EXPORT PROCESSING ZONES PROGRAM
ANNUAL PERFORMANCE REPORT, 2014

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1.0 Executive Summary

The performance of the EPZ program in the year 2014 maintained an upward trend in major indicators.

Although the operating business environment has improved especially with implementation of electricity cost reduction facility for apparel firms initiated by the government in the course year 2014, more effort is required so as this project could benefit other sectors, pending attainment of 5,000 megawatt (MW) government electricity project. This initiative would ensure competitiveness of Kenya's exports in the face of its closest competitors in line with aspirations contained in the Vision 2030.

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. In 2013 EPZ exports to EAC stood at 3.6% of total exports while in 2014 it had declined to 1.5%. This is an indication that companies targeting the regional market are shying to invest in the EPZ programme. This constraint is likely to affect attainment by manufacturing sector goal of raising the share of Kenya's products in the regional market from 7% to 15% as set out in the Vision 2030.

EPZ program recorded growth in principal indicators like exports, total sales (turnover), expenditure on local goods & services and average monthly wage with respect to local employment among others. For instance, direct employment expanded by 15.7%, exports grew by 15.6%, total sales 13.7% while expenditure on local goods & services rose by 8.8% in the year 2014.These indicators rose by 12.6%, 11.2%, 13.6% and 6.5% respectively in the year 2013.

EPZ apparel exports under African Growth & Opportunity Act (AGOA), has averaged over 90% of national apparel exports over the years.

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, number of EPZ firms with local ownership has risen from 17.3% in 2010 to 33.7% in 2014.

1.1 Introduction

The EPZ program experienced growth in the year 2014 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.

During the year 2014, Kenya's economy/Gross Domestic Product (GDP) was rebased following recommendations of Systems of National Accounts (SNA) 2008. This revision was the sixth, similar exercises having been conducted in 1957, 1967, 1976, 1986 and 2005.

The rebasing in year 2014 involved changing of the base year from 2001 to 2009; updating the production structure; updating the structural changes in the relative prices of various products and incorporating product changes made because of new developments and innovations; updating the consumption patterns, utilization, and acquisition of capital goods; and adopting the current classification of economic activities.
As a result, estimated GDP for 2013 was 25.3% larger than previously estimated. It also indicated that average annual growth for 2007-2013 was 5.0% in the new GDP series, up from 4.3% in the old series (table 1).

Broadly, the major reasons that led to the upward revision of the GDP include use of better data, improved coverage and revised input-output production structures which were lower in a number of sectors compared to revised estimates. New data from the Population & Housing Census 2009; Kenya Integrated Household Budget Survey (KIHBS) of 2005/06; and Census of Industrial Production 2010 had major contributions to the upward revisions.

Table 1: Selected indicators before and after GDP Rebasing; 2006 - 2013

Indicator	2006	2007	2008	2009	2010	2011	2012	2013
GDP (old) Kshs billion	1,622.6	1,833.5	2,107.6	2,376.0	2,570.3	3,047.4	3,403.5	3,798.0
GDP (new) Kshs billion	1,862.0	2,151.3	2,483.1	2,863.7	3,169.3	3,726.1	4,254.8	4,757.5
% change	14.8	17.3	17.8	20.5	23.3	22.3	25.0	25.3
Exchange rate (average); Kshs /US$	72.1	67.3	69.2	77.4	79.2	88.8	84.5	86.1
GDP (old) US$ billion	22.5	27.2	30.5	30.7	32.4	34.3	40.3	44.1
GDP (new) US$ billion	25.8	32.0	35.9	37.0	40.0	42.0	50.3	55.2
GDP per capita (old) US$	612	720	787	771	792	816	933	994
GDP per capita (new)	703	847	926	930	978	998	1,166	1,246

Source: Kenya Bureau of Statistics (KNBS); September 2014/ Economic Survey 2015.

Real estate, agriculture and manufacturing accounted for most of the change in GDP as a result of rebasing. For instance, agriculture in gross output increased from 22.6% to 24.0%, on the account of new data from the cost of agriculture survey and livestock census, while manufacturing's share of GDP increased from 9.7% to 11.9%, as a result of analysis of new data from the Census of Industrial Production 2010, which revealed that manufacturing of food, beverages, tobacco and other manufacturing had been under estimated.

At the institutional level, there is ongoing process of implementing strategic plan covering the period 2014 – 2019. It is expected that the new plan will navigated the program into a bright future to successfully deliver on its mandate.

Other projects being pursued for implementation include textile/apparel city and leather in line with government's transformation agenda to create much deserved jobs for the unemployed youth.

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 2015*, EPZ performance analysis under various indicators, impact of African Growth Opportunity Act (AGOA), constraints/challenges, set & actual targets for the year 2012 to 2014 including projection for 2015, and finally the conclusion.

1.2 National and International Scene

According to *Economic Survey 2015*, the national/ domestic economy saw expansion of Gross Domestic Product (GDP) growth of 5.3% in 2014 compared to a growth of 5.7 % in 2013
(Chart 1).

From the demand side, growth was mainly driven by an increase in private final consumption and a rapid growth in capital investment. From the supply side, the major drivers of the economy were agriculture, forestry & fishing, construction, wholesale & retail, education and finance & insurance. However, accommodation and food services (hotels & restaurants) sector contracted for the second year in a row.

During the year, the main macroeconomic indicators remained relatively stable.

Despite the drop in prices of fuel, electricity and some food commodities, inflation rose slightly but remained with Central Bank (CBK) target. The Balance of Payment position improved mainly on account of proceeds from the sale of Eurobond. However, the current account deficit worsened due to deterioration in trade deficit.

At the international scene, global economic performance remained positive in 2014 with real GDP expanding by 3.3%. World trade expanded by 3.0% in 2014 compared to a 3.3% recorded in 2013. This sluggish growth reflects persistent weak import demand from advanced economies, slower expansion of global supply chains and shifts in demand towards less import intensive products. The global inflation rate rose moderately to 1.6% in 2014 compared to 1.4% in 2013. Oil prices were on a downward trend due to a combination of weak global demand

and improved supply occasioned by the production of oil from shale of the USA.

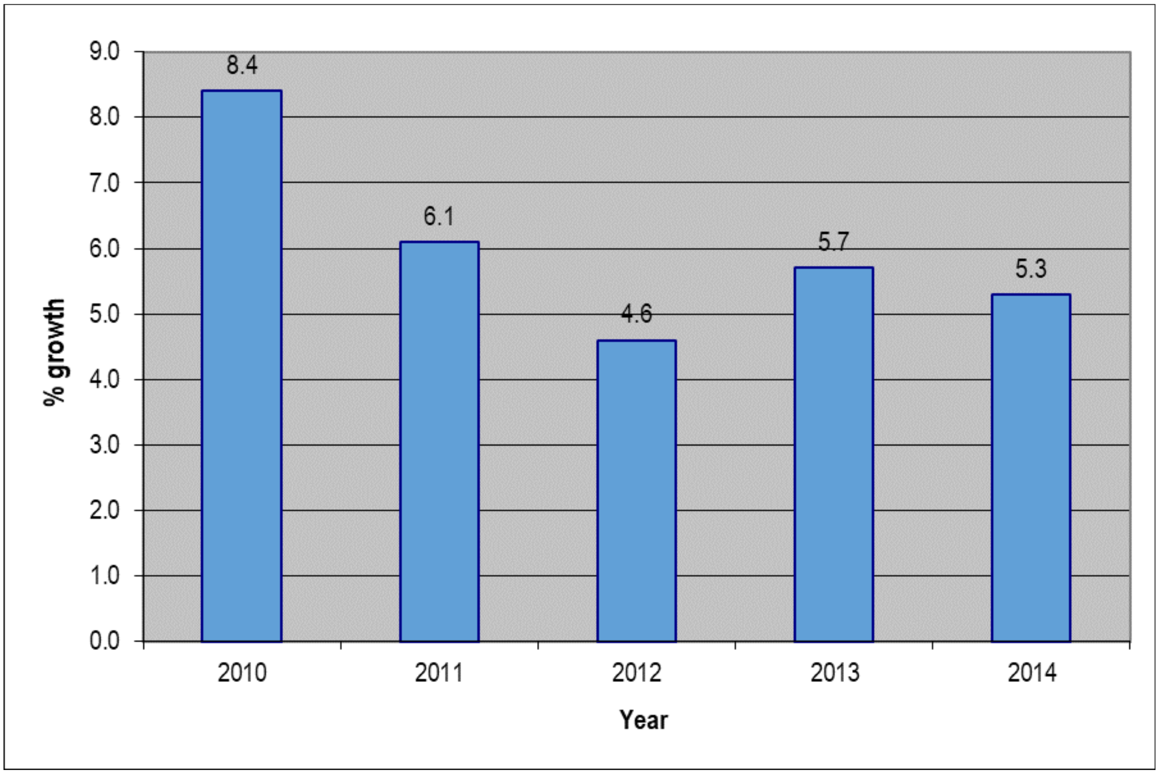
With respect to selected global regional economic analysis showed that in Euro Area, real GDP rose by 0.8% in 2014 compared to a contraction of 0.4% in 2013. The rebound was driven by accommodative monetary policy, slowdown in fiscal consolidation and weak oil prices. Inflation eased to 1.0% in 2014 compared to 1.3% in 2013. Current account surplus as a percentage of GDP improved marginally to 3.0% in 2014 compared to 2.8% in 2013 mainly due to increased competiveness.

The USA economy maintained a growth of 2.2% in 2014 buoyed by supportive monetary policy, expansion of export market and increased private consumption. Current account deficit as a percentage of GDP narrowed to 2.2% in 2014 compared to 2.4% in 2013.

Economic activity in Sub Saharan Africa was robust in 2014. This growth was supported by increased external demand and strong growth in public and private investment. The region's real GDP grew by 5.1% compared to 4.4% in 2013. During the year under review, inflation in the region rose to 6.7% compared to 6.6% in 2013. The current account deficit as a percentage of GDP worsened to 2.6% in 2014 compared to 2.4% in 2013 following expansionary fiscal policies and increased investment in the region.

East African Community's (EAC) real GDP growth increased to 5.8% in 2014 compared to 5.3% in 2013. Inflation dropped to 5.6% in 2014 from 6.4% in 2013 mainly on account of reduced food and fuel prices. The region's current account deficit as a percentage of GDP worsened to 12.4% in 2014 compared to 11.8% in 2013.

Chart 1: Real GDP growth rate (%), 2010 to 2014



Source: Economic survey, 2015

1.3 Performance by key sectors of the economy

1.3.1 Agriculture

Economic Survey 2015 indicated that agricultural recorded mixed performance in 2014 due to erratic rains with some regions experiencing depressed rainfall. Agriculture value added at constant prices increased at a decelerated rate of 3.5% growth from Kshs 795.0 billion in 2013 to Kshs 822.5 billion in 2014.

Maize production declined by 4.2% to 39.0 million bags in 2014. Rice production increased from 90.7 thousand tonnes in 2013 to 96.0 thousand tonnes in 2014. Sugar cane production decreased from 6.7 million tonnes in 2013 to 6.5 million tonnes in 2014. In contrast, coffee production increased from 39.8 thousand tonnes in 2012/13 to 49.5 thousand tonnes in 2013/14. Tea production increased from 432.4 thousand tonnes in 2013 to 445.1 thousand tonnes in 2014. The volume of marketed raw milk increased from 523.0 million litres in 2013 to 541.3

million litres in 2014. The quantity of horticultural exports increased by 3.0% to stand at 220.2 thousand tonnes in 2014 compared to 213.8 thousand tonnes in 2013.

Overall, the value of marketed crops decreased by 1.4% from Kshs 242.0 billion in 2013 to Kshs 238.5 billion in 2014. The value of marketed fresh horticultural produce increased marginally from Kshs 83.4 billion in 2013 to Kshs 84.1 billion in 2014. The value of marketed dairy produce increased by 11.9% from Kshs 16.8 billion in 2013 to Kshs 18.8 billion in 2014, as a result of higher quantities of marketed raw milk and better prices of milk. Agricultural commodities that fetched higher prices in 2014 compared to 2013 included maize, coffee, sisal, pyrethrum, pig meat, and dairy produce. Tea, sugar cane and wheat prices were lower in 2014 compared to the previous year.

