EXPORT PROCESSING ZONES PROGRAM
ANNUAL PERFORMANCE REPORT, 2015

Table of Contents

1.0 Executive Summary

The performance of the EPZ program in the year 2015 maintained an upward trend in major indicators.

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 8.8%, exports grew by 18.5%, total sales 13.5% while expenditure on local goods & services rose by 13.8% in the year 2015.These indicators rose by 15.7%, 15.6%, 13.7% and 8.8% respectively in the year 2014.

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

The implementation of Export Business Accelerator (EBA) – Incubator, has improved export business by small scale indigenous enterprises (SMEs). In addition, the number of EPZ firms with local ownership has risen from 25.3% in 2011 to 33.7% in 2015.

1.1 Introduction

The year 2015 was the third year in implementation of the Second Medium Term Plan (MTPII), 2013 – 2017 of the Vision 2030, under the Jubilee Government.

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 program and country at large.

The Government continued to implement policies around Economic Transformation Agenda that included the following:

i. conducive business environment for job creation;
ii. investing in sectoral transformation to ensure broad based & sustainable economic growth with focus on agricultural transformation to ensure food security;
iii. investing in infrastructure ie transport, logistics, energy & water;
iv. investing in quality & accessible health services & quality education;
v. further consolidating gains made in devolution in order to provide service delivery & enhance economic development.

The implementation of the transformative agenda is expected to raise efficiency and productivity in the economy thereby sustaining inclusive growth. This will create opportunities for productive jobs for Kenyans.

In the course of year 2015, Kenya Industrial Transformation Programme (KITP), guided by Vision 2030, was launched by the Ministry of Industrialization & Enterprise Development (MoIED).

KITP is aimed at improving overall business environment and supporting selected sectors which Kenya has competitive advantage. Its objective is to transform the country into an industrial hub through sector specific initiatives. Industrialization has been identified as bedrock upon which to grow jobs, gross domestic product (GDP) and incomes.

Specific sectors targeted include: agro processing; fisheries; apparel & textile; leather; construction materials & services; oil, gas & mining services; information technology related; tourism; wholesale & retail and small & medium enterprises.

EPZ program is expected to play a key role towards attainment of KITP objectives since currently there is expansion of industrial godowns and related infrastructure in line with the Export Processing Zones Authority (EPZA) Strategic Plan 2014-2019.

This report provides insight to the national and international economic environment borrowing highlights from *Economic Survey 2016*, EPZ performance analysis under various indicators, impact of African Growth Opportunity Act (AGOA), constraints/challenges, set & actual targets for the year 2013 to 2015 including projection for 2016, and finally the conclusion.

1.2 National and International Scene

According to *Economic Survey 2016*, the national/ domestic economy saw expansion of Gross Domestic Product (GDP) growth of 5.6% in 2015 compared to a growth of 5.3 % in 2014 as shown by Chart 1.

This expansion was as a result of significant growth in some key sectors among them agriculture; construction; real estate; and financial & insurance. However, growths in mining & quarrying; information & communication; and wholesale & retail trade decelerated during the same period.

Key macroeconomic indicators remained relatively stable during the review period. Overall inflation eased from 6.9% in 2014 to 6.6% in 2015 due to lower energy and transport prices. Growth of real GDP for the years 2011 to 2015 is indicated by chart 1. The current account deficit as percentage of GDP narrowed from 14.5% in 2014 to 11.4% in 2015. This was due to a substantial growth in export of goods & services and a reduction in the import bill.

The Kenya shilling depreciated against its major trading currencies during the review period but appreciated against the Euro, South Africa Rand and the Japanese Yen respectively.

At the international scene, world real GDP growth decelerated to 3.1% in 2015 from 3.4% in 2014. This was as a result of low commodity prices, weaker capital flows, subdued global trade and increasing financial market volatility particularly in emerging markets and developing economies. However, the advanced economies experienced a modest economic recovery, mainly driven by stronger domestic demand as labour markets and credit conditions improved.

Global unemployment rate decelerated to 5.8% in 2015, mainly occasioned by the sluggish global performance. Total global unemployment stood at 197.1 million in 2015.

