EPZ Ltd, Asante Gifts & Souvenirs EPZ Ltd, Lycan EPZ Enterprises Ltd,Unity Beverages EPZ Ltd and Kikoy Mall EPZ Ltd). Asante Gifts & Souvenirs EPZ Ltd was facing market related constraints.

Candidates are chosen from the target sectors (horticulture, commercial crafts, apparels/ textiles & ICT among others).

The project objective is to attract and nurture small scale local exporters to become high growth exporters within four years and thereafter graduate from incubation program. This would go a long way in having many local investors venturing into the export market hence increase their participation in the EPZ program and demystify the notion that the programme prefers foreign to local investors. This is also in line with Government Vision of 2030 of empowering small local investors to become full time exporters.

Phase II of the EBA has industrial space of 32,100 square feet excluding management offices; all of which were either occupied or booked.

Among the firms which were setting up were Orion EPZ Ltd, Belat EPZ Ltd, Mac Nut International EPZ Ltd, Mohazo EPZ Ltd and Katchy Collections EPZ Ltd among others. African Finest Produce EPZ Ltd which was expected to start operations a while a go faced some operational challenges.

Since plot allocation in Phase I (serviced) is almost all taken up focus now is shifting to phases II & III (unserviced) of the zone to extend infrastructure facilities. Designs for Phase II have been completed and implementation by lot has commenced. It will enable the space be let so that the investors would have already approved designs for implementation when they lease the land.

2.4.2 Kipevu Zone.

This is another public zone located adjacent to the port of Mombasa. Although this zone had remained undeveloped since its gazettement in September 1996, now all the land is committed to EPZ investors. However the pace of implementation of the projects has not moved faster than expected. The zone hosts three enterprises dealing with garment support services and accessories.

2.4.3 Balaji EPZ Ltd

The zone was gazetted in June 2001 and hosts two apparel manufacturing firms. It was formally known as Indigo zone before it was bought by Balaji EPZ Ltd after several years of financial constraints. It has a built up industrial and office space of 362,453 square feet which was fully occupied.

2.4.4 Sameer Industrial Park EPZ Ltd

This is the first private EPZ to be gazetted in November 1990. The zone down scaled its operations as a result of prolonged unfavourable business environment. It forced the zone to reduce the total built up area eligible for EPZ activity from 316,542 square feet to 121,412 square feet, all of which was occupied. It housed six enterprises, dealing in garments/apparels, agro processing, call centre, relief supplies and gemstones.

The genesis of low occupancy in the zone arose from one principal tenant firm which started facing operational constraints brought about by high cost of production that was aggravated by global recession of the period 2008 & 2009, forcing the firm to scaled down its operations to the extend of winding up.

2.4.5 Mazeras Kenya EPZ Ltd

This is a private zone located in Mazeras, Kilifi County, gazetted in March 2002. It hosts Hantex Garments EPZ Ltd, one of the leading garment manufacturing EPZ enterprises. The zone has a total built up area of 238,066 square feet of which whole was being occupied, recording 100% occupancy.

2.4.6 Mvita Industrial Park EPZ Ltd, Changamwe

This zone was gazetted in February 2004 with industrial & office built up space of 91,400 square feet, fully occupied. It hosts Ashton Apparel EPZ Ltd; one of the leading garment manufacturing enterprise.

2.4.7 Pwani Industrial Park EPZ Ltd, Changamwe

This zone was gazetted in July 2000 with industrial & office built up space of 143,583 square feet; fully occupied. It hosts Kapric Apparel EPZ Ltd; one of the leading garment manufacturing enterprise.

2.4.8 Emirates Agencies EPZ Ltd, Jomvu

The zone was gazetted in July 1993. It had remained unoccupied a while ago after Shin Ace Garments K. EPZ Ltd which was occupying it relocated to Zois EPZ Ltd in Mtwapa. It is now hosting an apparel manufacturing enterprise (Mombasa Apparels EPZ Ltd).

2.4.9 Other operational zones

Summary of the performance of operational zones with respect to occupancy, investment, exports and local resource use are tabulated in table 4.

2.5 Other zones

The other zones are categorized as, newly gazetted, setting up, newly operational, zones hosting a branch of an enterprise, dormant, non operational and those in the process of being degazetted.

2.5.1 Zones gazette in the course of the year.

There were two zones gazette in the course of the year 2012. Organic Growers & Packers EPZ Ltd was gazetted in September 2012.
It is located in Kilifi County. This is a greenfield project expected to deal in agro processing, making use of the local raw materials and create strong backward linkage.

The other is Barnes EPZ Ltd gazetted in December 2012 and located in Mavoko, Athi River area of Machakos County.

2.5.2 Zones hosting a branch of an enterprise.

This Pwani Industrial Park EPZ Ltd, Miritini, (formerly Birch Investment EPZ Ltd) Ltd, host branch of Kapric Apparel EPZ Ltd while Kingorani EPZ Ltd EPZ Ltd (host Hui Commercial EPZ K. Ltd & Hantex Garments EPZ Ltd) and Halai Brothers EPZ Ltd (host a branch of Ashton Apparel EPZ Ltd) respectively.

2.5.3 Non operational and dormant zones

These are either zones which have been non operational since being gazetted or those which experienced low/no activity in the course of the year under review. They comprise both the zones which have been developed and those which have not. This category includes Josem Trust EPZ Ltd in Nairobi (gazetted in August 1998). The zone is unlikely to be developed in the near future due to unresolved issues which have surrounded this project. It was further complicated with the demise of the promoter.

The other zone is Taurus EPZ Ltd (formerly Plethico Africa EPZ Ltd) which was gazetted in September 2007. It encountered challenges in the process of setting up especially with regard to the adverse impact of post election violence which made one of the partners to pull out of the project completely, hence delaying its implementation.The promoter has been experiencing challenges in adherence to implementation timetable.This project is capital intensive and technical in nature. The investor was in the process of installing machinery.

Changamwe Holdings EPZ Ltd was gazetted in February 2003. It is located in Changamwe, Mombasa. The zone has been eagerly waiting to take advantage of the benefits accruing from transformation of EPZ to SEZ.

2.5.4 Zones which have either been approved for degazettement or degazetted.

These are zones which have expressed intention for degazettement due to either long period of dormancy or the developer/operator requesting for it. A gazetted zone needs to be developed within two years of gazettement.

The status of some zones indicate that some of them faced excess capacity since their gazettement was pegged on the AGOA initiative which was slowed down in the years 2004 and 2005 by delay in extending third country fabric provision and phase out of quotas respectively, besides existing high cost of production/operations facing the EPZ investors. Other issues cited by investors/zone developers include market constraints (EAC becoming domestic market), inability to attract strategic partner/ tenants and insecurity in surrounding areas among others. These zones include Malory Investments EPZ Ltd, Milstar Investments EPZ Ltd, Hurlingham Group EPZ Ltd, Ruiru EPZ Investments Kenya Ltd and Plastic Compounders EPZ Ltd.

2.6 Zones contribution to EPZ objectives

The performance of the operational zones outlined under table 4 above on average was satisfactory taking into account the challenging business operating environment in the year 2012. Total investment with respect to the infrastructure of the zone was Kshs 5,218 million compared to Kshs 4,892 million in 2011. This figure of investment excludes those of single enterprise zones which are captured in the enterprise investment.

Athi River zone continued to host the highest concentration number of enterprises at 48.78% compared to 44.30% recorded in the year 2011. Sameer Industrial Park EPZ Ltd and Emirates Agencies EPZ Ltd (Changamwe) followed with 7.32% and 3.66% compared with 6.33 % and 3.80% respectively in the previous year.

In terms of local employment, Athi River accounted for 31.54%, Balaji EPZ Ltd, Mazeras EPZ Ltd and Emirates Agencies EPZ Ltd (Jomvu) attracted 12.68%, 8.99% and 7.66% compared to 35.89%, 8.93%, 7.51% and 2.84% respectively in the year 2011. With respect to exports, Athi River zone contributed 30.50%, Balaji EPZ Ltd 9.68 %, Mazeras Industrial Park EPZ Ltd 8.02% and Kenya Fluorspar EPZ Ltd 7.86% compared to 27.23%, 7.63%, 7.83% and 9.10% in the year 2011.

As regards investment by the enterprises, Athi River zone attracted 48.07%; De La Rue 6.21% and Comarco Properties EPZ Ltd 5.66 % respectively compared to 43.32%, 8.77 % and 5.68% in the previous year. Regarding local resource utilization, Athi River contributed 23.04%, Kenya Fluorspar EPZ Ltd 14.79% and Balaji EPZ Ltd 6.91% compared with 20.95%, 17.19% and 5.42% in 2011.

On average, Athi River zone emerged as the highest performer with respect to the selected indicators outlined above. It scored an average of 36.39%, Balaji EPZ Ltd 7.19%, Kenya Fluorspar EPZ Ltd 5.47% and Sameer 4.47% respectively compared with 34.34%, 5.66%, 6.44% and 5.43% in the year 2011.