During the year under review, there was minimal increase in the area planted under coffee from 109.8 thousand hectares in 2013 to 110.0 thousand hectares in 2014. The area under coffee in cooperatives and estates increased by 100 hectares each during the year under review. However, production in estates declined for the second year running.

The area under tea increased by 2.2% from 198.6 thousand hectares in 2013 to 203.0 thousand hectares in 2014. However, this growth was less than the 4.2% experienced in 2013. The smallholder sub sector registered the highest production increase of 5.0% from 249.8 thousand tonnes in 2013 to 262.4 thousand tonnes in 2014. Output from the estate sub sector recorded a marginal increase from 182.6 thousand tonnes in 2013 to 182.7 thousand tonnes in 2014. This was in sharp contrast to the 21.0% increase experienced in 2013. The average yield decreased from 3,210.0 kilogram per hectare to 2,834 kilogram per hectare for the estates and from 2,172.2 kilogram per hectare to 2,127 kilogram per hectare for the smallholders. Unit prices of Kenyan tea maintained a downward trend for the second year in a row owing to higher supplies and continued decline in demand for black tea in certain key traditional markets.

The horticultural subsector recorded improved volume of exported fresh horticultural produce increased from 213.8 thousand tonnes in 2013 to 220.2 thousand tonnes in 2014. This was despite introduction of duty by the European Union (EU) during the second half of 2014, but which was later dropped. The rise in the volume of horticultural exports was mainly caused by an increase in exports of cut flowers from 105.6 thousand tonnes to 114.8 thousand tonnes during the period under review. Similarly, fruit exports, registered an increase of 12.9% from 31.1thousand tonnes in 2013 to 35.1 thousand tonnes in 2014. Despite the impressive performance in 2014, vegetable exports were impacted negatively by introduction of tax by the EU and therefore registered a decline in quantity from 77.2 thousand tonnes in 2013 to 70.3 thousand tonnes in 2014. This led to earnings from vegetable exports declining significantly from Kshs 22.9 billion in 2013 to Kshs 18.8 billion in 2014. Delays in signing an Economic Partnership Agreement (EPA) affected performance during the period under review. However, total earnings from the export of fresh horticultural produce rose marginally from Kshs 83.7 billion in 2013 to Kshs 84.1 billion in 2014.

The area under sugar cane declined by 1.2% from 213,920 hectares in 2013 to 211,342 hectares in 2014. Similarly, the area harvested decreased by 15.9% from 85,857 hectares in 2013 to72, 181 hectares in the review period. Total cane deliveries decreased by 3.0% from 6.7 million tonnes in 2013 to 6.5 million in 2014. However, the yield went up by 14.1% from 54.7 tonnes per hectare in 2013 to stand at 62.4 tonnes per hectare in 2014. Improvement in cane yield in 2014 was mainly attributed to improved cane harvesting, yielding higher weight and sucrose content. The bulk of the total cane delivered was from the outgrower farms while the rest was from the nucleus estates and non-contracted farmers.

Livestock subsector showed that the number of livestock slaughtered declined marginally over the review period. Cattle and calves slaughtered went down from 2,147.3 thousand to 2,076.7 thousand in 2014. However, the number of sheep and goats slaughtered increased from 6,084.8 thousand in 2013 to 6,138.5 thousand in 2014. Pigs slaughtered decreased from 264.3 thousand in 2013 to 257.2 thousand in 2014.

1.3.2 Manufacturing.

Manufacturing sector real output expanded by 3.4% in 2014, compared to a growth of 5.6% recorded in 2013 (chart 2). Some of the factors that positively influenced growth of the industry include slightly cheaper and stable electricity supply, restrained inflation and resilient domestic demand.

Food and nonfood subsectors propelled the growth in manufacturing sector growing by 4.0% and 3.1% respectively. The expansion in nonfood manufacturing was mainly driven by increased production of cement, pharmaceutical products, fabricated metal products, and the manufacture of furniture. Processing of animal feed, tobacco, grain mill, animal & vegetable fats and oil products registered significant growths during the review.

During the year under review, the overall inflation rates from the producers' perspective as measured by the Producer Price Indices (PPI) increased by 3.03% from 105.96 in 2013 to 109.17 in 2014. The increase was mainly due to higher cost of raw materials and slight depreciation of the Kenya shilling against major trading currencies.

Production of animal & vegetable fats and oils recorded a growth of 6.6% in 2014. This was mainly driven by production of vegetable oils which grew considerably by 14.3% to 186,143.4 tonnes in 2014. The quantity of margarine produced went up by 3.8% during the review year. However, the volume of vegetable fats dropped by 2.1% over the same period.

Production of prepared and preserved fruits and vegetables contracted by 14.1% in 2014. This was as a result of mixed performance in the sub sectors with the quantities of prepared and preserved fruits posting a 20.2% depressed output, while canned vegetables expanded by 2.8%.

The beverage sub sector continued to contract for the second consecutive year. In 2014, production of beverages decreased by 6.4% compared to a decline of 8.5 in 2013. The contraction is as a result of the continued decline in the production of beer which decreased by 14.7% in 2014, a drop similar to the one registered in 2013. The cumulative effect of this is a drop in beer production by almost one third in the last two years. Over the same period, production of spirits dropped by 1.9%. This could be attributed to the increased excise duties on beer and spirits, specifically the low cost brands. However, production of soft drinks (carbonated drinks) increased by 14.2% from 403.9 million litres in 2013 to 461.4

million litres in 2014. Production of mineral water improved by 7.6% over the review period.

Production of wood and wood products went up by 8.3% in 2014. This was attributed to production of plywood and block boards which rose by 6.4% and 5.3%, respectively. The paper and paper products subsector registered a growth of 1.5% in 2014.

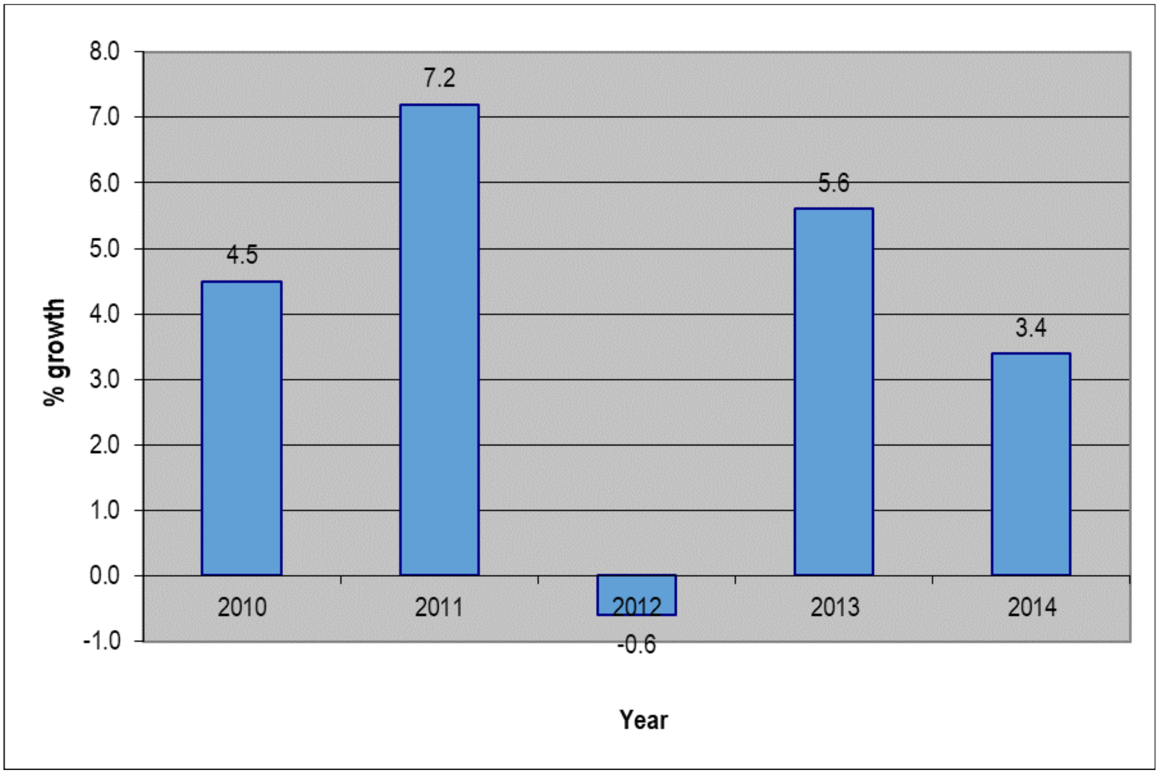
Leather and related products subsector registered a drop of 4.7% in 2014. This was as a result of decline in the quantities of finished leather by 7.4%. Production of shoes with uppers leather went up by 3.8% while that of shoes with uppers of plastic and rubber increased by 5.9% during the same period.

The pharmaceutical sub sector has been recording impressive performance over the recent years. In 2014, the subsector, registered a 13.6% growth. Production of drugs in syrup, capsules and tablets form went up by 17.2%, 15.2% and 11.9% respectively, during the review period.
The rubber and plastic products sub sector registered a positive growth of 6.9% in 2014. Production of plastic pipes increased by 17.2%, followed by polythene bags and plastic tanks which rose by 8.2% and 2.4% respectively during the year under review. However, production of motor vehicle tyres declined by 1.2% in 2014 after recording a growth of 22.0% in 2013.

The chemical and chemical products subsector recorded a 2.8% growth in 2014. Production of paints and vanishes improved by 8.3%. Similarly, manufacture of soap grew by 5.9% while detergent production increased by 3.1% during the same period.

Formal employment in the manufacturing sector rose by 2.9% from 280,000 persons in 2013 to 287,456 persons in 2014.

Chart 2: Manufacturing sector growth rate (%), 2010 to 2014.



Source: Economic Survey 2015

1.3.3 Other sectors

Total installed capacity expanded by 4.7% from 1,717.8 megawatts (MW) in 2013 to 1,798.3 MW in 2014 mainly due to increased geothermal capacity. Total electricity generation expanded by 8.2% to 9,138 Gigawatt hours (Gwh) in 2014 from 8,447.9 Gwh in 2013. Hydro and geothermal power accounted for the bulk of power with a total share of 71.0% during the period. Domestic demand for electricity registered a growth of 3.8% to 7,768.6 Gwh in 2014 from 6,928.1 Gwh in 2013.

Total quantity of petroleum products imported into the country increased by 11.7% to 4,464.5 thousand tonnes in 2014 from 3,996.2 thousand tonnes in 2013. As a result, import bill of the petroleum products expanded by 5.6% to Kshs 333,145.8 million. Total domestic demand for petroleum products increased by 5.3% to 3,937.9 thousand tonnes in 2014. International crude oil prices plummeted by more than40% to US$

60.65 per barrel in December 2014. This translated to reduced domestic petroleum pump prices.

Tourism sector performance decreased in 2014 on account of a number of factors. These include insecurity, negative travel advisories and fear of continued spread of Ebola in West African countries. As a result, the number of international visitor arrivals contracted by 11.1% from 1,519.6 thousand in 2013 to 1,350.4 thousand in 2014. This lead to tourism earnings declining by 7.3% from Kshs 94.0 billion to Kshs 87.1 billion over the same period.

Transport and storage sector recorded a growth of 13.7% in 2014 with total output rising from Kshs 768.3 billion in 2013 to Kshs 873.3 billion in 2014.

The port of Mombasa recorded a growth of 11.5% in total cargo throughput handled from 22,307 thousand tonnes in 2013 to 24,875 thousand tonnes in 2014. Container traffic handled by the port stood at 1,012.0 thousand Twenty foot Equivalent Units (TEUs) in 2014 compared to 894.0 thousand TEUs in 2013.