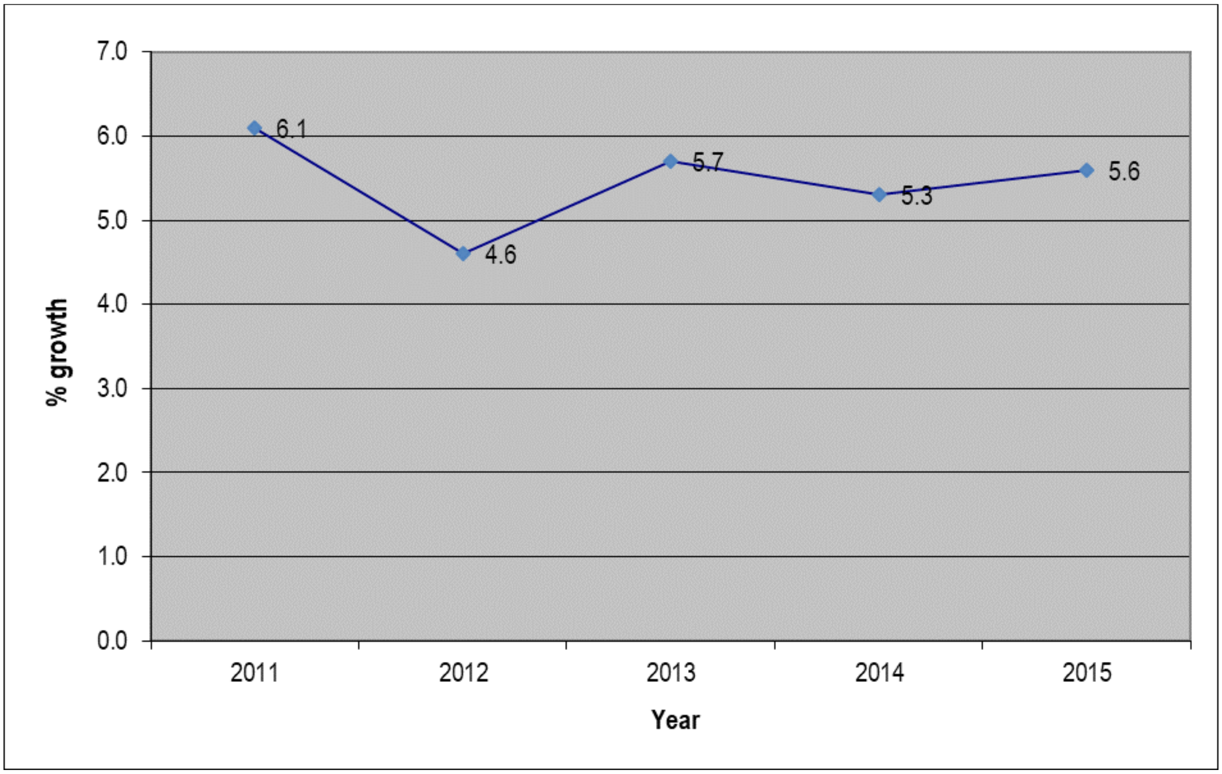
The world merchandise trade volume grew by 3.2% compared to an increase of 3.3% in 2014. The advanced economies experienced a modest economic recovery, mainly driven by stronger domestic demand as labour markets and credit conditions improved.

With respect to selected global regional economic analysis showed that growth in Sub Saharan Africa slowed from 5.1% in 2014 to 3.8% in 2015. This was attributed to the weak global economic growth and lower commodity prices. Growth in Euro Area went up by 1.5% in 2015 compared to a growth of 0.9% recorded in 2015, while in USA, growth in real terms remained unchanged at 2.4% in 2015, mainly supported by robust consumer spending and investment in the non-oil private sector.

The economic growth of emerging economies of Brazil, Russia, India, Indonesia, China and South Africa (BRIICS) decelerated for the second consecutive year in 2015, with an average growth of 2.2% compared to an increase of 3.4% in 2014.