Mistry Jadva Parbat EPZ Ltd and Halai Brothers EPZ Ltd hosted a branch of Ashton Apparel EPZ Ltd. During the year 2012, MJP is expected to host Mega Garments Industries EPZ Ltd. Similarly, Pwani Industrial Park EPZ Ltd (Miritini) hosts a branch of Kapric Apparel EPZ Ltd while Athi River zone also hosts a branch of Hui Commercial EPZ K. Ltd (the main original plant is located in Kingorani Zone, Changamwe). Respective performance indicators for these zones are captured in the zone hosting the main branch.

2.7 Sector performance

In the year under review fifteen industrial sub sectors were operational, namely, agro processing, beverage/spirits, chemical,dartboard, electrical, food processing, garments, garment support services & accessories, minerals/metals/gemstone, pharmaceuticals & medical supplies, plastics, printing, relief supplies, services and other (stoves and handcraft & curios).

The sector performance is outlined in table 6 and their proportion contribution in table 7. The table shows the number of enterprises in each sector, exports, total sales, direct local employment, investment and local resource utilization. Charts 4 & 5 show sector contribution to investment and exports.

The diagrams indicate that garment sector still remains the most dominant sector within the program. It constituted 26.8% of enterprises, 79.7% of total local jobs, 53.1% of exports, 48.9% of total sales, 30.6% of expenditure on local goods & services and 27.9% of private investment compared to 22.8%, 78.6%, 54.6%, 51.3%, 30.9% and 28.0% respectively in the year 2011.

On average, garment sector contributed 44.4%, followed by agro processing at 15.6% and minerals/metals/gemstones at 9.9% on all of the above indicators compared to 44.5%, 15.6% and 7.9% respectively in the previous year.
More details are shown by tables 6 & 7, and Charts 4& 5.

Table 7: Proportion of sector contribution year 2012 (%)

Sector	no of firms	local jobs	exports	total sales	local resource	investment	Average
Agro processing	21.95%	10.97%	15.87%	14.67%	29.23%	16.09%	18.13%
Beverage/ spirits	3.66%	0.55%	0.91%	0.82%	1.36%	0.64%	1.32%
chemicals	1.22%	0.21%	0.13%	0.12%	0.31%	2.93%	0.82%
Dartboard	1.22%	0.76%	1.50%	1.36%	1.01%	1.84%	1.28%
Electricals	3.66%	0.05%	6.93%	6.25%	0.12%	1.23%	3.04%
Food processing	3.66%	0.86%	1.00%	1.52%	3.12%	5.55%	2.62%
Garments	26.83%	79.71%	53.07%	48.94%	30.58%	27.85%	44.50%
Garments support services	6.10%	0.07%	0.00%	0.09%	0.08%	0.20%	1.09%
minerals/metals/gemstones	4.88%	1.17%	8.17%	7.54%	17.09%	20.32%	9.86%
Pharmaceuticals & medical supplies	2.44%	0.75%	0.98%	1.44%	1.16%	2.73%	1.58%
plastics	6.10%	1.30%	1.04%	1.27%	2.19%	3.06%	2.49%
printing	1.22%	0.73%	1.47%	7.45%	5.19%	6.21%	3.71%
Relief supplies	2.44%	0.32%	2.54%	2.51%	1.88%	1.35%	1.84%
Services	12.20%	2.54%	6.39%	6.01%	6.62%	9.98%	7.29%
other	2.44%	0.02%	0.01%	0.01%	0.05%	0.01%	0.42%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Chart 4: Sector contribution to investment 2012

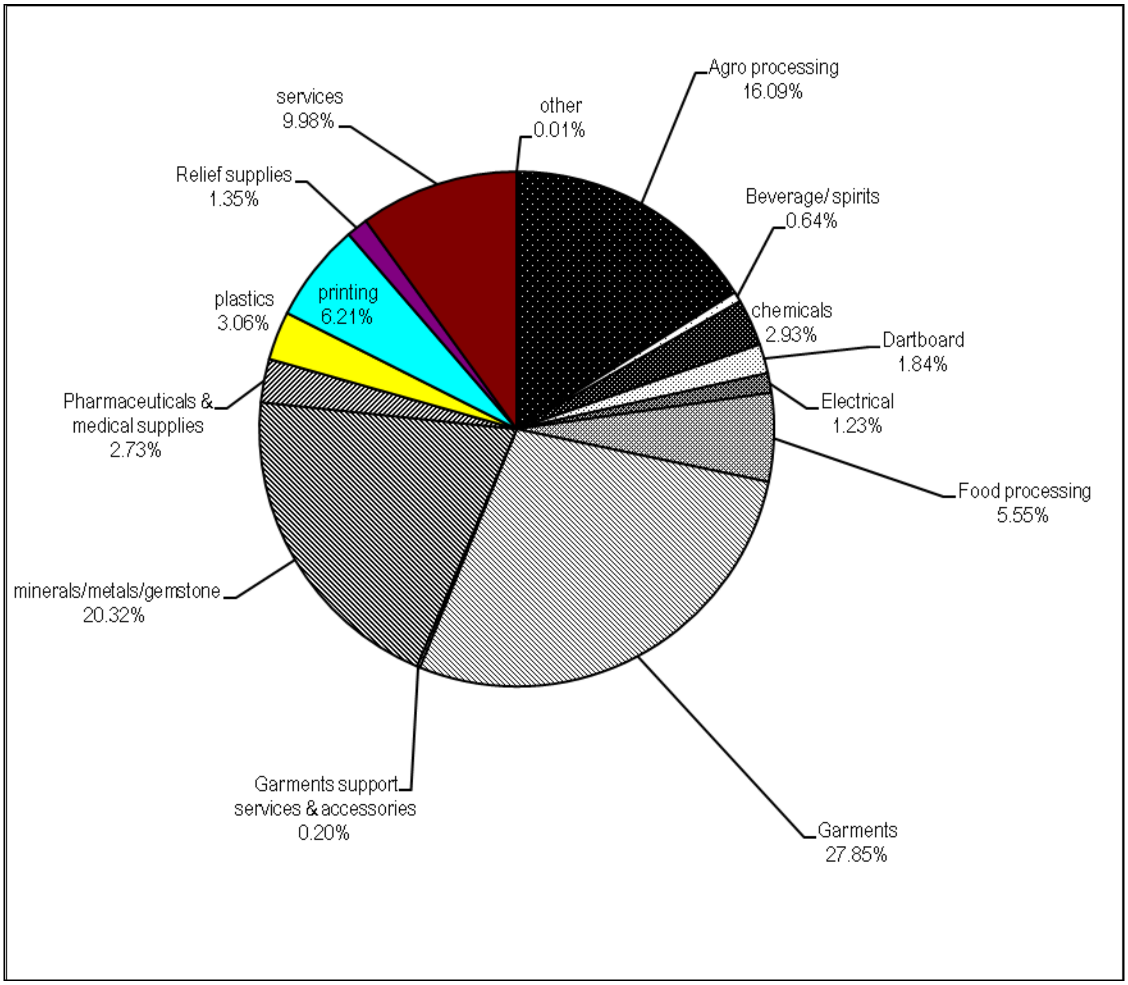
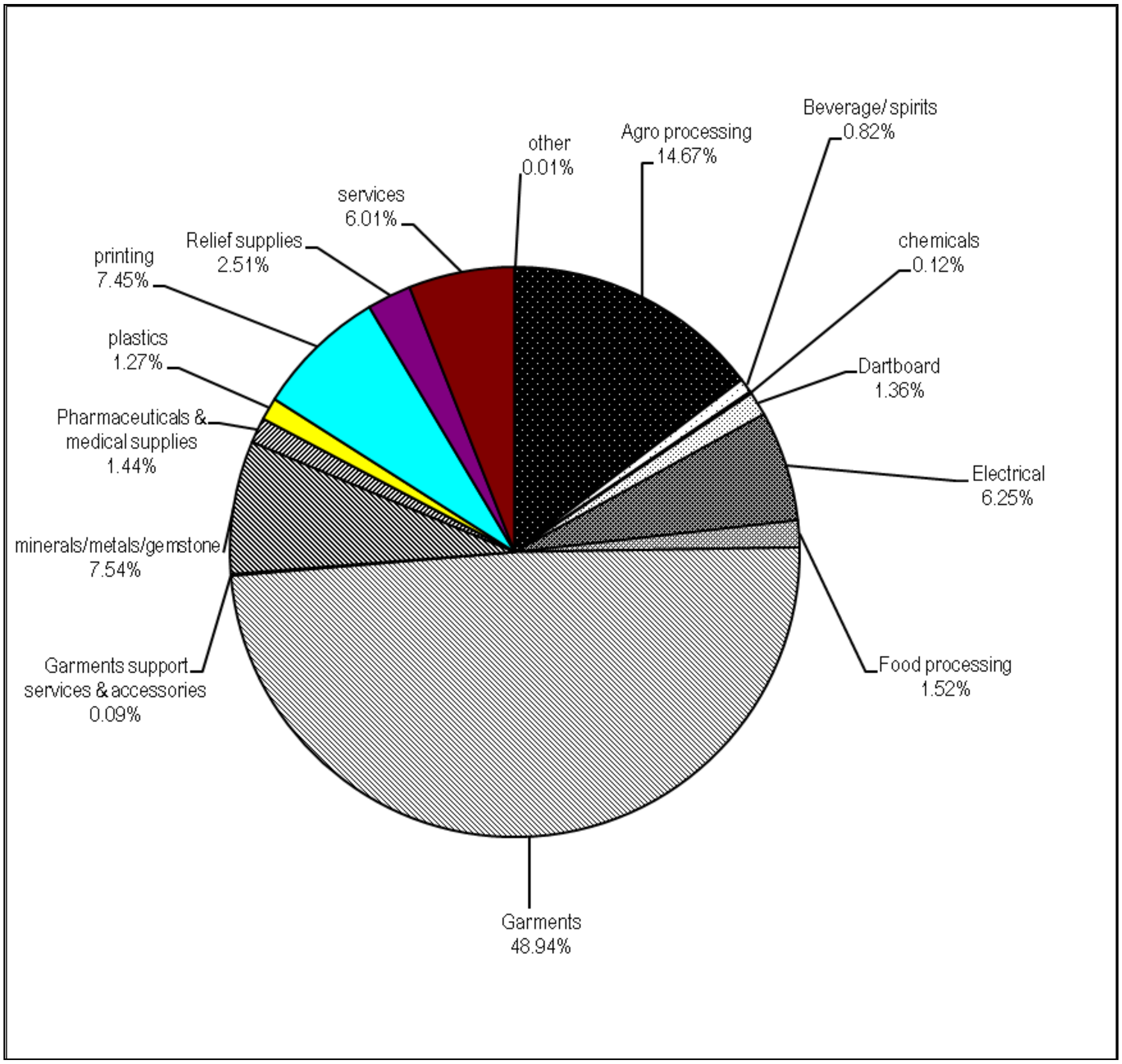