Total volume of white petroleum products transported through the pipeline expanded by 7.7% to 5.6 million cubic metres over the review period.

Building and construction sector registered an accelerated growth of 13.1% in 2014 compared to a revised growth of 5.8% in 2013.This was mainly attributed to an increase in funds allocated for construction of roads and railways coupled with rehabilitation of existing road network. Cement consumption, a key indicator in the construction industry, grew by 21.8% in 2014 to stand at 5,197 thousand tonnes from 4,266.5 thousand tonnes in 2013.

Loans and advances from commercial banks to the building and construction sector grew by 13.6% from Kshs 70.8 billion in 2013 to Kshs 80.4 billion in 2014 due to increased financing of real estate development.

In 2014, key indicators of international trade showed that, Kenya's merchandise trade deficit continued to widen, due to high import bill. The balance of trade deteriorated from a deficit of Kshs 911.0 billion in 2013 to Kshs 1,081.1billion in 2014, translating to an increase of 18.7%. This led to the export –import ratio deteriorating from 35.5% in 2013 to 33.2% in 2014. Tea, horticulture, articles of apparels & clothing accessories and coffee were the leading export earners in 2014 collectively accounting for 52.1% of total export earnings.

1.4 Outlook

According to *Economic Survey 2015,* globally, most developed and developing economies are projected to experience improved growths in 2015.subsequently, the world trade is expected to grow by 4.5% compared to a growth of 3.0% during the year. Oil prices are projected to remain subdued throughout the year due to possibilities of sustained oversupply as Iran and Libya add to the current output after improved political environment. Based on these projections, the global economic prospects for 2015 is therefore bright with the world real GDP projected to grow at 3.5% in 2015 subject to continued recovery from the global financial crisis. This is expected to impact positively to Kenya's economic growth.

The country experienced depressed rainfall during the first quarter of 2015. Performance of agricultural sector is therefore likely to remain close to the 2014 level due to over reliance on rain fed water. On average, electricity prices might fall slightly in 2015 due to increased share of geothermal electricity generation.

Inflation is projected to ease in 2015 supported by lower oil prices and electricity. Improved external environment and sustained strong internal demand are likely to favour growths in many sectors of the economy this year. Other macroeconomic indicators are projected to remain stable and supportive of growth.

2.0 EPZ Performance for the year 2014

2.1 Overview of the program

In the year 2014, most of the performance indicators for EPZ program exhibited an upward trend compared to the year 2013.

The number of gazetted zones rose to 52 in year under review from 50 in 2013.
Exports and total sales value increased by 15.6% and 13.7% to stand at Kshs 51,377 million and Kshs 57,192 million respectively. Sales to the domestic market also exhibited a downward trend from Kshs 4,601 million in 2013 to Kshs 4,211 million in 2014.

Direct local employment expanded by 15.7 % from 39,961 persons recorded in 2013 to 46,221 persons in 2014, 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 86 operational enterprises decreased by 7.9% to Kshs 44,218 million in 2014 from Kshs 48,004 million recorded in the previous year. This was as a result of one capital intensive firm being degazetted.

Imports also rose by 7.5 % to stand at Ksh 29,461 million in the year under review. Out of the total value of imports, inputs amounted to Kshs 28,457 million while capital goods were valued at Kshs 1,004 million in year 2014 while in the year 2013 it amounted to Kshs 26,601 million and Kshs 812 million respectively. This reflected increase of activity within the zones and by extension international trade.

Expenditure on local goods and services increased by 8.8%, in 2014 to stand at Kshs 20,970 million from Kshs 19,275 million recorded in the year 2013. This translates to an average of Kshs 1,748 million being injected into the economy by EPZ firms monthly in the year 2013 compared to Kshs 1,606 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 2.

Table 2: Performance of EPZ Key Indicators: 2010 - 2014

Indicator	**2010**	**2011**	**2012**	**2013**	**2014**	**Growth % (2013 v/s 2014)**
Gazetted zones (no.)	42	45	47	50	52	4.0
Projects approved (no)	19	28	20	21	32	52.4
Enterprises Operating (no.)	75	79	82	85	86	1.2
Employment – (Kenyans) [a]	31,026	32,043	35,501	39,961	46,221	15.7
Employment - (Expatriates) [b]	476	421	428	472	517	9.5
Total Employment (No)=a+b	***31,502***	***32,464***	***35,929***	***40,433***	***46,738***	***15.6***
Total sales (Kshs. million)**	32,348	42,442	44,273	50,294	57,192	13.7
Exports (Kshs. million)	28,998	39,067	39,962	44,427	51,377	15.6
Domestic Sales (Kshs. million)	2,389	2,553	3,322	4,601	4,211	-8.5
Imports (Kshs. million)	16,518	21,443	24,973	27,413	29,461	7.5
Investment Kshs. million	23,563	26,468	38,535	48,004	44,218	-7.9
Expenditure on local Purchases (Kshs million)[1]	4,661	6,276	8,027	7,721	8,170	5.8
Expenditure on local Salaries (Kshs million)[2]	3,583	3,769	4,509	6,043	7,511	24.3
Expenditure on power (Kshs million)3	522	701	757	870	1,004	15.4
Expenditure on Telecommunication (Kshs million)4	135	61	66	63	67	6.3
Expenditure on water (Kshs million)5	71	87	117	117	173	47.9
Other domestic expenditure (Kshs million)[6]	4,315	4,024	4,619	4,461	4,045	-9.3
Total Domestic Expenditure (Kshs million) = 1+2+3+4+5+6*	***13,287***	***14,921***	***18,097***	***19,275***	***20,970***	***8.8***

** 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 32 approvals with a potential investment of Kshs 8.3 billion, 7,607 jobs and year one sales valued at Kshs 10.1 billion in the year 2014 compared with 21 approvals with a potential investment of Kshs

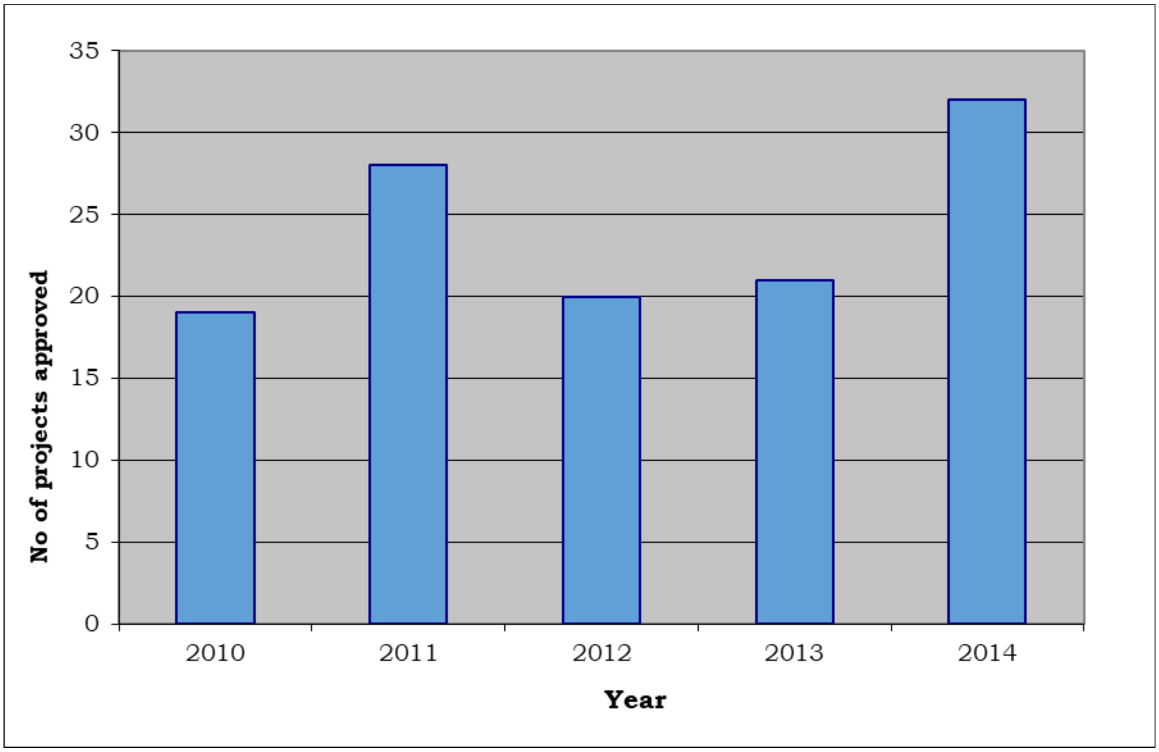
5.1 billion, 3,818 jobs and year one sales valued at Kshs 7.6 billion in the previous year.

Table 3 and chart 3 has more details.

Table 3: Projects Approved, Expected jobs, Investment & Sales from 2010 - 2014

Year	**Number of projects approved**	**Jobs (number)**	**Investment (Kshs million)**	**Year One Sales (Kshs million)**
2010	19	7,826	1,742	7,826
2011	28	2,072	5,734	29,400
2012	20	5,026	3,798	7,311
2013	21	3,818	5,089	7,584
2014	32	7,607	8,300	10,098

Chart 3: Trend of number of projects approved from 2010 - 2014



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, 22 in Mombasa, 6 in Kilifi, 4 in Machakos, 2 in Kiambu and Bomet one each in Muranga, Kajiado, Taita Taveta, Elgeyo Marakwet, Nandi, Uasin Gishu, Laikipia and Meru. Zones are located in 14 Counties (which constituted 5 of the former provinces).

Table 4 has more details on location of the zones.

Two zones were gazetted in the year 2014; namely Stegro EPZ Tea Factory Ltd and Africa Marine Oil & Gas EPZ Ltd located in Bomet and Mombasa Counties respectively. During the year 2013, three zones were gazetted; namely Talab EPZ Ltd, Chebango EPZ Tea Factory Ltd and House of Smart Perfumes EPZ Ltd.

Table 4: Geographical distribution of zones per County, 2014

County	Former Province	Number of zones
Nairobi	Nairobi	8
Mackakos	Eastern	4
Kajiado	Rift Valley	1
Mombasa	Coast	22
Kilifi	Coast	6
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
Bomet	Rift Valley	2
Total: 14	**5**	**52**

Table 4 shows that 55.8 %(29 out of 52) of zones 2014 were concentrated in Coast Counties compared to 56.0% (28 out of 50) in 2013.

2.4 Performance of Gazetted Zones

2.4.1 Athi River Zone

This zone was developed by use of public funds at the cost of US $ 30 million (Kshs 2,638 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 252 million is taken into account total public investment increases to Kshs 2,890 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.

There other EPZ firms which have been licensed to develop additional industrial sheds together with associated infrastructure.

The public put up 12 industrial units with a total built up area of 160, 200 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 220,000 square feet; although it has remained largely unoccupied for some time, it now hosts three firms namely; Red Dot Distribution EPZ Ltd, Reltex Tarpaulin Africa EPZ Ltd and Fairoils EPZ Ltd which occupy cumulative built up space of 167,768 square feet; representing occupancy of 76.3% from 35.3% recorded in the year 2013. The slow uptake of these go downs is attributed to the fact that they are large facilities which are not in investors' preference.

The zone had 42 operating enterprises in the year 2014. Wondernut EPZ Ltd, Mac Nut International EPZ Ltd, ADEC Kenya Services EPZ Ltd, SBA Kenya EPZ Ltd, Fairoils EPZ Ltd and Quite Bright Films Lifestyle EPZ Ltd are some of the firms which commenced operations in the year 2014. There are others firms in various 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 eight operational incubates (Avenue Fresh EPZ Ltd, Asante Gifts & Souvenirs EPZ Ltd, Lycan EPZ Enterprises Ltd, Unity Beverages EPZ Ltd, Belat EPZ Ltd, Kikoy Mall EPZ Ltd, Mohazo EPZ Ltd and Katchy Kollections EPZ Ltd). Asante Gifts & Souvenirs EPZ Ltd was facing market/operational 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.