Economic performance in the East African Community's (EAC) experienced a slowed growth. Real GDP declined by 3.4% compared to 5.8% growth registered in 2014.

Chart 1: Real GDP growth rate (%), 2011 to 2015



Source: Economic survey, 2016

1.3 Performance by key sectors of the economy

1.3.1 Agriculture

Economic Survey 2016 reported that agricultural value added rose from 3.5% in 2014 to 6.2% in 2015.Maize production increased from 39.0 million bags to 42.5 million bags in 2015 due to adequate rainfall and reduced incidences of the Maize Lethal Necrosis Disease (MLND). Sugarcane to deliveries to factories rose by 4.6% from 6.5million tonnes in 2014 to 6.8 million tonnes in 2015.The volume of exports of fresh horticultural produce increased by 8.4% to 238.7 thousand tonnes in 2015. The volume of marketed milk increased by 10.9% to 600.4 million litres in 2015. However, tea and coffee production declined by 10.3% and 16.0%, to 399.1 thousand tonnes and 41.6 thousand tonnes, respectively, in 2015.

Coffee production by estates has exhibited downward trend since 2011/12 as compared to that of cooperatives, which recorded a mixed performance. The decrease in production during the review period was mainly as a result of high cost of labour, escalating cost of farm inputs and poor cooperate governance at grower institutions. The average yield for estates and cooperatives declined by13.3% and 17.2% to 589.5kg per hectare and 317.0 kg per hectare, respectively, in 2014/15. Coffee earnings consequently declined from Kshs.16.6 billion in 2014 to Kshs. 12.1 billion in 2015.

Area under tea growing increased by 3.2% from 203.0 thousand hectares in 2014 to 209.4 thousand hectares in 2015, primarily from smallholders. However, production decreased by 10.3% to stand at 399.1 thousand tonnes in 2015.

Area under sugarcane growing increased by 5.8% from 211,342 hectares in 2014 to 223,624 hectares in 2015. This increase was partly due to the introduction of Kwale International Sugar Company which started its operations early 2015.

Earnings from horticulture rose by 7.6% to 90.4 billion in 2015. Volume of vegetable exports to Europe declined for the second year running partly due to delays in signing the Economic Partnership Agreement (EPA) and stringent checks for pesticides levels. However, vegetable earnings increased from 18.8 billion in 2014 to Kshs.20.9 billion in 2015.

Overall, the food supply situation as monitored through the Food Balance Sheet (FBS) improved as reflected in the energy supply improving from 2,202 kilo calories in 2014 to 2,293 kilo calories in 2015. The Self Sufficiency Ratio (SSR) improved from74.4% in 2014 to 75.2% in 2015. The Import Dependency Ratio (IDR) also improved slightly from 29.2% in 2014 to 28.3% in 2015.

1.3.2 Manufacturing.

Manufacturing sector output grew by 3.5% in 2015 compared to a slower growth of 3.2% in 2014 (chart 2).
This was attributed to reduced production costs arising from lower cost of petroleum and electricity inputs.

Most industries in the sector, recorded growth, key among them being the manufacture of pharmaceutical products; beverages; meat & meat products; non metallic minerals and plastic products. There was notable decline in fish processing; other food products, which include tea & coffee; tobacco products; leather & related products; rubber products and basic metals.

Production of meat & meat products registered a 9.3% growth in 2015. Beef production went up from 419.1 thousand tonnes in 2014 to 459.4 thousand tonnes in 2015.

Production of processed fish declined by 21.8%, consequently, quantities of fish & fish preparations exported declined by 29.0% from15,213 tonnes in 2014 to 10,801 tonnes in 2015.

Preparation & preservation of fruits and vegetables increased by 2.3% in 2015 after a contraction of 15.9% in 2014.

Manufacture of animal & vegetable fats & oils increased by 6.5% in 2015, while quantity of processed milk increased by 4.3% from 419.3 million litres in 2014 to 437.5 million litres in 2015. This rise was attributable to favourable weather conditions in 2015, which led to increased pasture and fodder.