Chart 5: Sector contribution to total sales, 2012



2.8 Ownership of EPZ enterprises

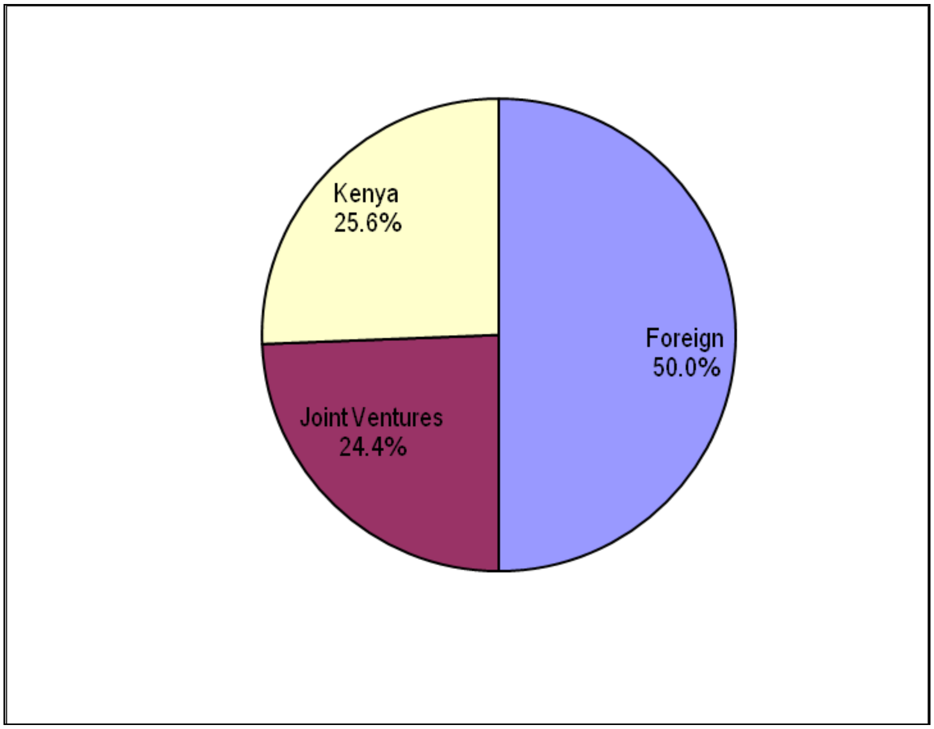
During the year 2012, 25.6% of total EPZ enterprises were wholly Kenyan, Joint ventures were 24.4% while foreign investments constituted 50.0%. In 2011, 25.3% were wholly Kenyan owned, 22.8% were joint ventures and 51.9% were foreign owned.

One of the reason for increase of wholly owned Kenya EPZ enterprises is the implementation of export business accelerator/incubator.

The program has attracted investors from Sri Lanka, India, Taiwan, Dubai, Qatar, Pakistan, Singapore, USA, Canada, UK, Belgium, Germany, Switzerland, Netherlands, Australia, Seychelles, Mauritius, Panama and Tanzania among others.

Chart 6 shows the ownership structure of EPZ enterprises in the year 2011.

Chart 6: Ownership of EPZ enterprises, 2012



2.9 Capital Investment by EPZ operating enterprises.

Cumulative private investment in the form of equipment, machinery and funds invested with regard to the operating enterprises stood at Kshs 38, 535 million in 2012 from Kshs 26,468 million in the year 2011, representing an increase of 45.6%. When infrastructure investment of Kshs 5,218 million undertaken by EPZ developers is included, the figure becomes Kshs 43,753 million compared with Kshs 31,360 million in year 2011.

3.0 Impact of African Growth Opportunity Act (AGOA)

This is a critical sector which is characterized by its labour intensiveness and hence suitable industry for a country like Kenya with high unemployment rate.It is a subsector which employs close to 80% of total work force within the zones and account for over 50% of exports.

Exports of articles of apparels to US decreased in value by 3.5% to stand at Kshs 20,217 million in 2012 from Kshs 20,948 million recorded in the year 2011 which was compensated by increase of quantity from 65.6 million pieces to 81.3 million pieces. This was attributed to the fact that some enterprises had reduced orders especially during the beginning of the year and strengthening of Kenya Shiling against major currencies especially the dollar. During the year under review, there was some noticeable market diversification to other markets other than the US. These include Europe, Canada, and South Africa. During the year 2012, these alternative markets were a destination of Kshs 991.5 million (2.6 million pieces) worth of apparel. In the year 2011, these markets attracted Kshs 365.5 million (1.6 million pieces) of apparel. It is evident that the alternative market is evolving in significance.

Direct employment expanded by 12.4% to stand at 28,298 from 25,169 recorded in the previous year. There was mixed combination of some firms either scaling up or down their operations depending on the business operating environment.

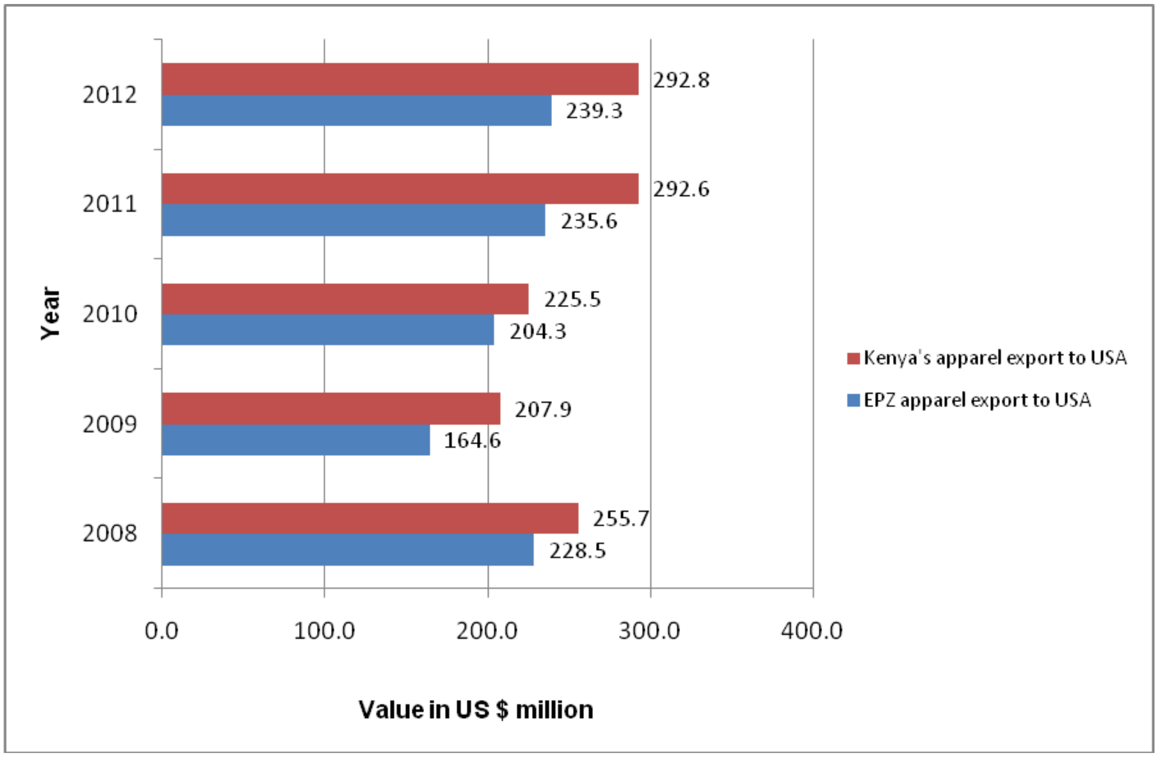
Investment on the other hand registered an increase of 44.9% as result of the enterprises expanding operations and acquisition of new plant, machinery and equipment to meet market demands. The situation was boosted by one enterprise previously dealing with spinning which began apparel production hence necessitating classification as a garment firm.