Mac Nut International EPZ Ltd is one of the enterprise that was in the process of setting, while Asante Gifts & Souvenirs EPZ Ltd and African Finest Produce EPZ faced some operational challenges.

Since plot allocation in Phase I (serviced) is almost all taken up focus now is shifting to phases II & III (un serviced) 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.

Currently, the zone is experiencing increased activity in the form of development of industrial sheds and associated infrastructure. One of the project which is under implementation is the textile city.

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 one enterprise 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 122,232 square feet, all of which was occupied. It housed seven enterprises, dealing in garments/apparels, agro processing, call centre, relief supplies, gemstones and macadamia.

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 extent 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. The zone has approximately 26,000 square feet land available for development.

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, Unit 1; one of the leading garment manufacturing enterprise.

2.4.8 Ammar EPZ Ltd, Jomvu (formerly Emirates Agencies EPZ Ltd, Jomvu)

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

2.4.9 General information on zones' occupancy

Cumulative built up area put up by the public zone/Athi River was 221,114 sq.ft; including the incubator phases I & II while the two private zone developers has an industrial space of 511,628 sq.ft.

2.4.10 Other information on 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.

2.4.11 Zones gazetted in the course of the year.

Two zones were gazette in the course of the year 2014 namely; Stegro EPZ Tea Factory Ltd and Africa Marine Oil & Gas EPZ Ltd located in Bomet and Mombasa Counties respectively.

During the year 2013, the following three zones were gazette; Talab EPZ Ltd, Chebango EPZ Tea Factory Ltd and House of Smart Perfumes EPZ Ltd located in Kilifi, Bomet and Mombasa Counties respectively.
These zones are in various stages of setting up.

2.4.12 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), Halai Brothers EPZ Ltd (host a branch of Mombasa Apparel EPZ Ltd) , Ammar EPZ Ltd, Changamwe (Mombasa Apparel EPZ Ltd) and Talab EPZ Ltd, Mtwapa (Mombasa Apparel EPZ Ltd)respectively.

Respective performance indicators for these zones are captured in the zone hosting the main branch.

2.4.13 Non-operational/ 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 promoter hasn't been keen in letting out this zone to potential EPZ investors.

2.4.14 Zones which have expressed interest to degazette/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 encountered by 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, Hurlingham Group EPZA Ltd, Ruiru EPZ Investments Kenya Ltd and Plastic Compounders EPZ Ltd.

2.4.15 Zone which has withdrawal intention for degazettement.

Milstar Investments EPZ Ltd withdrew its intention to degazette citing availability of prospective EPZ investor/tenant. This is a strong indication of renewed investor confidence and prospects on EPZ program.

2.5 Sector performance

In the year under review sixteen industrial sub sectors were operational, namely, agro processing, beverage/spirits, chemicals, commercial craft dartboard, electrical, food processing, garments, garment support services, minerals/gemstones, pharmaceuticals & medical supplies, plastics, printing, relief supplies, services and other (beverage spare parts).

The sector performance is outlined in table 4 and their proportion contribution in table 5. 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 24.4% of enterprises, 81.8% of total local jobs, 63.9% of exports, 59.3% of total sales, 40.3% of expenditure on local goods & services and 28.0% of private investment compared to 25.9%, 82.4%, 59.4%, 54.2%, 34.6% and 28.0% respectively in the year 2013.

On average, garment sector contributed 44.9%, followed by agro processing at 17.9%, services at 5.4% and minerals/gemstones at 2.6% on all of the above indicators compared to 42.8%, 16.5%, 5.2% and 6.2% respectively in the previous year.

More details are shown by tables 4 & 5, and Charts 4& 5.

Table 4: Sectoral Performance year 2014 (Kshs)

Sector	no of firms	local jobs	exports	total sales	local resource	investment
Agro processing	23	5,000	9,405,472,309	9,882,333,995	7,131,445,810	8,930,108,507
Beverage/ spirits	3	140	201,045,238	201,045,238	148,138,590	247,384,906
chemicals	1	73	54,804,617	54,804,617	59,280,379	923,106,854
commercial craft	3	27	2,529,540	2,529,540	5,637,385	9,921,250
Dartboard	1	336	897,198,583	899,158,583	281,374,094	966,522,408
Electricals	2	5	30,363,342	30,363,342	3,560,057	429,215,660
Food processing	2	111	195,221,541	365,407,000	235,726,529	2,017,541,000

Garments	21	37,785	32,843,834,747	33,909,052,667	8,446,668,983	15,050,806,555
Garments support services	5	97	11,076,345	234,188,373	52,551,605	220,149,160
minerals/metals/gemstones	2	180	1,441,649,937	1,441,649,937	1,620,977,191	1,034,146,000
Pharmaceuticals & medical supplies	3	476	429,884,271	766,113,071	448,101,058	4,351,820,800
plastics	2	132	90,571,439	90,571,439	73,913,874	209,420,380
printing	1	280	1,193,579,765	4,511,032,260	817,043,827	2,708,387,114
Relief supplies	3	264	1,910,662,330	2,048,483,956	645,735,617	1,441,122,395
services	13	1,314	2,660,560,897	2,746,431,859	998,667,501	5,666,037,211
other	1	1	9,109,780	9,109,780	963,039	13,000,000
Total	**86**	**46,221**	**51,377,564,681**	**57,192,275,657**	**20,969,785,539**	**44,218,690,200**

Table 5: Proportion of sector contribution year 2014 (%)

Sector	no of firms	local jobs	exports	total sales	local resource	investment	Average
Agro processing	26.74%	10.82%	18.31%	17.28%	34.01%	20.20%	17.86%
Beverage/ spirits	3.49%	0.30%	0.39%	0.35%	0.71%	0.56%	0.87%
chemicals	1.16%	0.16%	0.11%	0.10%	0.28%	2.09%	0.30%
commercial craft	3.49%	0.06%	0.00%	0.00%	0.03%	0.02%	0.60%
Dartboard	1.16%	0.73%	1.75%	1.57%	1.34%	2.19%	1.09%
Electricals	2.33%	0.01%	0.06%	0.05%	0.02%	0.97%	0.41%
Food processing	2.33%	0.24%	0.38%	0.64%	1.12%	4.56%	0.78%
Garments	24.42%	81.75%	63.93%	59.29%	40.28%	34.04%	44.94%
Garments support services	5.81%	0.21%	0.02%	0.41%	0.25%	0.50%	1.12%
minerals/metals/gemstones	2.33%	0.39%	2.81%	2.52%	7.73%	2.34%	2.63%
Pharmaceuticals & medical supplies	3.49%	1.03%	0.84%	1.34%	2.14%	9.84%	1.47%
plastics	2.33%	0.29%	0.18%	0.16%	0.35%	0.47%	0.55%
printing	1.16%	0.61%	2.32%	7.89%	3.90%	6.12%	2.65%
Relief supplies	3.49%	0.57%	3.72%	3.58%	3.08%	3.26%	2.41%
services	15.12%	2.84%	5.18%	4.80%	4.76%	12.81%	5.45%
other	1.16%	0.00%	0.02%	0.02%	0.00%	0.03%	0.20%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Chart 4: Sector contribution to investment 2014

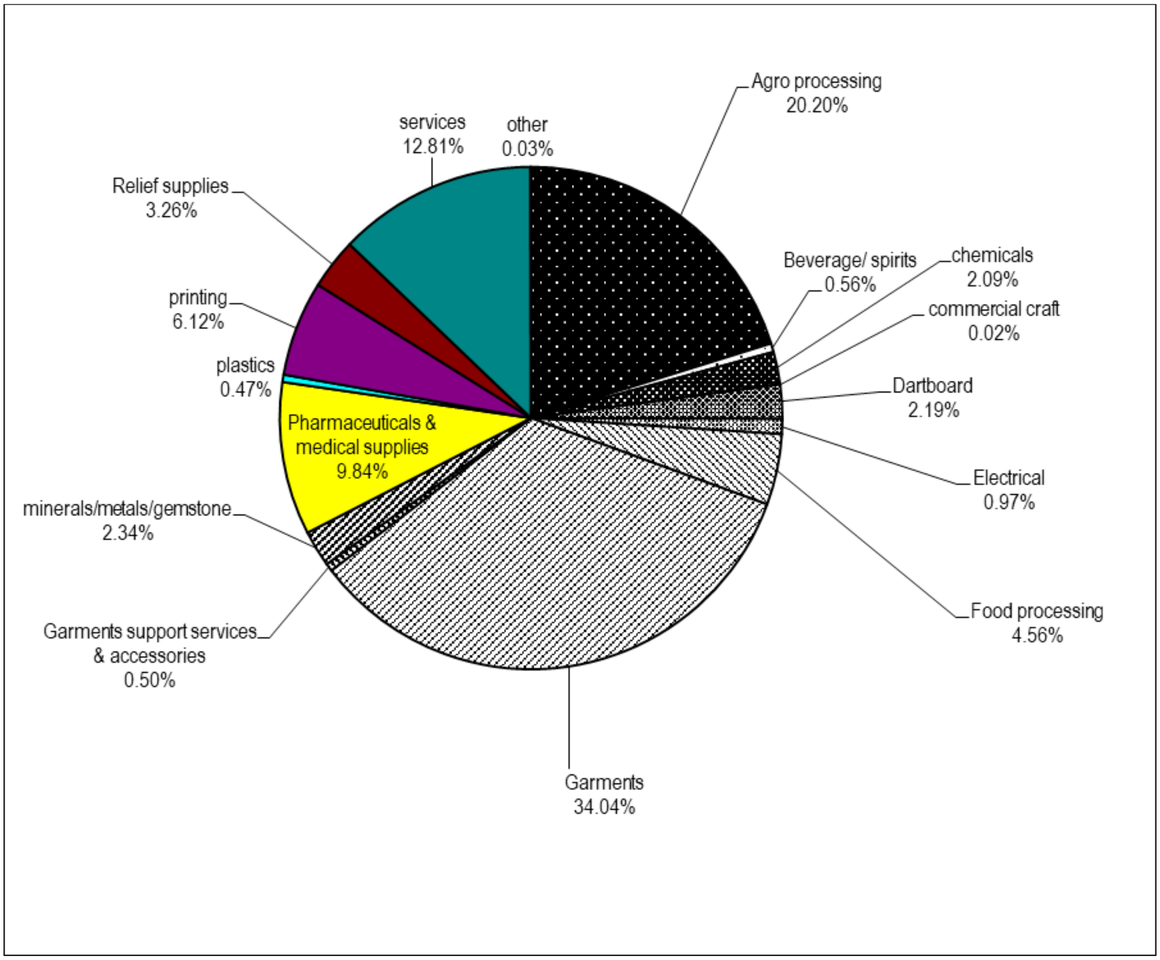
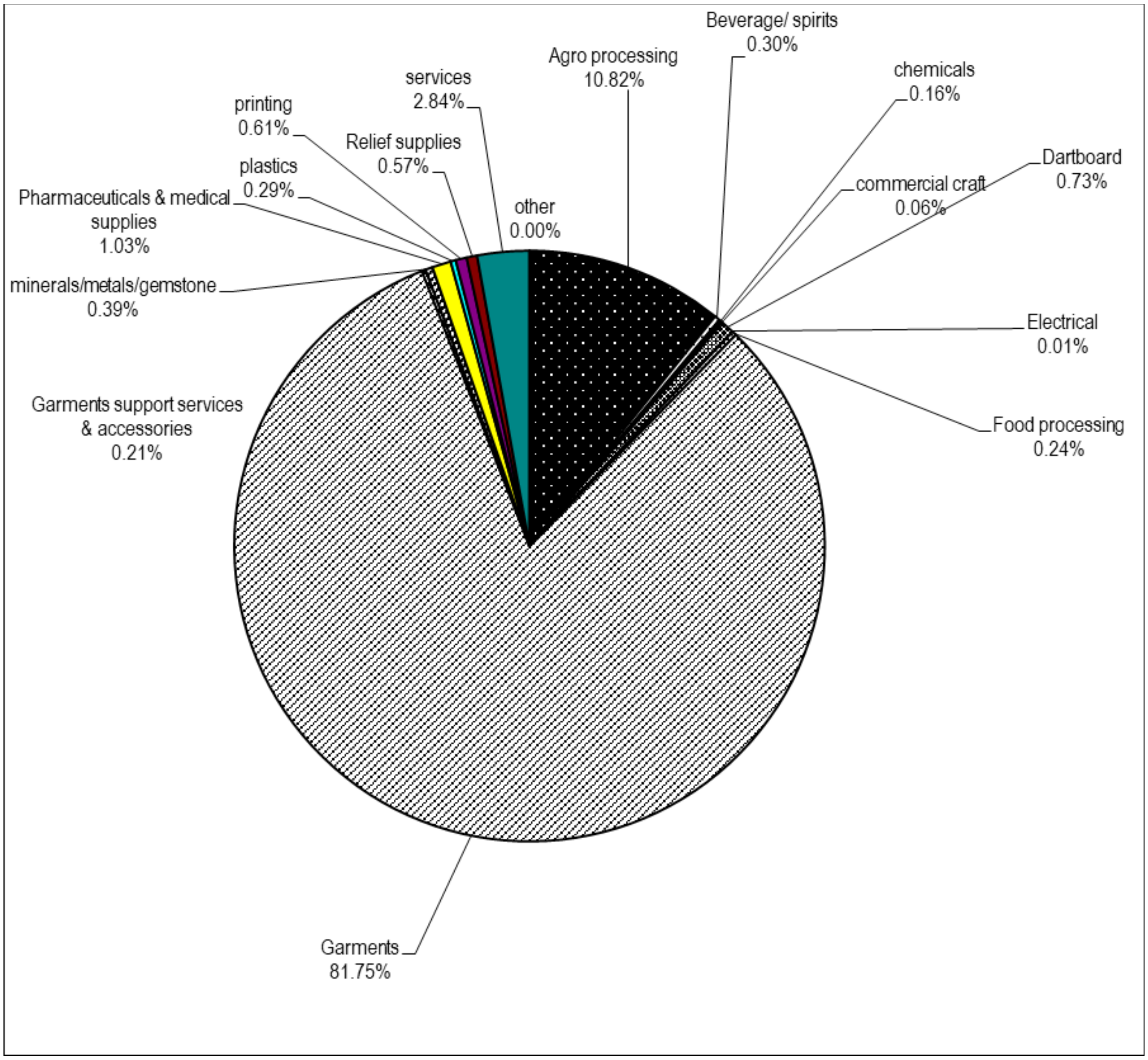