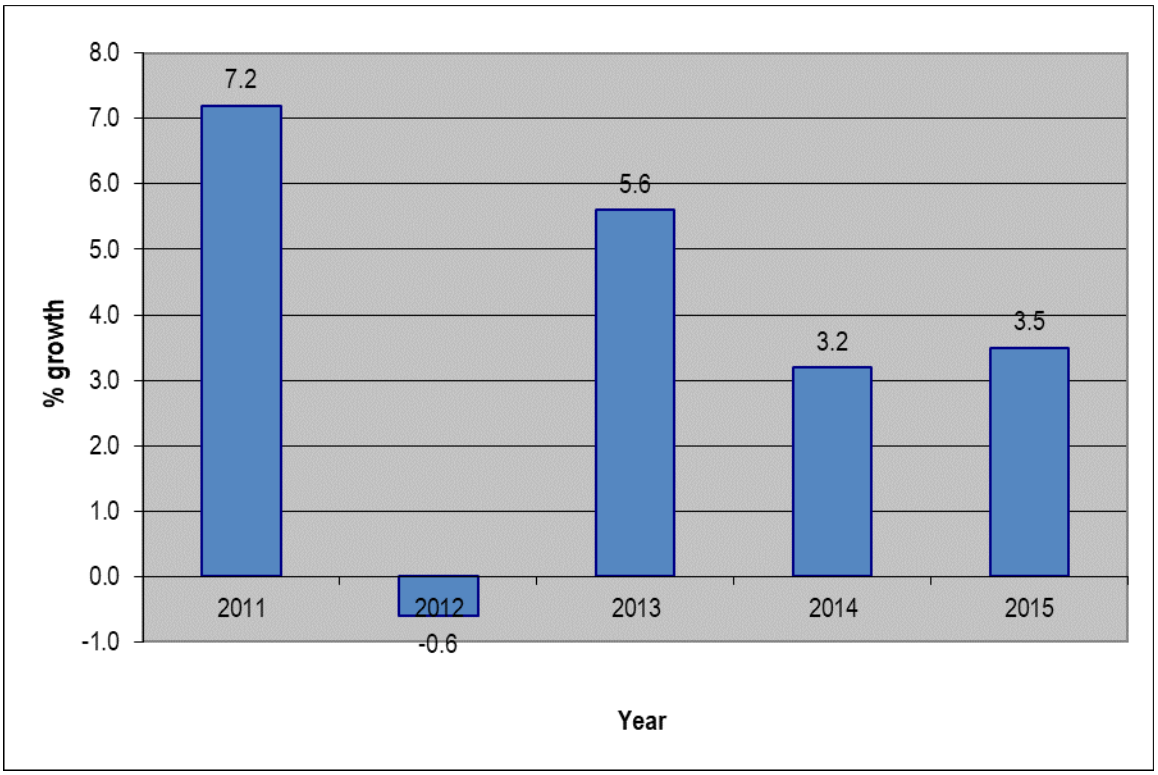
Grain mill products recorded an impressive growth of 7.8% in 2015 mainly driven by increased processing of wheat flour which grew by 11.1% from 988.7 thousand tonnes in 2014 to 1,098.6 thousand tonnes in 2015. Maize milling in the formal sector rose marginally by 1.7% while milled rice went up by 3.1% from 60.5 thousand tonnes in 2014 to 62.4 thousand tonnes in 2015. Production of animal feed grew by 4.5%.

Production of sugar increased by 6.6% from 592.7 thousand tonnes in 2014 to 632.0 thousand tonnes in 2015 mainly attributed to improved supply of cane. Manufacture of cocoa, chocolate and sugar confectionery registered a marginal growth of 0.8% in 2015.

Producer prices as measured by Producer Price Index (PPI) increased by 3.9% from 109.17 in 2014 to 113. 43 in 2015. The increase was mainly due high cost of imported raw materials arising from depreciation of the Kenya shilling against major currencies.

Formal employment in the manufacturing sector went up by 2.7% from 287.4 thousand persons in 2014 to 295.4 thousand persons in 2015. The sector contributed 11.9% of formal jobs in the country.