Quantity of apparels exported to the US market in the year 2012 increased by 23.9% to stand at 81.3 million pieces from 65.6 million pieces recorded in the year 2011 mainly as some enterprises focused on mass production in the face of uncompetitive price in the market. The trend is as shown in table 8 and chart 7.

Table 8: Impact of AGOA on EPZ Garment Sector: 2008 - 2012

Indicator	2008	2009	2010	2011	2012	% growth (2011 v/s 2012
Number of Enterprises	18	19	16	18	22	22.2
Employment (No.)	25,766	24,359	24,114	25,169	28,298	12.4
Investment (Kshs million)	7,578	5,490	6,959	7,407	10,732	44.9
Exports (Kshs million)	15,811	12,699	16,190	20,948	20,217	-3.5
Quantity of exports (million pieces)	67.9	58.1	70.3	65.6	81.3	23.9
Imports (Kshs million)	9,146	6,443	10,123	13,966	14,699	5.2
Exports (US$ million)	228.5	164.6	204.3	235.6	239.3	1.6
Annual average exchange rate (Kshs/US$)	69.2	77.4	79.2	88.9	84.5	-4.9

Chart 7: Trend of EPZ Garment Exports v/s Overall Kenya Garment/ apparel Exports to US under AGOA/GSP: 2008- 2012



3.1 Performance of selected Sub Sahara African (SSA) AGOA accredited countries.

The overview of the performance of selected SSA countries indicates that the growth was more or less stagnant in the year 2012 compared to the previous year.

Intense competition in apparel/textile trade in favour of high competitive South East Asian countries of China, India, Bangladesh, Cambodia and Vietnam among others and the issue of high cost of production in many SSA countries particularly Kenya remains a challenge.

Total apparel exports from Kenya to US increased marginally by 0.1% in year 2012 to stand at US$ 292.8 million from US$ 292.6 million recorded in 2011. This could be attributed to the impact of global economic down turn hence consumers' purchasing power is eroded. In addition, the cost of production in these selected SSA countries could also have contributed to this phenomenon.

Countries like Lesotho, Swaziland and Uganda saw their apparel exports decline by 4.4%, 18.8% and 27.7% respectively while Mauritius exports grew by 3.6%.

EPZ garment/apparel exports were US$ 239.3 million; constituting 81.7% of the national apparel exports while during the previous year it accounted for 90.6%.

Kenya retained number two SSA country in terms of its export value performance to US after Lesotho. This is explained by the fact that Madagascar which used to hold this position had been removed from AGOA preference program effective January 2010 as a result of governance issues in that country, which is a primary criterion for eligibility in the program, was still under suspension.

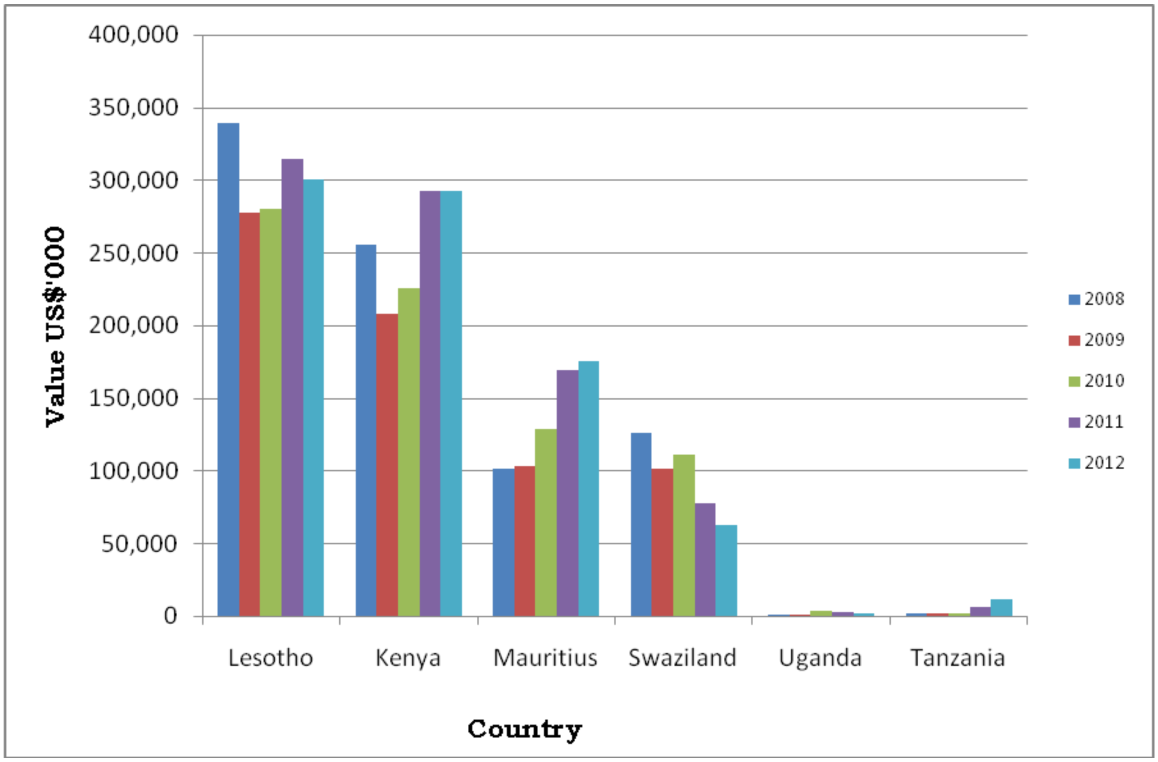
Table 9 and chart 8 has trend on performance of selected SSA countries which are non oil producers and heavily rely on apparel/garment exports to US under AGOA program.

Table 9: Exports to US under AGOA / GSP provisions for selected Africa AGOA eligible countries 2008 – 2012 (US $ '000)

Country	2008	2009	2010	2011	2012	Growth % (2011 v/s 2012)
Lesotho	338,940	277,124	280,392	314,335	300,618	-4.4
Kenya	255,655	207,859	225,491	292,595	292,828	0.1
Mauritius	101,742	103,063	128,927	169,191	175,227	3.6
Swaziland	125,566	101,043	111,073	77,192	62,707	-18.8
Uganda	1,055	742	3,315	2,541	1,838	-27.7
Tanzania	2,047	1,861	2,118	5,751	11,846	106.0

Source: http://dataweb.usitc.gov/africa/total_agoa_import_suppliers.html

Chart 8: Trend of apparel exports to US from selected AGOA Africa countries under AGOA/ GSP, 2008 - 2012



There was extension of the Third Country Fabric provision which was to expire in September 2012 for three years. There is need to fastrack development of adequate capacity on fabric provision and supply within the region to ensure sustainability of the trade program.

Other developments on AGOA in SSA eligible countries indicate that in the course of the year 2012, US Government stripped trade preference to Mali and Guinea Bissau following backtracking from democratic governance by these countries which is one of the principal eligibility criteria for this trade preference.

On the other hand, South Sudan was added to the SSA AGOA beneficiary countries. This is expected to increase the level of competition for trade and investment within the Eastern region of Africa.

Annual AGOA Forums which are hosted alternately by SSA and US provide a platform to address some of the challenges which affect full realization of AGOA benefits by SSA.The 2012 Forum was held in US while the one for 2013 is scheduled to be held in August 2013 in Ethiopia.

3.2 Significance of EPZ to the national economy

Export Processing Zones contribution to the national economy has been rising steadily over the years. This contribution became more significant with the coming into effect of AGOA, in the year 2000.

In 2012, EPZ contribution to manufacturing sector output rose to 4.25% from 4.21% registered in the previous year.

In the year under review, the export processing zones contribution to the total manufacturing sector employment accounted for 12.77% from 11.80% posted in the year 2011.

EPZ exports to total Kenya exports showed that it increased from 7.64% in 2011 to 7.72% in the year 2012.

Contribution to Gross Domestic Product (GDP) at market price (constant prices) of the economy has risen from 2.29% in 2008 to 2.75% in 2012.

Articles of apparel & clothing the bulk of which originate from EPZ (80%) were Kenya's fourth largest merchandise export contributor after tea, horticulture and coffee which collectively together with the fourth export earner, coffee; account for 47.0% of total domestic export earnings in 2012.

A summary on table 10 and Charts 9 & 10 shows EPZs contribution to the national economy.