Agro processing
20.20%
Beverage/ spirits
0.56%
chemicals
2.09%
commercial craft
0.02%
Dartboard
2.19%
Electrical
0.97%
Food processing
4.56%
Garments
34.04%
Garments support services
& accessories
0.50%
minerals/metals/gemstone
2.34%
Pharmaceuticals &
medical supplies
9.84%
plastics
0.47%
printing
6.12%
Relief supplies
3.26%
services
12.81%
other
0.03%

Chart 5: Sector contribution to local employment, 2014



2.6 Ownership of EPZ enterprises

During the year 2014, 33.7% of total EPZ enterprises were wholly Kenyan, Joint ventures were 25.6% while foreign investments constituted 40.7%. In 2013, 30.6% were wholly Kenyan owned, 29.4% were joint ventures and 40.0% 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 2014.

Chart 6: Ownership of EPZ enterprises, 2014

2.7 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 44, 218 million in 2014 from Kshs 48,004 million in the year 2013, representing a decrease of 7.9%. The decrease was occasioned by degazettement of one capital intensive firm in the course of year 2014.

When infrastructure investment of Kshs 6,106 million undertaken by EPZ developers included, the figure becomes Kshs 50,324 million compared with Kshs 53,521 million in the year 2013.

In terms of value of private investments, 75.7% (Kshs 33,460 million) were foreign owned while Kenyan accounted for 24.3% (Kshs10, 747 million) in 2014 compared to 72.8% (Kshs 34,947 million) foreign owned and 27.2% (Kshs 13,057 million) Kenyan respectively in the year 2013 (table 6).

Table 6: Value of EPZ enterprises' investments: 2010 - 2014

Indicator	**2010**	**2011**	**2012**	**2013**	**2014**
Value of Kenya/Local investments (Kshs million)	4,529	6,869	11,513	13,057	10,747
Value of Foreign investment (Kshs million)	19,034	19,599	27,021	34,947	33,460
Total Investment (Kshs million)	**23,563**	**26,468**	**38,534**	**48,004**	**44,218**
Ratio of value of Kenya/Local investment to Total (%)	19.2	26.0	29.9	27.2	24.3
Ratio of value of Foreign investment to Total (%)	80.8	74.0	70.1	72.8	75.7

Source: EPZA records.

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 over 80% of total work force within the zones and account for over 50% of exports.

Exports of articles of apparels to US increased in value by 24.7% to stand at Kshs 30,244 million in 2014 from Kshs 24,246 million recorded in the year 2013. Quantity of apparels exported to US increased marginally from 79.3 million pieces in 2013 to 81.9 million pieces in 2014. This could be attributed to exports made to other markets in addition to the fact that the firms now focus more on quality aspects than merely mass production.

During the year under review, there were some noticeable market diversification other than to the US; which included Europe and Canada, During the year 2014, these alternative markets were a destination of Kshs 2.6 billion (6.2 million pieces) worth of apparel compared to Kshs 2.1 million (5.4 million pieces) of apparel consigned to these markets during the year 2013. It is evident that the alternative market is evolving in significance.

Direct employment expanded by 14.7% to stand at 37,785 from 32,932 recorded in the previous year. During the year 2014, garment sector contributed 81.7% of total local employment compared with 82.4% in 2013.

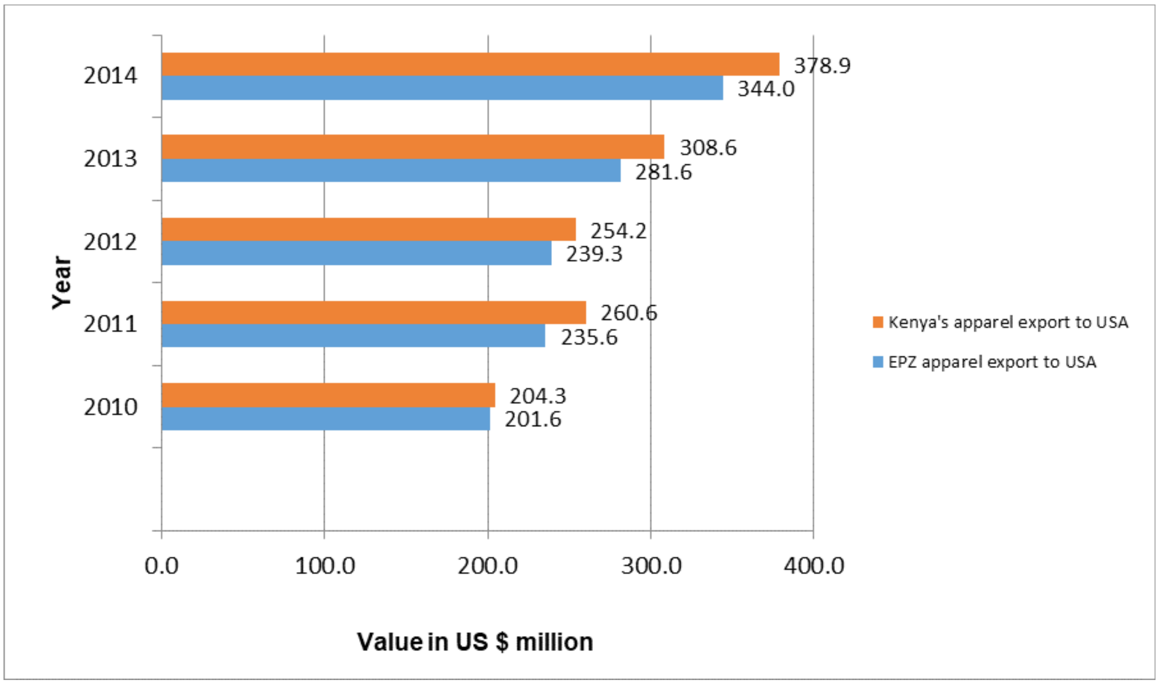
Investment on the other hand registered an increase of 11.8% as result of the enterprises expanding operations and acquisition of new plant, machinery and equipment to meet market demands. The situation was boosted by one enterprise previously dealing with spinning which began apparel production hence necessitating classification as a garment firm.

The trend is as shown in table 7 and chart 7.

Table 7: Impact of AGOA on EPZ Garment Sector: 2010 - 2014

Indicator	**2010**	**2011**	**2012**	**2013**	**2014**	**% growth (2013v/s 2014**
Number of Enterprises	16	18	22	22	21	-4.5
Employment (No.)	24,114	25,169	28,298	32,932	37,785	14.7
Investment (Kshs million)	6,959	7,407	10,732	13,465	15,051	11.8
Exports (Kshs million)	16,190	20,948	20,217	24,246	30,244	24.7
Quantity of exports (million pieces)	70.3	65.6	81.3	79.3	81.9	3.3
Imports (Kshs million)	10,12 3	13,966	14,699	18,750	20,452	9.1
Exports (US$ million)	201.6	235.6	239.3	281.6	344.0	22.2
Annual average exchange rate (Kshs/US$)	79.2	88.9	84.5	86.1	87.9	2.1

Chart 7: Trend of EPZ Garment Exports v/s Overall Kenya Garment/ apparel Exports to US under AGOA: 2010 - 2014 (US $ million)



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

The overview of the performance of selected SSA countries indicated that the growth was generally on an upward trend in the year 2014.

Total apparel exports from Kenya to US increased by 22.8% in year 2014 to stand at US$ 378.9 million from US$ 308.6 million recorded in 2013. This could be attributed to the increase of orders in target market as well as expansion of production by some EPZ firms.

Kenya and Mauritius saw their apparel exports to US increase by 22.8% and 16.7% to stand at US$ 378.9 million and US$ 223.0 million respectively.

EPZ garment/apparel exports were US$ 344.0 million; constituting 90.8% of the national apparel exports while during the previous year it accounted for 91.2%.

Apparel exports from Lesotho, Kenya and Mauritius accounted for over 87.5% of total AGOA apparel exports to US in the year 2014 compared to 87.7% during the previous.

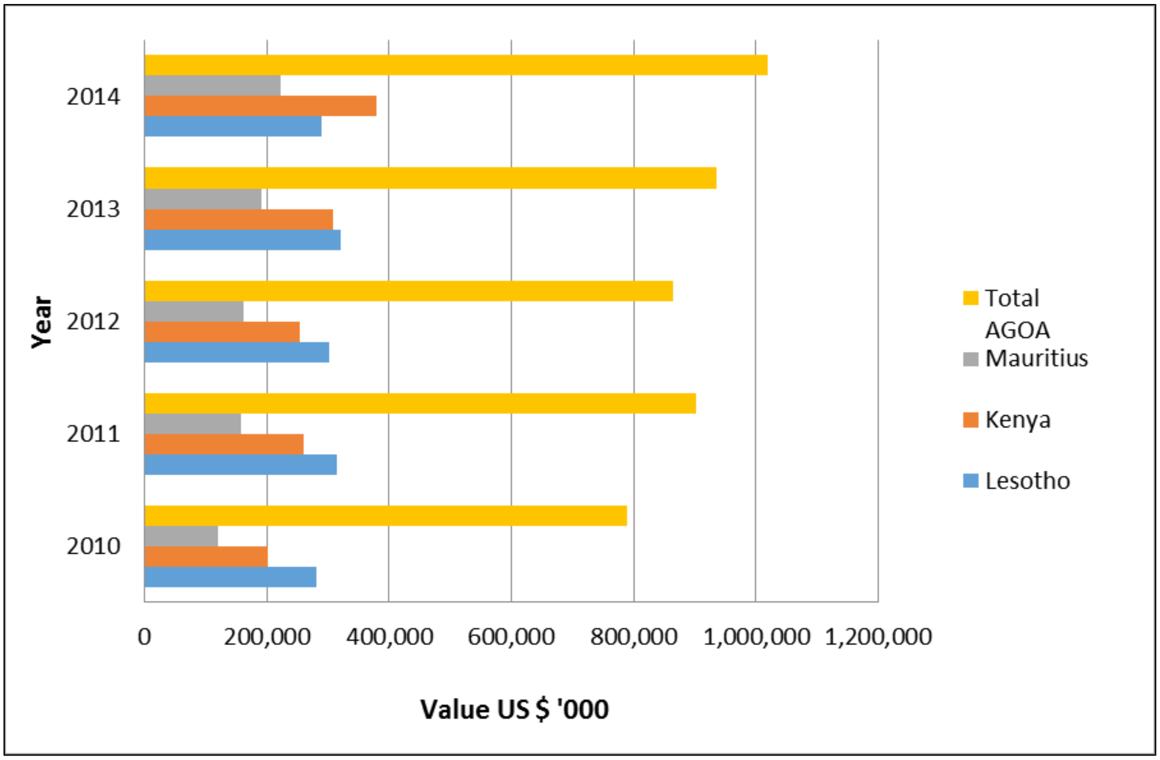
Table 8 and chart 8 has trend on performance of selected SSA countries which are non oil producers and heavily rely on apparel/garment exports to US under AGOA program.