Chart 2: Manufacturing sector growth rate (%), 2011 to 2015.



Source: Economic Survey 2016

1.3.3 Other sectors

Total installed electricity capacity increased by 6.3% to 2,333.6 Mega Watts (MW), while total electricity generation expanded by 4.1% to 9,514.6 Gigawatt hours (GWh) in 2015. Demand for electricity increased from 7,415.4 million kilowatt hours (Kwh) to 7,826.4 Kwh during the same period. Number of customers connected under the Rural

Electrification Programme (REP) rose by 33.0% to stand at 703,190 customers as at July 2015, up from 528,552 as at July 2014.

Performance of Mombasa Port improved further with total cargo throughput handled increasing from 24,875 thousand tonnes in 2014 to 26,732 thousand tonnes in 2015. Total container traffic handled rose by 6.3% to 1,076,118 Twenty foot Equivalent Units (TEUs) in 2015.

Transport & storage sector output expanded by 6.4% from Kshs.894.1 billion in 2014 to Kshs.951.4 billion in 2015. The road sub sector posted a growth of 4.5% in output to Kshs.613.9 billion in 2015. The air transport subsector recorded a growth of 1.3% in total commercial passengers handled during the period under review compared to a growth of 7.9% in 2014.

Total throughput of white petroleum products transported through the pipeline increased by 2.8% to 5,712.1 thousand cubic metres in 2015.

Tourism earnings went down to Kshs.84.6 billion in 2015 compared to Kshs.87.1 billion in 2014. International visitor arrivals declined by 12.6% from 1,350.4 thousand in 2014 to 1,180.5 thousand in 2015. The suppressed performance was on account of security concerns, particularly in the coastal region and restrictive travel advisories from some European source markets.

Building & Construction sector thrived in the year 2015 registering a growth of 13.6% in value added. Formal employment in the sector grew by 11.4% to stand at 148.0 thousand in 2015 up from 132.9 thousand in 2014. Cement consumption went up by 9.9% from 5,196.7 thousand tonnes in 2014 to 5,708.8 thousand tonnes in 2015 in tandem with the growth in the building & construction sector. Loans & advances by commercial banks to the sector increased by 32.3% from Kshs.80.4 billion to Kshs.106.4 billion in 2015.

In money, banking & finance sector, Central Bank Rate (CBR) was raised from8.5% to 10.0% in June, and further to 11.5% in July 2015 to contain incipient inflationary pressures and stem exchange rate volatility. Performance of capital market was depressed in 2015. Nairobi Securities Exchange (NSE) 20 share index recorded a high of 5,346 points during the first quarter of 2015 and closed the year at 4,040 points, representing a decrease of 21.0% compared to December 2014.total number of shares traded during the year 2015 declined to 6,812 million from 8,134 million reported in 2014.

International trade & balance of payment (BoP) sector saw total exports rose by 8.2% to Kshs.581 billion in 2015, while total imports decline by 2.5% to Kshs.1,578 billion. This resulted in the balance of trade improving from a deficit of Kshs.1,081 billion in 2014 to a deficit of Kshs. 997 billion. The volume of trade increased marginally from Kshs.2,156 billion in 2014 to Kshs.2,158 billion in 2015. The rise in the total export earnings compared to the decline in the total import bill led to improvement of export-import ratio from 33.2% in 2014 to 36.8% in 2015. Terms of trade of all items improved from 73.1% in 2014 to 84.9% in 2015, mainly due to improved unit prices of the export commodities coupled with a decline in import prices of mineral fuels.

1.4 Outlook

According to *Economic Survey 2016,* Kenya's economy in 2016 is likely to be determined largely by internal factors. However, exogenous factors will also shape the economy but probably to a lesser extent. Generally, all the sectors of the economy are expected to continue in their current growth trajectory. The long rains are forecasted to be depressed in some parts of the country but sufficient and well spread in the main food growing regions. Against this background, agricultural sector's output is likely to slow down but record a moderate positive growth.

Similarly, manufacturing sector is also likely to be supported by lower fuel prices and improved supply of electricity as well as sustained delivery of inputs from the agriculture sector.