Table 10: EPZ contribution to the national economy: 2008– 2012

Indicator	2008	2009	2010	2011	2012
Total Kenya Exports (Kshs Million)	344,947	344,950	409,794	512,604	517,847
Manufacturing sector Value of Output(Kshs Million)	717,217	738,829	861,130	1,015,542	1,042,181
GDP at market price ; constant prices; (Kshs Million)	1,357,263	1,394,387	1,475,302	1,539,912	1,610,084
Total national employment (number)	10,012,500	10,703,100	11,418,600	12,077,700	12,737,100
Manufacturing sector employment (number)	264,095	265,300	268,100	271,500	277,900
Exports EPZ (Kshs. Million)	28,094	23,948	28,998	39,067	39,962
Total output EPZ (Kshs Million)	31,262	26,798	32,348	42,442	44,273
Total Employment EPZ	*30,658*	*30,623*	*31,502*	*32,043*	*35,501*
EPZ contribution to total Kenya Exports (%)	8.14	6.94	7.08	7.64	7.72

Indicator	2008	2009	2010	2011	2012
EPZ contribution to manufacturing sector value of output (%)	4.36	3.63	3.76	4.21	4.25
EPZ contribution to total national employment (%)	0.30	0.29	0.29	0.28	0.28
EPZ contribution to manufacturing sector employment (%)	11.43	11.54	11.75	11.80	12.77
EPZ contribution to GDP; constant prices (%)	2.29	1.92	2.20	2.76	2.75

Source: Economic Survey 2013 and EPZA various reports.

Chart 9: Contribution of EPZ output to manufacturing sector output, 2008 - 2012.

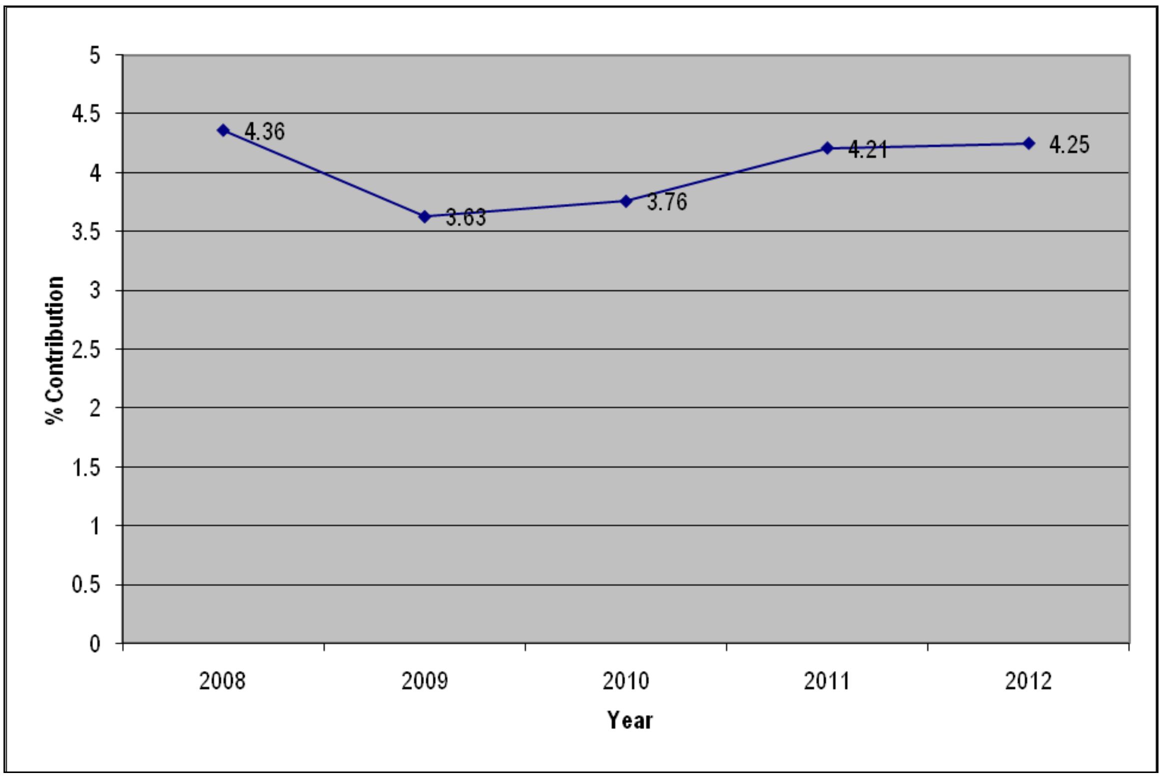
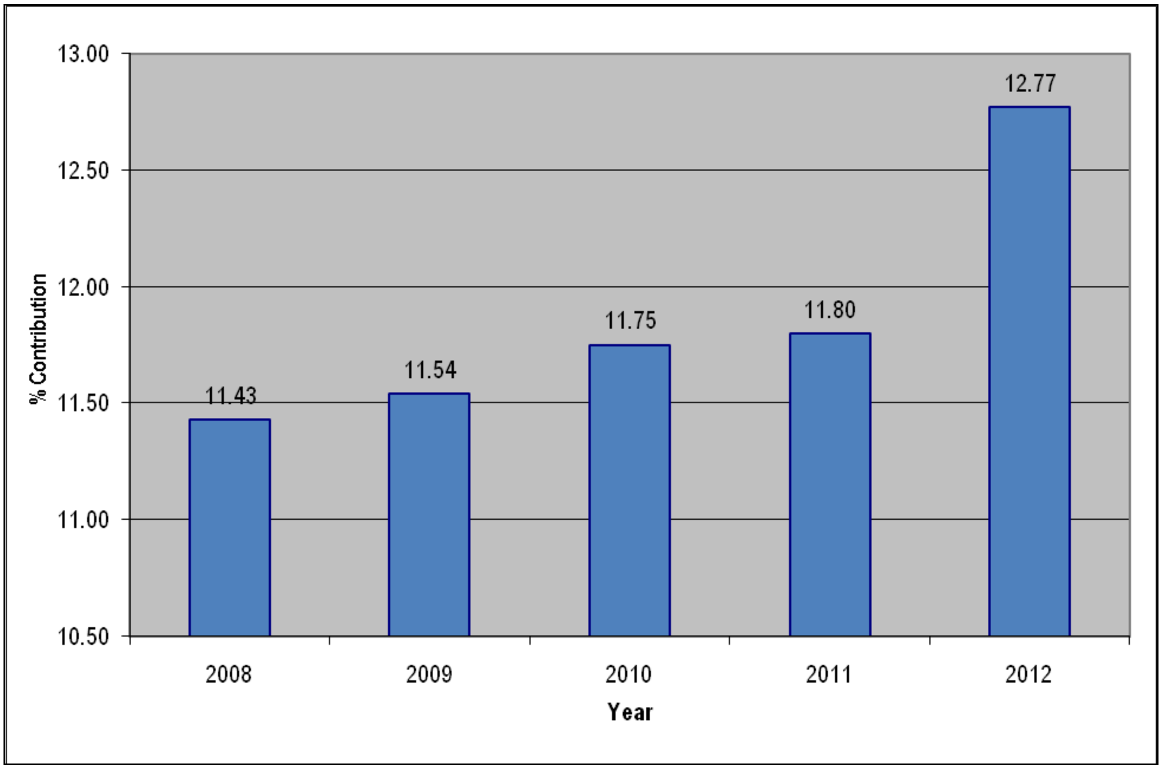


Chart 10: EPZ Contribution to manufacturing sector employment; 2008 – 2012



4.0 Regional Performance

Regional performance constitutes analysis of EPZ enterprises performance as per their geographical locations which are Athi River/ Mlolongo/Isinya, Nairobi, Mombasa, Kerio Valley/Nandi, Thika/Muranga and Laikipia. Most of these firms are concentrated around Athi River, Nairobi and Mombasa region.

A summary of performance in respect to the number of operating enterprises, exports, local employment creation, local resource utilization, investment and imports indicated that on average those enterprises located in Mombasa and Athi River had strong performance.

It is also a testimony that enterprises in the hinterland could also perform equally high as those firms located near the seaport where operational logistics are minimal as long as required facilitation is offered.

Although Mombasa region had the second highest number of operating enterprises numbering 22, it generated total local employment of 13,583 compared to 40 firms in Athi river region creating 13,226 jobs, accounting for 38.3% of total local jobs in 2012 compared to 40.5% in 2011.

Average performance for the regions with respect to the selected indicators were 38.6%, 32.3%, 20.2%, 5.6% and 2.8% for Athi River/ Mlolongo/Isinya, Mombasa, Nairobi, Kerio Valley and Thika/Muranga for 2012 compared with 35.2%, 35.5%, 21.2%, 5.8%,and 2.2% respectively in 2011.

Refer to tables 11 & 12 and chart 11 for more details.