Table 8: Exports to US under AGOA provisions for selected Africa AGOA eligible countries 2010 – 2014 (US $ '000)

Country	**2010**	**2011**	**2012**	**2013**	**2014**	**% change 2013 -2014**
Kenya	201,602	260,588	254,232	308,563	378,911	22.8%
Lesotho	280,754	315,323	300,930	321,276	290,309	-9.6%
Mauritius	119,654	156,768	162,788	191,188	223,060	16.7%
Total AGOA	**789,496**	**903,215**	**864,176**	**936,649**	**1,019,328**	**8.8%**
Kenya/Total AGOA (%)	25.5%	28.9%	29.4%	32.9%	37.2%	13.1%
Lesotho/Total AGOA (%)	35.6%	34.9%	34.8%	34.3%	28.5%	-16.9%
Mauritius/Total AGOA (%)	15.2%	17.4%	18.8%	20.4%	21.9%	7.4%
(Kenya +Lesotho + Mauritius)/Total AGOA (%)	**76.3%**	**81.1%**	**83.1%**	**87.7%**	**87.5%**	

Source: http://otexa.trade.gov/agoa-cbtpa/catv1.htm

Chart 8: Trend of apparel exports to US from selected AGOA Africa countries under AGOA, 2010 – 2014 (US $ '000).



Third Country Fabric provision which had been extended in the year 2012 is to expire in September 2015. There is currently a bispartisan AGOA bill before the US Senate which would if passed, it would extend AGOA for 10 years, with extension of Third Country Fabric provisions for the same period.

Other developments on AGOA in SSA eligible countries indicated that US government reinstated Madagascar's AGOA eligibility, while Swaziland was suspended effective January 2015, for not meeting eligibility requirements.

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, including review of extension of third country fabric. The 2014 Forum was held in USA while the one for 2015 is scheduled to take place in August 2015 in Libreville, Gabon.

There has been initiatives with East Africa Community (EAC), which would enable the region to take greater advantage and benefit from AGOA. Some of these efforts include development of EAC AGOA strategy.

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 2014, EPZ contribution to manufacturing sector output rose to 4.97% from 4.58% registered in the previous year.

In the year under review, the export processing zones contribution to the total manufacturing sector employment accounted for 16.1% from 14.12% posted in the year 2013.

EPZ exports to total Kenya exports showed that it increased from 8.84% in 2013 to 9.56% in the year 2014.

Contribution to Gross Domestic Product (GDP) at market price of the economy has risen from 1.02% in 2010 to 1.07 % in 2014. The slight decline in proportion of EPZ contribution to GDP has been
as a result of rebasing of GDP in the course of the year 2014.

Articles of apparel & clothing the bulk of which originate from EPZ (80%) were Kenya's third largest merchandise export contributor after tea and horticulture. During the year 2013, coffee earnings declined hence articles of clothing overtook in export earnings.

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

Table 9: EPZ contribution to the national economy: 2010 – 2014

Indicator	2010	2011	2012	2013	2014
Total Kenya Exports (Kshs Million)	409,794	512,604	517,847	502,287	537,236
Manufacturing sector Value of Output(Kshs Million)	842,506	1,015,542	1,049,345	1,097,082	1,149,742
GDP at market price; (Kshs Million)	3,169,301	3,725,918	4,261,151	4,730,801	5,357,672
Total national employment (number)	11,457,100	12,116,200	12,782,000	13,517,000	14,316,700
Manufacturing sector employment (number)	268,100	271,500	277,900	283,000	287,456

Indicator	2010	2011	2012	2013	2014
Exports EPZ (Kshs. Million)	28,998	39,067	39,962	44,427	51,377
Total output EPZ (Kshs Million)	32,348	42,442	44,273	50,294	57,192
Total Employment EPZ	*31,502*	*32,043*	*35,501*	*39,961*	*46,221*
EPZ contribution to total Kenya Exports (%)	7.08	7.64	7.72	8.84	9.56
EPZ contribution to manufacturing sector value of output (%)	3.76	4.21	4.25	4.58	4.97
EPZ contribution to total national employment (%)	0.29	0.28	0.28	0.30	0.32
EPZ contribution to manufacturing sector employment (%)	11.75	11.80	12.77	14.12	16.1
EPZ contribution to GDP; constant prices (%)	1.02	1.14	1.04	1.06	1.07

Source: Economic Survey 2015 and EPZA various reports.

Chart 9: Contribution of EPZ output to manufacturing sector output, 2010 - 2014.

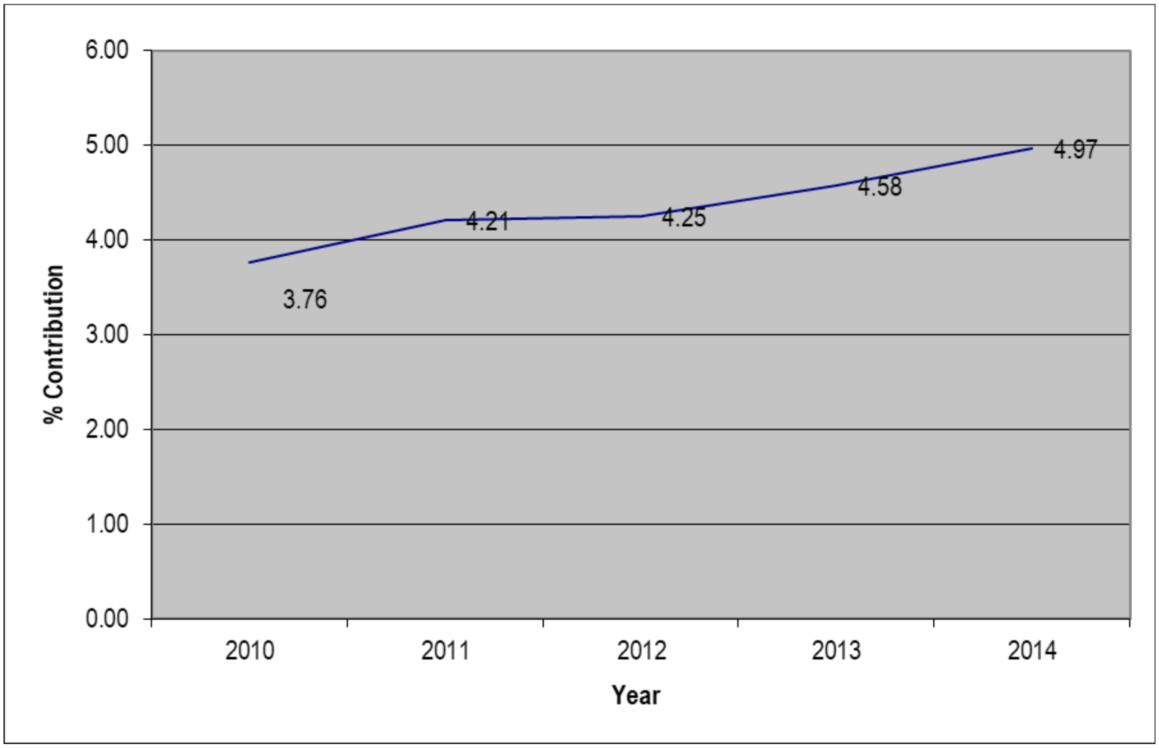
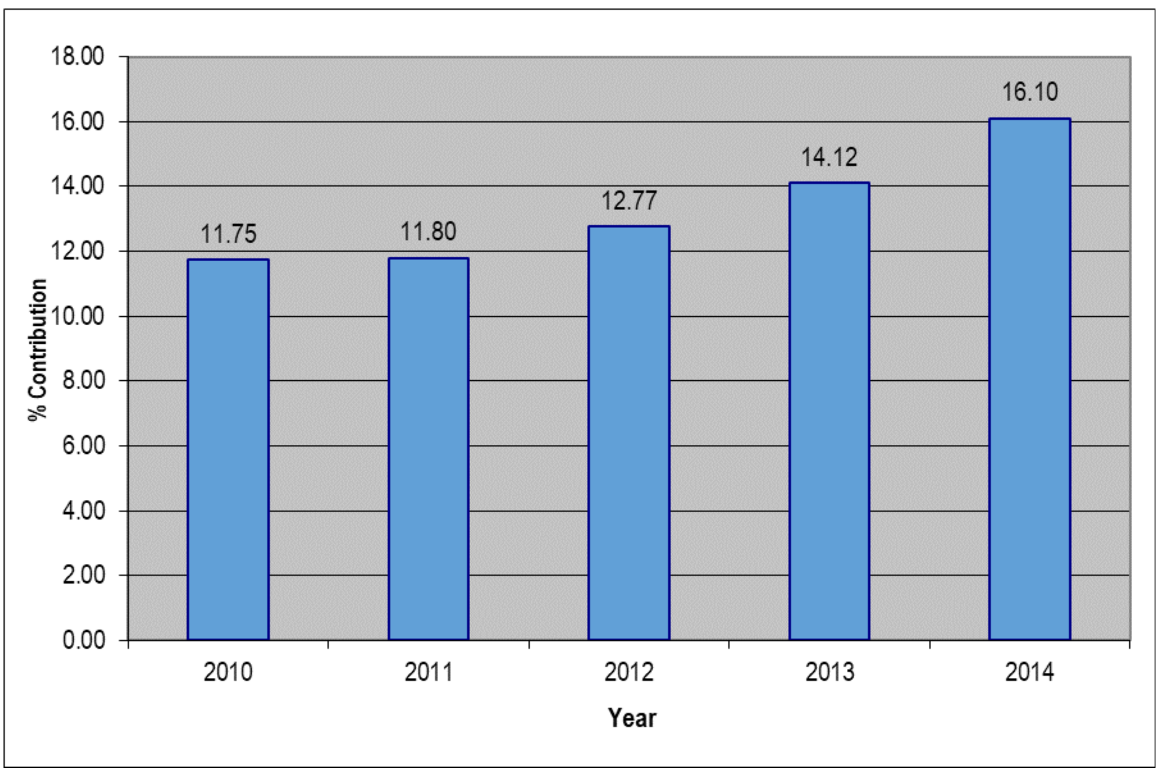


Chart 10: EPZ Contribution to manufacturing sector employment; 2010 – 2014



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 20, it generated total local employment of 18,627 compared to 46 firms in Athi river region creating 13,622 jobs.

Average performance for the regions with respect to the selected indicators were 35.1%, 35.7%, 21.8%, 3.2%, 3.1% and 1.1% for Athi River/ Mlolongo/Isinya, Mombasa, Nairobi, Kerio Valley/Nandi, Thika/Muranga and Laikipia for 2014 compared with 43.2%, 32.3%, 18.1%, 3.2%, 2.5% and 0.7% respectively in 2013.