The Kenya shilling is likely to remain stable against its major trading currencies similar to all other key macroeconomic indicators.

The value of Kenya's import of goods is likely to decline further mainly due to low international oil prices. On the other hand, export earnings are expected to grow in line with a projected growth of world merchandise trade in 2016.

2.0 EPZ Performance for the year 2015

2.1 Overview of the program

In the year 2015, most of the performance indicators for EPZ program exhibited an upward trend compared to the year 2014.
The number of gazetted zones rose to 56 in year under review from 52 in 2014.

Exports and total sales value increased by 18.5% and 13.5% to stand at Kshs.60,879 million and Kshs.64,897 million respectively. Sales to the domestic market exhibited a downward trend from Kshs.4,211 million in 2014 to Kshs.1,793 million in 2015.

Direct local employment expanded by 8.8 % from 46,221 persons recorded in 2014 to 50,302 persons in 2015, 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 89 operational enterprises increased by 8.8% to Kshs.48,128 million in 2015 from Kshs.44,218 million recorded in the previous year.
Imports also rose by 6.5 % to stand at Ksh.31,370 million in the year under review. Out of the total value of imports, inputs amounted to Kshs. 26,764 million while capital goods were valued at Kshs.4,606 million in year 2015 while in the year 2014 it amounted to Kshs.28,457million and Kshs.1,004 million respectively. This reflected increase of activity within the zones and by extension international trade.

Expenditure on local goods and services increased by 13.8%, in 2015 to stand at Kshs.23,870 million from Kshs.20,970 million recorded in the year 2014. This translates to an average of Kshs.1,989 million being injected into the economy by EPZ firms monthly in the year 2015 compared to Kshs.1,748 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: 2011 - 2015

Indicator	2011	2012	2013	2014	2015	Growth % (2014 v/s 2015)
Gazetted zones (no.)	45	47	50	52	56	9.7
Projects approved (no)	28	20	21	32	28	-12.5
Enterprises Operating (no.)	79	82	85	86	89	3.5
Employment – (Kenyans) [a]	32,043	35,501	39,961	46,221	50,302	8.8
Employment - (Expatriates) [b]	421	428	472	517	597	15.5
Total Employment (No)=a+b	***32,464***	***35,929***	***40,433***	***46,738***	***50,899***	***8.9***
Total sales (Kshs. million)**	42,442	44,273	50,294	57,192	64,897	13.5
Exports (Kshs. million)	39,067	39,962	44,427	51,377	60,879	18.5
Domestic Sales (Kshs. million)	2,553	3,322	4,601	4,211	1,793	-57.4
Imports (Kshs. million)	21,443	24,973	27,413	29,461	31,370	6.5
Investment Kshs. Million***	26,468	38,535	48,004	44,218	48,128	8.8
Expenditure on local Purchases (Kshs million)[1]	6,276	8,027	7,721	8,170	8,815	7.9
Expenditure on local Salaries (Kshs million)[2]	3,769	4,509	6,043	7,511	8,377	11.5
Expenditure on power (Kshs million)3	701	757	870	1,004	878	-12.5
Expenditure on Telecommunication (Kshs million)4	61	66	63	67	84	25.4
Expenditure on water (Kshs million)5	87	117	117	173	194	12.1
Other domestic expenditure (Kshs million)[6]	4,024	4,619	4,461	4,045	5,522	36.5
Total Domestic Expenditure (Kshs million) = 1+2+3+4+5+6*	***14,921***	***18,097***	***19,275***	***20,970***	***23,870***	***13.8***

** Foreign exchange equivalent injected into the economy*
*** Inclusive of exports, domestic sales and sales to EPZ/MUB & Duty Free Agencies*
*** Value of investment by EPZ enterprises in the form of equipment, plant , machinery & other funds

2.2 Project Approvals

There were 28 approvals with a potential investment of Kshs.9.2 billion, 11,075 jobs and year one sales valued at Kshs.12.4 billion in the year 2015 compared with 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 previous year.