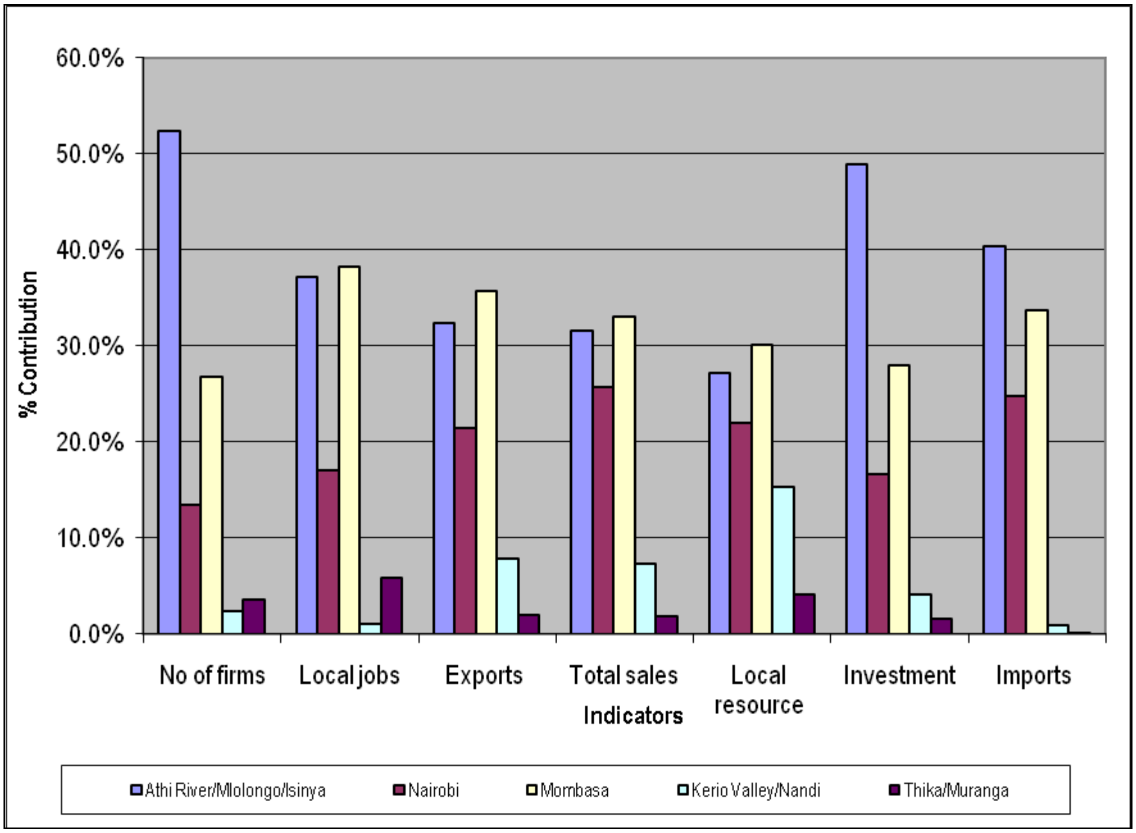
Table 11: Regional performances year 2012

Region	Firms (no)	Local jobs (no)	Exports (Kshs m)	Total sales (Kshs m)	Local resource (Kshs m)	Investment (Kshs m)	Imports (Kshs m)
Athi River/Mlolongo/Isinya	43.0	13,226.0	12,934.0	13,981.0	4,926.0	18,882.0	10,091.0
Nairobi	11.0	6,068.0	8,554.0	11,397.0	3,987.0	6,421.0	6,207.0
Mombasa	22.0	13,583.0	14,302.0	14,628.0	5,462.0	10,806.0	8,412.0
Kerio Valley/Nandi	2.0	376.0	3,140.0	3,227.0	2,770.0	1,581.0	225.0
Thika/Muranga	3.0	2,103.0	818.0	826.0	756.0	621.0	33.0
Laikipia	1.0	145.0	214.0	214.0	196.0	224.0	4.5
total	**82**	**35,501**	**39,962**	**44,273**	**18,097**	**38,535**	**24,973**

Table 12: Contribution by region, 2012 (%)

Region	No of firms	Local jobs	Exports	Total sales	Local resource	Investment	Imports	Average
Athi River/Mlolongo/Isinya	52.4%	37.3%	32.4%	31.6%	27.2%	49.0%	40.4%	38.6%
Nairobi	13.4%	17.1%	21.4%	25.7%	22.0%	16.7%	24.9%	20.2%
Mombasa	26.8%	38.3%	35.8%	33.0%	30.2%	28.0%	33.7%	32.3%
Kerio Valley/Nandi	2.4%	1.1%	7.9%	7.3%	15.3%	4.1%	0.9%	5.6%
Thika/Muranga	3.7%	5.9%	2.0%	1.9%	4.2%	1.6%	0.1%	2.8%
Laikipia	1.2%	0.4%	0.5%	0.5%	1.1%	0.6%	0.0%	0.6%
total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Chart 11: Contribution by region (%) year 2012

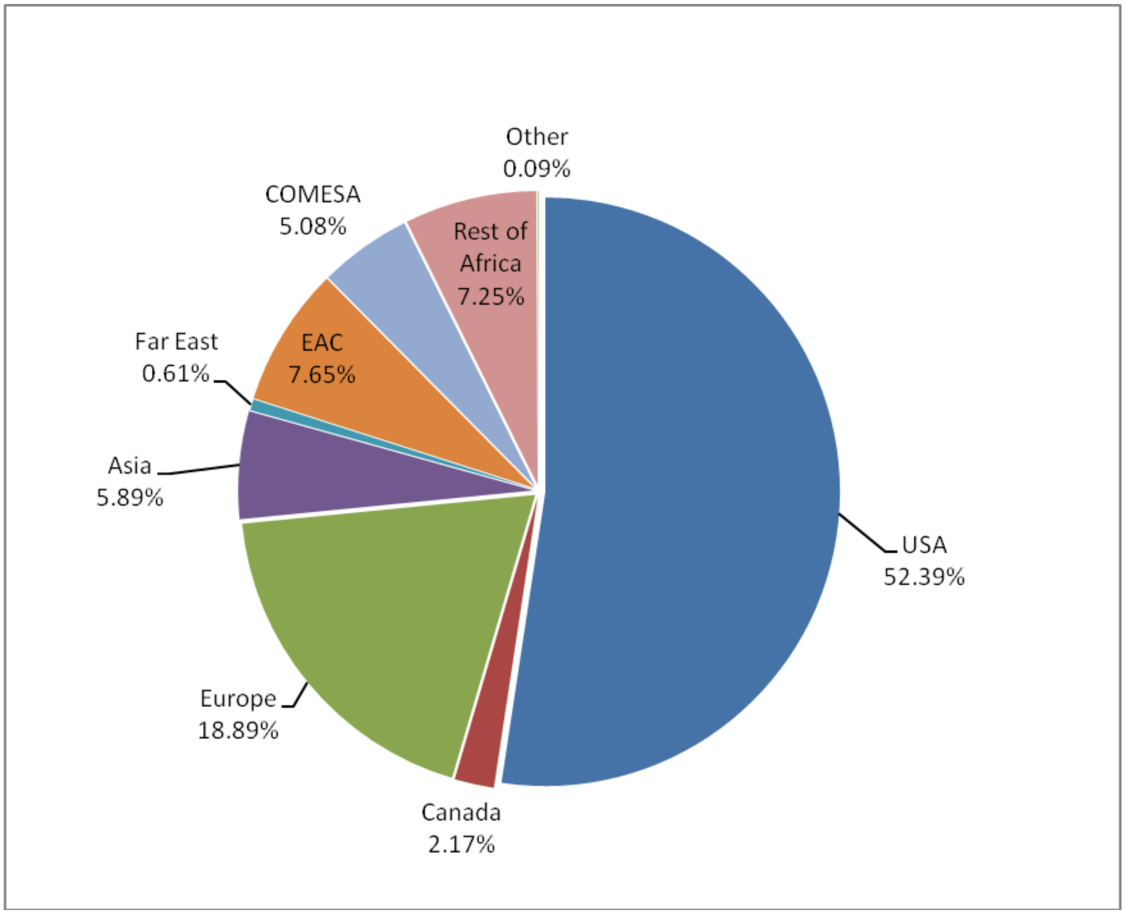


5.0 Destination of Exports

During the year under review, 52.4 % (Kshs 20,935million) of all exports were consigned to USA market out of which 96.6% (Kshs 20,217 million) constituted exports of garment products. In the year 2011, 54.7% (Kshs 21,371 million) were exported to US out of which 98.0% accounted for garment exports.

Europe accounted for 18.9 % (Kshs 7,548 million) of the export market, EAC 7.7% (Kshs 3,057 million), Asia 5.9 % (Kshs 2,352 million), COMESA 5.1 %(Kshs 2,029 million), Rest of Africa 7.3 %(Kshs 2,899 million), Far East 0.6 %(Kshs 243 million) and 0.1% (Kshs 34 million) was destined to the rest of the world. During the previous year, Europe accounted for 18.2% (Kshs 7,127 million), EAC 4.9% (Kshs 1,896 million), Asia 9.1% (Kshs 3,574 million), COMESA 6.8% (Kshs 2,644 million),Rest of Africa 5.3% (Kshs 2,083 million), Far East 0.3% (Kshs 136million) and 0.4 % (Kshs 169million) to the rest of the world (chart 12).