Refer to tables 10 & 11 and chart 11 for more details.

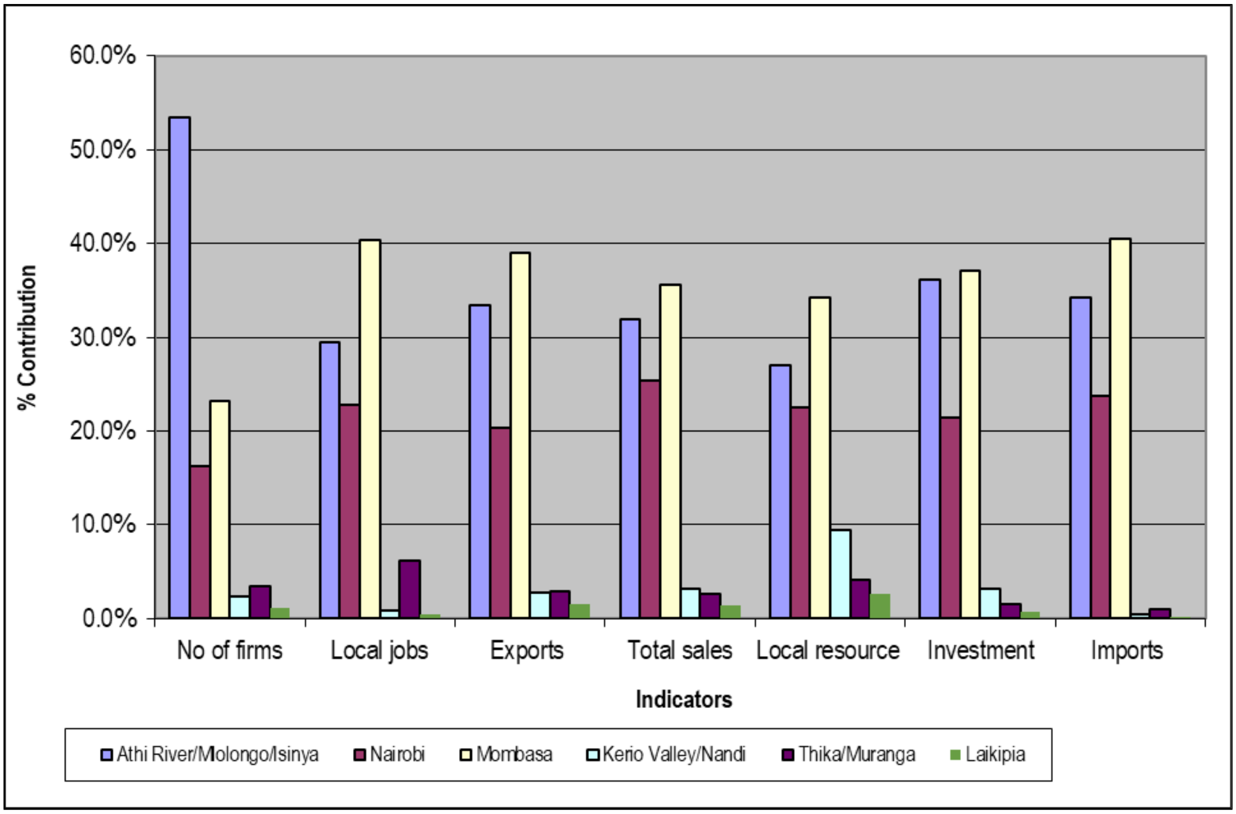
Table 10: Regional performances year 2014

Zone	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	46.0	13,622.0	17,184.0	18,214.0	5,670.0	15,952.0	10,082.0
Nairobi	14.0	10,512.0	10,471.0	14,535.0	4,730.0	9,455.0	6,992.0
Mombasa	20.0	18,627.0	20,023.0	20,343.0	7,170.0	16,409.0	11,927.0
Kerio Valley/Nandi	2.0	376.0	1,440.0	1,833.0	1,972.0	1,388.0	137.0
Thika/Muranga	3.0	2,862.0	1,486.0	1,494.0	867.0	677.0	311.0
Laikipia	1.0	222.0	773.0	773.0	561.0	337.0	12.0
total	**86**	**46,221**	**51,377**	**57,192**	**20,970**	**44,218**	**29,461**

Table 11: Contribution by region, 2014 (%)

Zone	No of firms	Local jobs	Exports	Total sales	Local resource	Investment	Imports	Average
Athi River/Mlolongo/Isinya	53.5%	29.5%	33.4%	31.8%	27.0%	36.1%	34.2%	35.1%
Nairobi	16.3%	22.7%	20.4%	25.4%	22.6%	21.4%	23.7%	21.8%
Mombasa	23.3%	40.3%	39.0%	35.6%	34.2%	37.1%	40.5%	35.7%
Kerio Valley/Nandi	2.3%	0.8%	2.8%	3.2%	9.4%	3.1%	0.5%	3.2%
Thika/Muranga	3.5%	6.2%	2.9%	2.6%	4.1%	1.5%	1.1%	3.1%
Laikipia	1.2%	0.5%	1.5%	1.4%	2.7%	0.8%	0.0%	1.1%
total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Chart 11: Contribution by region (%) year 2014

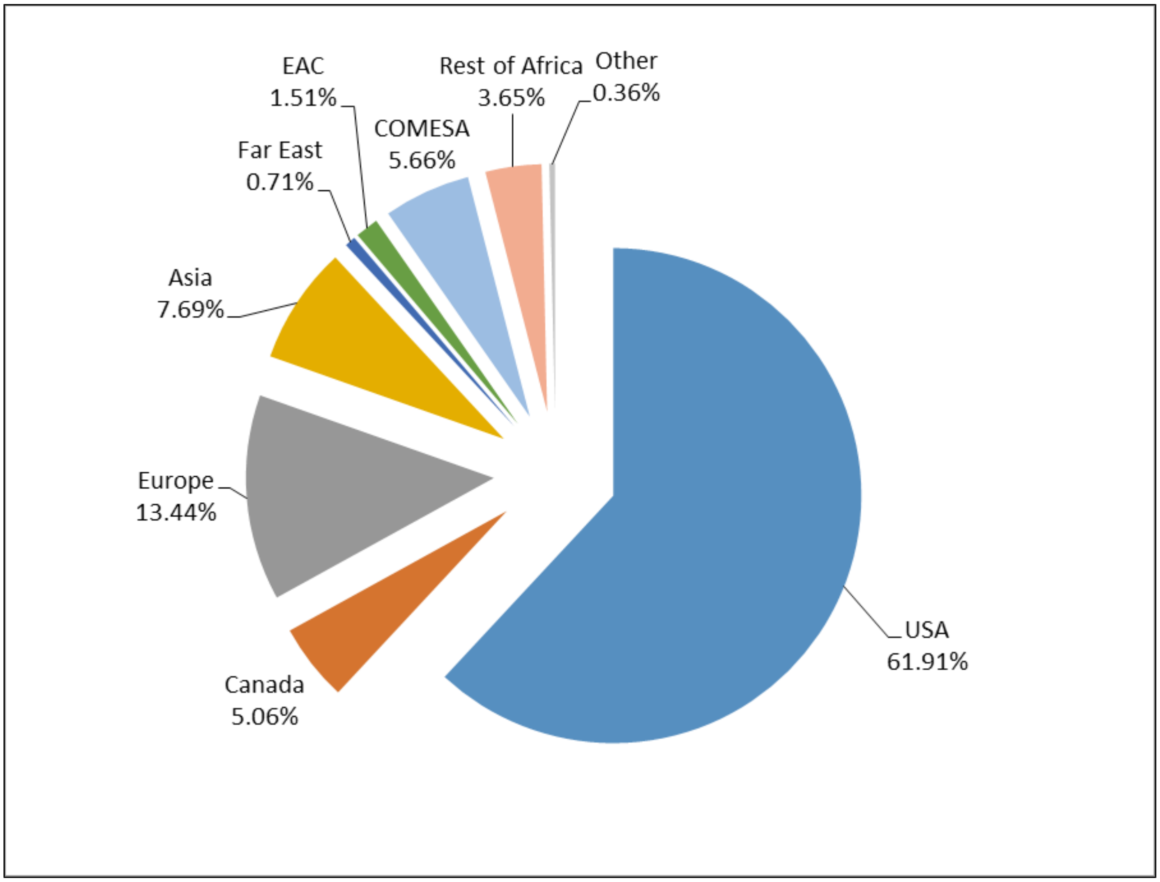


5.0 Destination of Exports

During the year under review, 61.9 % (Kshs 31 ,810million) of all exports were consigned to USA market out of which 95.1% (Kshs 30,244 million) constituted exports of garment products. In the year 2013, 56.4% (Kshs 25,041 million) were exported to US out of which 96.8% accounted for garment exports.

Europe accounted for 13.4 % (Kshs 6,905 million) of the export market, EAC 1.5% (Kshs 776 million), Asia 7.7 % (Kshs 3,950 million), COMESA 5.7 %(Kshs 2,909 million), Rest of Africa 3.7 %(Kshs 1,877 million), Far East 0.71 %(Kshs 362 million) and 0.36% (Kshs 186 million) was destined to the rest of the world. During the previous year, Europe accounted for 13.6% (Kshs 6,046 million), EAC 3.6% (Kshs 1,590 million), Asia 7.0% (Kshs 3,103 million), COMESA 8.7% (Kshs 3,884 million),Rest of Africa 5.3% (Kshs 2,337 million), Far East 0.8% (Kshs 365 million) and 0.7 % (Kshs 308 million) to the rest of the world (chart 12).

Chart 12: Market destination for all exports, 2014



6.0 Employment and wages

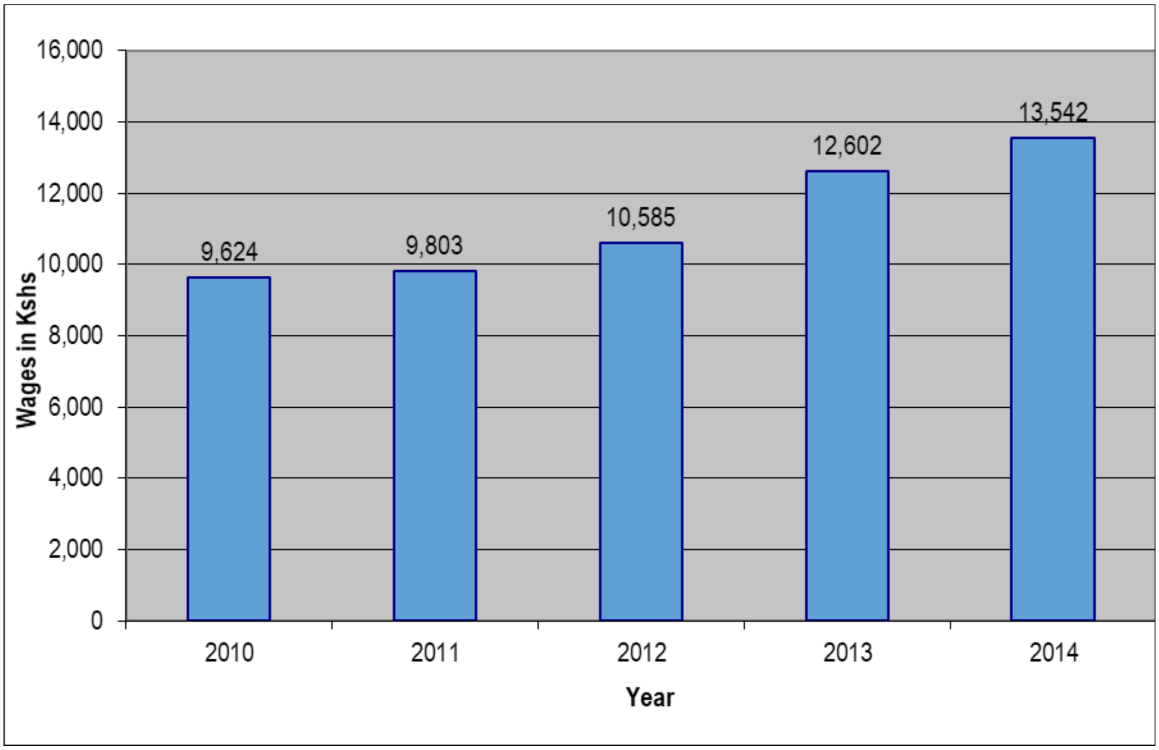
The monthly average wage for local employment within the EPZ has been on steady increase over the years as shown by table 12 and Chart 13). The average monthly wages has increased from Kshs 9,624 in the year 2010 to Kshs 13,542 in the year 2014, representing 40.7% increase. This meant that there has been an average of over 8% increase local wages per annum in the last five years.