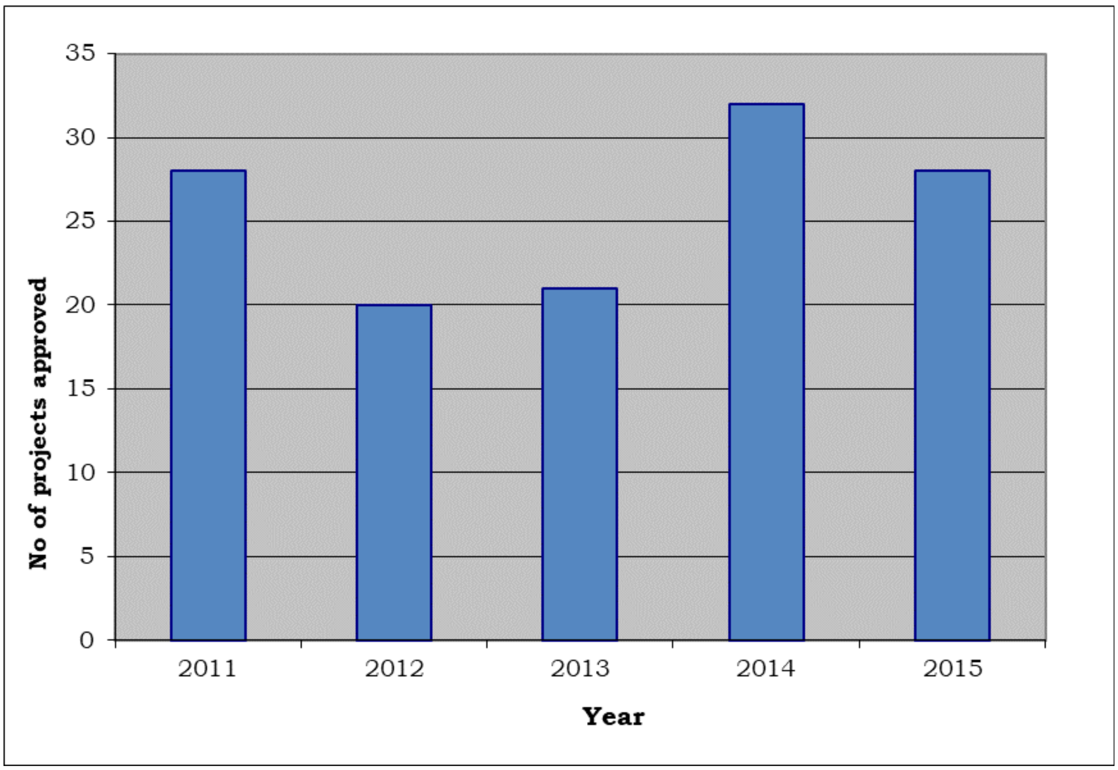
Table 2 and chart 3 has more details.

Table 2: Projects Approved, Expected jobs, Investment & Sales from 2011 - 2015

Year	Number of projects	Jobs	Investment (Kshs.	Year One Sales

	approved	(number)	million)	(Kshs. million)
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
2015	28	11,075	9,225	12,416

Chart 3: Trend of number of projects approved from 2011 - 2015



2.3 Status on gazetted zones

The number of gazetted zones as at the end of December 2015 stood at 56 from 52 during the previous year, out of which 55 are privately owned and operated, while 2 were public.

Seven zones are located in the County of Nairobi, 22 in Mombasa, 8 in Kilifi, 5 in Machakos, 2 in Kiambu, Bomet and Nakuru; one each in

Muranga, Kajiado, Taita Taveta, Elgeyo Marakwet, Nandi, Uasin Gishu, Laikipia and Meru. Zones are located in 15 Counties, representing 32% of the total Counties (which constituted 5 of the former provinces) as shown by table 3.