Chart 12: Market destination for all exports, 2012



6.0 Employment and wages

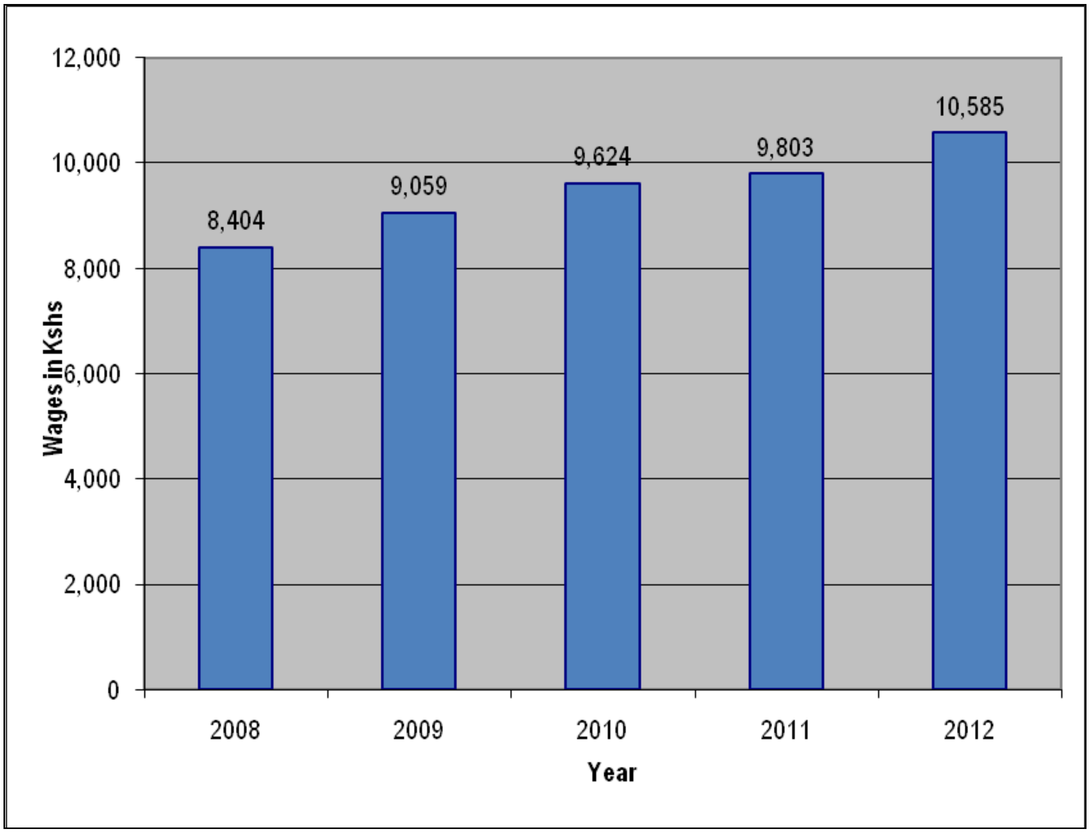
The monthly average wage for local employment within the EPZ has been on steady increase over the years, particularly after the industrial disharmony of early 2003 (table 13 and Chart 13). The average monthly wages has increased from Kshs 8,404 in the year 2008 to Kshs 10,585 in the year 2012, representing 26.0% increase.

Table 13: Employment and Wages: 2008– 2012

Indicator	2008	2009	2010	2011	2012
Local employees (Number)	30,187	30,115	31,026	32,043	35,501
Expatriates (Number)	471	508	476	421	428
Total employment (Number)	30,658	30,623	31,502	32,464	35,929
Local wages (Kshs)	3,044,332,738	3,273,937,485	3,583,029,487	3,769,215,481	4,509,251,454
Expatriate wages (Kshs)	344,671,445	383,863,882	662,296,354	368,560,214	400,803,713
Total wages (Kshs)	3,389,004,183	3,657,801,367	4,245,325,841	4,137,775,695	4,910,055,167
Average Annual wages locals (Kshs)	100,849	108,715	115,485	117,630	127,018
Average Annual wages expatriates (Kshs)	731,787	755,638	1,391,379	875,440	936,457
Average monthly wage locals (Kshs)	8,404	9,059	9,624	9,803	10,585
Average monthly wage expatriates (Kshs)	60,982	62,970	115,948	72,953	78,038
Average monthly wage locals (US$)	122	117	122	111	125
Average monthly wage expatriates (US$)	881	814	1,464	821	924
Average annual exchange rate(Kshs/US$)	69.2	77.4	79.2	88.9	84.5

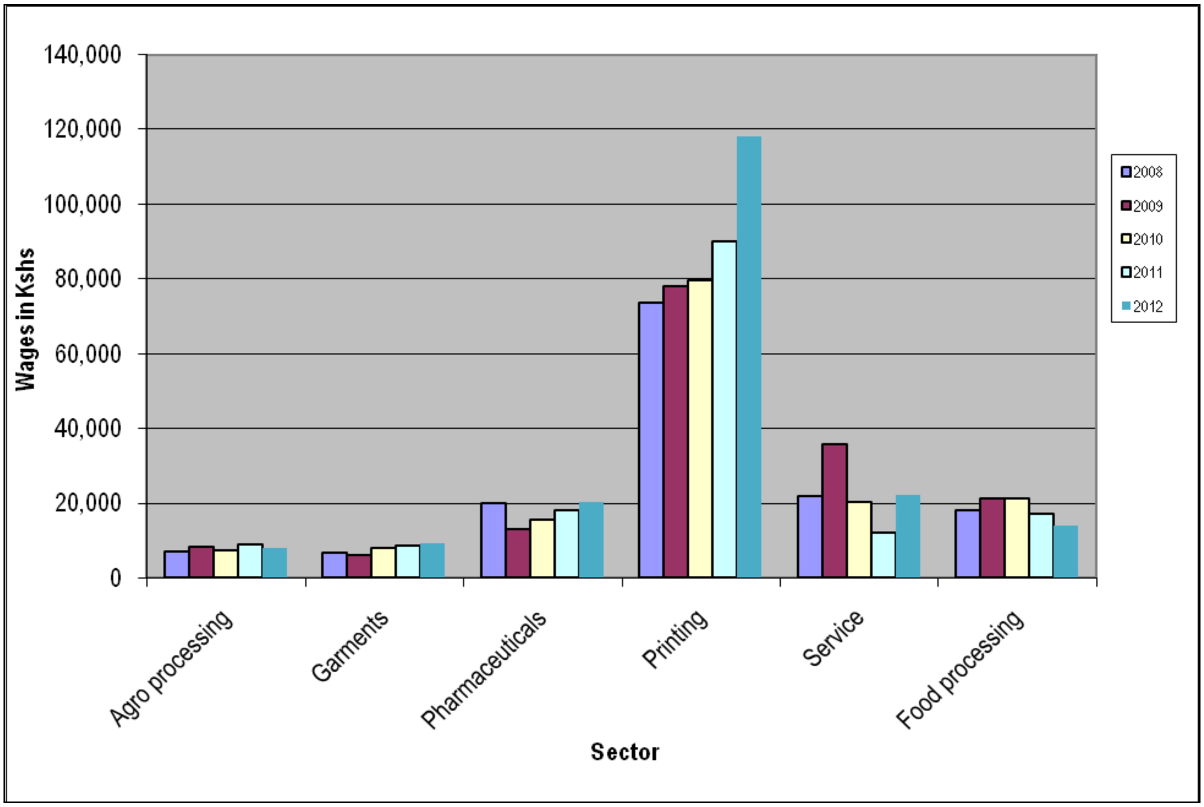
Source: EPZA records

Chart 13: Average monthly wages for local employees, 2008 to 2012 (Kshs)



With respect to selected sectoral wages, the printing sector continued to offer high remuneration to its employees in 2012 compared to other sectors; a similar position was exhibited in the previous year. More details are outlined on chart 14.

Chart 14: Average sectoral monthly wages, 2008 - 2012



6.1 Training of local workers and transfer of technology

In the year 2012, 39 enterprises trained local employees in various industrial disciplines compared to 36 in the previous year.

The training provided include: machine operation & quality assurance, setting corporate & personal targets, technical cashew nut processing methods, apprehenticeship, good manufacturing practice (GMP),Hazard Analyses Critical Control Point (HACCP), basic food handling, procedure & hygiene, British Retail Consortium (BRC) on food safety, chemical safety, human resource management, ISO, implementation of ISO 2200: 2005 (Food Safety Management System), upgrading of supervisory skills, mass production, labour laws,QMS internal auditor training, health & safety, environmental care, performance management, customer care skills,team building, tax compliance for accounts & human resource, CSI barcoding & BRC version 6, energy management, steam boiler operation, testing & grading tea, financial reporting, shipping & logistics, Kenya Revenue Authority ITMS, technical cashewnuts processing methods,first aid, fire fighting, fire marshall, fire drill, team building, setting of personal & corporate targets, Customs Trade Partnership

Against Terrorism (C-TPAT) & security awareness, training of trainers and HIV/AIDS awareness among other trainings.

The skills learned are expected to eventually diffuse into the local market and have positive impact in new techniques geared towards increase in production and efficiency.

7.0 Constraints reported by EPZ enterprises

Constraints/impediments encountered by EPZ enterprises in the course of manufacturing/service activities during the year have reduced their competitiveness in the market, hence resulting in reduced/loss of export/ sales earnings. Some of these constraints were as are result of high cost of power/operation, delays/ port congestion in releasing imports used in the production process.

Other constraints included shortage of raw material supply, unfavourable weather conditions, unfavourable customs regulations especially on movement of agro produced products like tea, instability in target markets, restriction of 20% exports to EAC market, unpredictable market factors (late extension of AGOA), global economic downturn that adversely affected major export markets (US & Europe), lack of orders as a result of intense competition, increased overhead costs, slow learning by production trainees, high freight & transportation cost, high interest/inflation rate regime, lack of appropriate support from authorities for local manufacturers and general reduction in business volumes among others.