Table 12: Employment and Wages: 2010 – 2014

Indicator	2010	2011	2012	2013	2014
Local employees (Number)	31,026	32,043	35,501	39,961	46,221
Expatriates (Number)	476	421	428	472	517
Total employment (Number)	31,502	32,464	35,929	40,433	46,738
Local wages (Kshs)	3,583,029,487	3,769,215,481	4,509,251,454	6,042,912,860	7,511,228,508
Expatriate wages (Kshs)	662,296,354	368,560,214	400,803,713	467,535,058	537,187,843
Total wages (Kshs)	4,245,325,841	4,137,775,695	4,910,055,167	6,510,447,918	8,048,416,351
Average Annual wages locals (Kshs)	115,485	117,630	127,018	151,220	162,507
Average Annual wages expatriates (Kshs)	1,391,379	875,440	936,457	990,540	1,039,048
Average monthly wage locals (Kshs)	9,624	9,803	10,585	12,602	13,542
Average monthly wage expatriates (Kshs)	115,948	72,953	78,038	82,545	86,587
Average monthly wage locals (US$)	122	111	125	147	154
Average monthly wage expatriates (US$)	1,464	821	924	959	985
Average annual exchange rate(Kshs/US$)	79.2	88.9	84.5	86.1	87.9

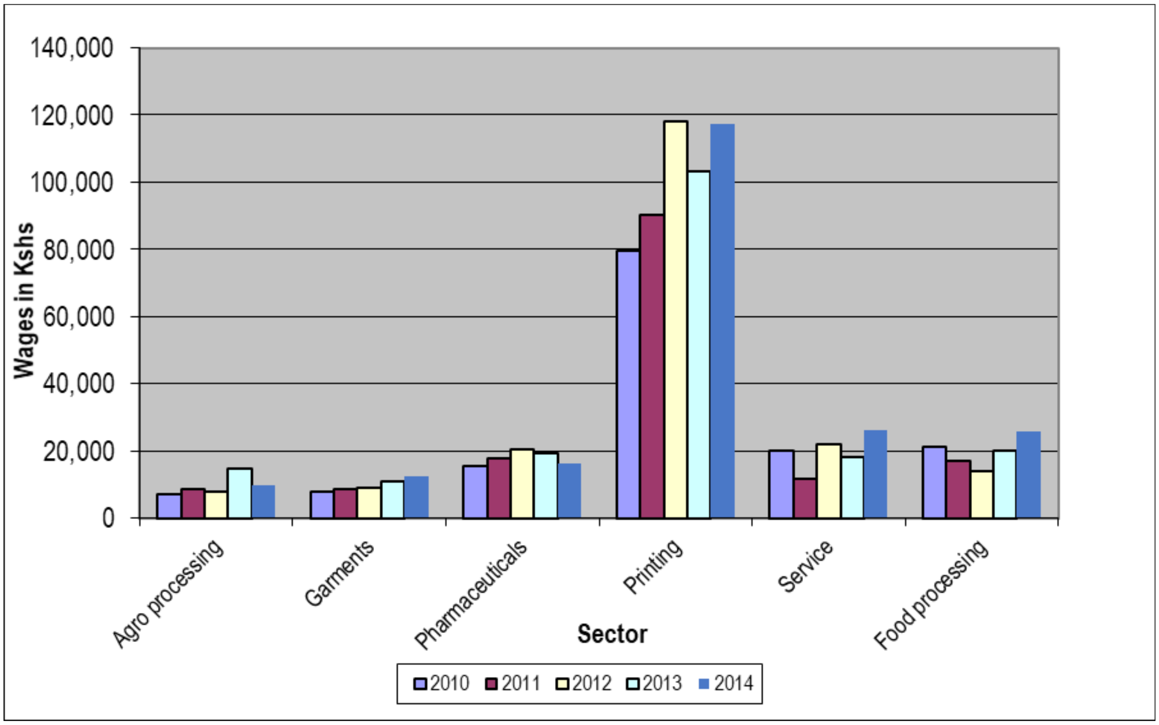
Source: EPZA records

Chart 13: Average monthly wages for local employees, 2010 to 2014 (Kshs)



With respect to selected sectoral wages, the printing sector continued to offer high remuneration to its employees in 2014 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, 2010 - 2014



6.1 Training of local workers and transfer of technology

In the year 2014, 41 enterprises trained local employees in various industrial disciplines compared to 37 in the previous year.

The training provided include: machine operation & quality assurance, setting corporate & personal targets, technical cashewnut processing methods, apprenticeship, 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, firefighting, fire marshall, fire drill, team building, setting of personal & corporate targets, training of trainers, HIV/AIDS, drug abuse and security 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, adverse impact as a result of restriction of 20% exports to EAC market, unpredictable market factors (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.

Summary of constraints reported by enterprises during the year 2013 are tabulated on table 13.

Table 13: Constraints/ impediments reported by EPZ enterprises, 2014.

Constraint/impediment	Number of firms which reported/ affected (2014)	% of enterprises affected to total no. of operating firms in 2014	Number of firms which reported/ affected (2013)	% of enterprises affected to total no. of operating firms in 2013	Number of firms which reported /affected (2012)	% of firms affected to total no. of operating firms in 2012
Labour productivity/turn over/efficiency, labour unrest	9	10.5	9	10.6	4	4.9
Unfavourable economic condition/ inflation etc	6	7.0	7	8.2	11	13.4
High Cost of production	7	8.1	11	12.9	10	12.2
Customs regulations/KRA	9	10.5	4	4.7	8	9.8
High cost of power/electricity	16	16.6	14	16.5	11	13.4
Lack of locally sourced inputs	8	9.3	9	10.6	6	7.3
Issues pertaining to inefficiency of port/railway transport	5	5.8	10	11.8	8	9.8
Competition from other countries	11	12.8	11	12.9	9	11.0
High cost of water/ unreliable water supply	5	5.8	3	3.5	4	4.9
Local currency fluctuation	4	4.7	3	3.5	3	3.7
Poor infrastructure	6	7.0	4	4.7	3	3.7
Shortage of raw materials	13	15.1				
Market access/market barriers	7	8.1				
Diminishing demand	2	2.3				
Others (Lead time, Insecurity, price factor, delays, unfamiliarity with EPZ operations, bureaucracy, corruption, insensitiveness to investors, dependency on other EPZs, lack of appropriate machines/technology by subcontract EPZ garment firms, marketing, political instability, security concern, congestion among others).	35	40.7	33	38.8	29	35.4

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:-

i) Lack of industrial space.

A number of EPZ enterprises planned to expand operations during the year under review. These were mainly apparel/garment firms. They were however unable to expand because available space is 100% occupied and those being built have not been constructed fast enough to meet this need.

ii) Customs facilitation in tea processing companies.

Tea processing EPZ firms have found it difficult to sale their products through the Mombasa Tea Auction. This is because procedures to allow them to export to the auction are nonexistent. The tea Auction is one of the avenues for exports. The lack of customs procedures has inhibited their operations.

iii) Market.

The global market has become competitive for EPZ products in addition to the general world economic recession. Customer orders have become fewer or reduced. This is especially for fluorspar and cotton yarn. Consequently the export market potential has shrunk. Companies therefore have to contend with available demand.

iv) High Interest rates.

Loans continue to attract high interest rates in spite of Central Bank rate decreasing and stabilizing at 8%. Commercial Bank rates range from 18% to 25%. This is business unfriendly. EPZ firms that have loans have been affected adversely. This became worse for companies that have reduced market demand as incomes to repay the loans are minimal.

v) High cost of expatriates' work permits.

Work permits charged on expatriates that assist in running some EPZ firms especially in garments tend to be on the higher side compared to Kenya's competitors in the region. For instance it cost Kshs 400,000 for a two year work permit which the investors/industry view as prohibitive, hence discourages investment within the program.

vi) Introduction of some levies and fees.

Some public institutions and County Governments have introduced levies and fees that have increased the cost of doing business. The National Construction Authority Act No.41 of 2011 makes provision on the payment of construction levy among others. Regulation No. 25 indicated that 0.5% construction levy is payable to the Authority by the owner of any construction works whose construction value exceeds five million shillings. In addition, some County Governments have made EPZ firms to pay for business license fees.

The levies and fees goes to increase cost of production and thus make Kenya uncompetitive.

vii) Change in weather pattern during the year which affected flow of local raw material supply.

There was change in weather pattern in 2014. At the time that the rain was expected, there was little or no rainfall and when it was expected to be dry, some rains were experienced. There was a long dry spell of drought in the year. Agriculture was adversely affected. Consequently, EPZ firms processing agricultural products such as tea, fruits and vegetables were affected negatively. Production was low and thus full capacity was not met.

viii) 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 2014, some EPZ enterprises were adversely affected by the restrictive nature of EAC market.

ix) 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.

x) 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) Kenya Revenue Authority i.e. the Customs Department facilitate tea exports to the tea auction by establishing procedures.

ii) EPZA to continue marketing EPZ products in international exhibitions as well as identifying export markets through research.

iii) Commercial Banks be encouraged to offer loans at an interest rate not beyond a given spread from the Central Bank rate. CBK should provide guidelines. In addition a fund be established for the revival and development of the cotton supply chain industry.

iv) **Modalities on Electricity subsidies enjoyed by apparel firms need to be explored so as other firms within the program could benefit.**

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

vi) 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. Favourable trade policies within the concluded Economic Partnership Agreement (EPA) negotiations with European Union.

vii) Exempt BPO and ICT enabled services from 20% withholding tax on purchases by domestic customers.

10.0 Set targets and Actual performance.

The projections for the year 2015 took into account the challenges and opportunities facing the EPZ program.

Forecast on performance of selected EPZ indicators is based on the targets outlined in the Strategic Plan for 2014 to 2019.

A summary of set and actual targets for years 2012 to 2014 and projections for year 2015 are outlined on table 14.

Table 14: Set and Actual Targets for 2012 to 2014 and Projections for 2015

Indicator	Target			Actual			% attained			Target
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2015

Operating enterprises (Number)	91	94	97	82	85	86	90.1	90.4	88.7	100
Employment (Kenyans) Number.	37,043	38,501	45,000	35,501	39,961	46,221	95.8	100.0	100.0	55,465
Investment (Kshs million)	28,468	40,468	52,014	38,585	48,004	44,218	100.0	100.0	85.0	48,640
Total sales (Kshs million)	45,442	46,442	53,763	44,273	50,294	57,192	97.4	100.0	100.0	68,630
Exports (Kshs million)	41,067	41,798	48,287	39,962	44,427	51,377	97.3	100.0	100.0	61,767
Ratio of domestic sales to total sales (%)	9	9	9	7.5	9.1	7.4	100.0	100.0	100.0	9
Domestic expenditure (Kshs million)	17,335	20,335	21,505	18,097	19,275	20,970	100.0	94.8	97.5	22,970

Average attainment of set targets for the year 2014 was 95.9% compared to 97.9% in the previous year.

Some of the targets set for the year 2014 which were not attained like the number of operating enterprises & utilization of local resources 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.

Although the performance momentum recorded in 2014 is expected to be maintained in 2015, 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 2015.

Research Policy & Planning Department.
May 2015