The constraints that face the EPZ enterprises watered down the very incentives which accrued to them because they still remain uncompetitive.

8.0 Challenges facing the program

The performance of the program would have been enhanced if certain negative factors had not impacted on the enterprises.

The enterprises are faced with a number of constraints which require urgent address to enhance the production. These include:-

a) Frequent policy changes without adequate consultation.

The EPZ Act has undergone several changes/ amendments over the years that have tended to water down incentives, or increase administrative burden of compliance. These changes introduced in successive Finance Bills include:-

- Exclusion of commercial activities from the income tax holidays and disallowing parallel commercial and manufacturing activities by a single enterprise;
- Requirement that commercial activities be licenced only after consultation with the Commissioner General (CG), Kenya Revenue Authority (KRA).
- Imposition of mandatory (as opposed to discretionary) 2.5% duty surcharge on EPZ goods sold to the domestic market. In addition the EPZ companies must label the goods with their original country of origin and operate from a building where manufacturing activity is not taking place.
- Requirement that sales by EPZ companies to domestic be subject to prior approval by the Minister for Trade.
- Introduction of a claim system for previously duty exempt petroleum fuels for EPZ firms.

b) High cost of production/ operation

It is generally known that the costs of production in Kenya are high compared with its close competitors. The cost of electricity in Kenya is between US Cents 15 to 20 per kilo watt hour (kwh) compared with US Cents 4 per kwh for South Africa and US Cents 10 per kwh for China. This shows that the cost of electricity in Kenya is four times the cost in South Africa and more than thrice the power tariffs in China.

The high cost is further made worse by power outages/ rationing (as a result of the drought) and fluctuations which lead to reduced output and damage to equipment.

High cost of production could also be seen in the context of increased wages for local employees. For instance, between 2008 and 2012, average monthly wage has risen by 26.0% from Kshs 8,404 to Kshs 10,585. This is in comparison with other competitors particulary in Asia where average monthly wage is about Kshs 4,000 (US$ 50). Other industry sources estimate that average monthly wage in Kenya is about US$ 110 compared to US$ 75 in Egypt, which is Kenya's close competitor in the region (though the country has been rocked by unrest in the recent past).

Insufficient water supply as a result of the drought coupled with increased tariff is also a constraint to production and competitiveness.

c) Enlargement of domestic market to include five East Africa Community (EAC) partner states.

Some EPZ enterprises made their investment decisions based on the East Africa market where Tanzania, Uganda, Rwanda and Burundi were external markets. Under Article 11 of the protocol the Customs Union fully comes into effect after five (5) years when the EAC partner states will have removed all internal tariffs from Kenya, hence become domestic market. EAC region is a destination of close to 5% of EPZ exports. EPZ firms are allowed to sell 20% of their annual production into the domestic market. During the course of 2012, some EPZ enterprises closed down due to the impact of restrictive EAC market.

d) Delay in implementation of Special Economic Zones (SEZ).

Transformation of export processing zones program to Special Economic zones (SEZs) program in line with Vision 2030 was approved by the Cabinet in March 2009. Implementation of SEZs would encompass a wider range of activities than the present EPZ. The proposed SEZ will incorporate ICT parks, technology parks, industrial parks, free trade zones, free ports, EPZs and tourism/ recreational centers.

Delay in implementation of the required legal and policy framework to actualize the the SEZ has caused anxiety among both existing and potential investors.

e) Expiry of third country fabric provision

There has been slow implementation of reforms to restructure and revive the cotton industry to take full advantage of the opportunities and benefits provided for by the AGOA initiative. The Third Country Fabric requirement which was to expire in September 2012 was extended to September 2015. After this date it would be a requirement for SSA country to either utilize fabric from AGOA eligible country or import from USA in order to continue benefiting from AGOA program. As of now development of local cotton capacity still remains a challenge.

Currently apparel sector contribute more than 50% of export and generates close to 80% of employment within the zone.

f) Delay in clearing of goods at the port.

Delay in clearing/releasing imported raw materials, particularly fabrics and accessories at the port of entry in a number of occasions has had a negative impact on production and competitiveness for the investor since it is operating on a timed delivery schedule. This delay has forced some enterprises to airlift exports instead of shipping in order to meet delivery time and avert order cancellation. This mode of transport is more expensive and has the adverse impact of eating into the individual enterprise profit margin, as it is a direct cost to the investor compared to shipping in which the buyer foots the freight bill.

Performance of the EPZ program (export/import business) greatly depends upon the efficiency of the port. This is an area which has been cited by EPZ firms as a constraint to towards their production.

g) 20% withholding tax levied on domestic client/customer for BPO/ICT enabled subsector.

Domestic clients/customers of EPZ business processing outsourcing (BPO) and ICT enabled services are subjected to 20% withholding tax on any purchase of service during the period of tax holiday.

One of BPO firm has been adversely affected by this requirement and by extension growth in this subsector.

9.0 Way forward/required support

i. **Consistency in policy**

It is important that policies are stable and consistent. This is because investors prefer predictability to enable them carry on their operations with a high degree of certainty.

Policy changes, especially those dealing with foreign investment should be implemented only after exhaustive consultation with the stakeholders and the implementing agency, so as to retain and preserve credibility of the program.

ii. **Provide subsidies to provide power** at a competitive cost to the EPZ sector of US cents 5 per kwh as opposed to the current rate of between US cents 21 per kwh

iii. **Allow firms supplying petroleum products to EPZ firms to supply on VAT free basis as provided for in the EPZ Act**

iv. **Increase the level of domestic sales to 70% for EAC partner states and remove 2.5% duty surcharge**.

v. **Reduce corporate tax to 20% for EPZ firms after the expiry of the tax holiday & 12.5% for those in rural areas.**

vi. **Allow for exemption from payment of withholding tax on dividends & other payments made to residents in Kenya.**

vii. **Fast track Transformation of EPZ program into the Special Economic Zones (SEZs) program**

The EPZ concept has evolved rapidly from just promoting manufacturing for export to encompass wide range of economic activities under the concept of SEZs. This would also address the issue of increased sales to the local market (70%) and the lowering of the corporate tax rate to 20% after expiry of tax holiday.

viii. **Improve Operations at the port so as to be more efficient.**

There is need to address any issue that causes or has a potential to cause delay at the port of entry.

If the port operators anticipate any delay, then there is need to communicate this to the port users and stakeholders in time so as to make them aware and prepare accordingly.

A better run port, one that has adequate capacity to meet growing import and export requirements of the region, needs to be an essential part of Kenya's economic growth strategy.

ix. **Government urged to lobby for appropriate global trade policies including lobbying for making AGOA permanent.**

EPZs need the expansion of appropriate trade regimes which will spur economic growth and development. In addition, government should lobby for AGOA to become a permanent trade preference. Favorable trade policies within the ongoing Economic Partnership Agreement (EPA) negotiations with European Union are also urged.

10.0 Set targets and Actual performance.

The projections for the year 2012 took into account the challenges and opportunities facing the EPZ program.

Forecast for the number of operating enterprises is based on the operationalization of 12 new firms as per the Strategic Plan for 2009/10 to 2012/13. Employment is expected to expand by 3,000 on the basis of an average of upto 300 jobs per new firm and the rest of the jobs to be created by expansions from existing enterprises.

Investment per enterprise is expected to be Kshs 300 million, while export which accounts for about 90% of total sales is forecasted to expand by close to 10%. Domestic expenditure which constitutes a net benefit into the economy is expected to be 40% of total sales, while domestic sales are expected to remain at 9% of total sales.

A summary of set and actual targets for year 2012 and projections for year 2013 are outlined on table 15.

Table 15: Set and Actual Targets for 2012 and Projections for 2013

Indicator	**Target 2012**	**Actual 2012**	**% attained**	**Target 2013**
Operating enterprises (No.)	91	82	90.1	94
Employment (Kenyans) No.	37,043	35,501	95.8	38,501
Investment (Kshs million)	28,468	38,585	100.0	40,468
Total sales (Kshs million)	45,442	44,273	97.4	46,442
Exports (Kshs million)	41,067	39,962	97.3	41,798
Domestic sales as % of total sales	9	7.5	100.0	9
Domestic expenditure (Kshs million)	17,335	18,097	100.0	20,335

Average attainment of set targets for the year 2012 was 97.3% compared to 96.7% in the previous year.

Some of the targets set for the year 2012 which were not attained like the number of operating enterprises & corresponding employment creation among others was as a result of the constraints reported by the enterprises in the course of the year and the challenges facing the program outlined in point 7 and 8 respectively.

11.0 Conclusion

The EPZ program has made her share of contribution to Kenya's economy especially employment creation, attraction of new investments and value addition among others.

The achievement has been attained against a backdrop of unfavourable local and international business environment (such as Eurozone economic slump). The program has an opportunity to increase her role if the challenges are addressed as it prepares to take advantage of opportunities envisaged under SEZ program.

Although the performance momentum recorded in 2012 is expected to be maintained in 2013, high cost of production and external shocks are some of the factors which are likely to play key role in the performance of the program going forward in 2013.

Research Policy & Planning Department.
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