Five zones were gazetted in the year 2015; namely; Vipingo Business Park EPZ Ltd & Mtwapa EPZ Ltd (Kilifi County), Goodison 218 EPZ Ltd & Rainforest Farmland EPZ Ltd (Nakuru County) and Kenya Supply Platform EPZ Ltd in Machakos County. During the year 2014, two zones were gazetted; namely Stegro EPZ Tea Factory Ltd and Africa Marine Oil & Gas EPZ Ltd located in Bomet and Mombasa Counties respectively.

Table 3: Geographical distribution of zones per County, 2015

County	Former Province	Number of zones
Nairobi	Nairobi	7
Mackakos	Eastern	5
Kajiado	Rift Valley	1
Mombasa	Coast	22
Kilifi	Coast	8
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
Nakuru	Rift Valley	2
Total: 15	**5**	**56**

Table 3 shows that 55.4 %(31 out of 56) of zones 2015 were concentrated in Coast Counties compared to 55.8% (29 out of 52) in 2014.

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.2,944 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.3,196 million. Additional ongoing infrastructural projects are estimated at Kshs.1,542 million. The zone 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, Capital Industrial Park EPZ Ltd, Rupa Cotton Mills EPZ Ltd, Property Vision EPZ Ltd and Growth Point 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. Additional 24 units with cumulative area of 316,800 square feet are being put up in the expanded apparel & textile cluster dubbed ‘Textile City’.

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, Global Apparels K. EPZ Ltd and Royal Garments Industries EPZ Ltd, hence registering 100% occupancy. Transfleet EPZ Ltd is putting up additional godowns to meet investors’ demand.

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; Reltex Tarpaulin Africa EPZ Ltd, Fairoils EPZ Ltd and Ethical Fashions Artisan EPZ Ltd occupied cumulative built up space of 167,768 square feet; representing occupancy of 76.3%. The slow uptake of these go downs is attributed to the fact that they are large facilities which are not in investors’ preference.

Property Vision EPZ Ltd has constructed seven units totaling 49,700 square feet, while Growth Point EPZ Ltd is developing 15 units with cumulative area of 105,000 square feet to cater for investors' needs.

The zone had 42 operating enterprises in the year 2015. Mahalakshmi Garments Kenya EPZ Ltd and Ethical Fashion Artisans EPZ Ltd commenced operations in the year 2015. There are others firms in various stage of setting up operations within the zone like Meru Greens Horticulture EPZ Ltd and Eureka Nuts EPZ Ltd.

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.

Export Business Accelerator (EBA) phases I & II have a cumulative space of 68,633 square feet with occupancy at 80.0%.

Currently, the zone is experiencing increased activity in the form of development of industrial sheds and associated infrastructure. There are also offsite auxiliary services and infrastructure within the larger Athi River zone.

2.4.2 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.

2.4.3 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. Total area occupied was 111,367 square feet representing occupancy of 91.1%. It housed eight enterprises, which included one that was in liquidation as a result of constraints associated with business environment. The firms located here dealt with activities that included garments/apparels, agro processing, call centre, relief supplies, gemstones and macadamia.

2.4.4 Mazeras Kenya EPZ Ltd

This is a private zone located in Mazeras, Kilifi County, gazetted in March 2002. It is being occupied by 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.

2.4.5 Mvita Industrial Park EPZ Ltd, Changamwe

This zone was gazetted in February 2004 with industrial & office built up space of 110,000 square feet, fully occupied. It hosts Ashton Apparel EPZ Ltd; one of the leading garment manufacturing enterprise.

2.4.6 Ayman Industrial Park EPZ Ltd, Changamwe

This zone was gazetted in October 2008 with industrial & office built up space of 33,000 square feet; fully occupied. It hosts Mega Apparel Industries Kenya EPZ Ltd, a new garment firm.

2.4.7 Talab EPZ Ltd (Mtwapa)

The zone was gazetted in March 2003. It is one of the largest private zones with a built up area of 407,125 square feet, which was fully occupied by two garment firms namely; Brilliant Garments EPZ Ltd and Mombasa Apparel EPZ Ltd (unit 3).

2.4.8 General information on zone occupancy

Cumulative built up area put up by the public zone/Athi River was 232,833 square feet; including the incubator phases I & II. Additional 316,800 square feet project dubbed 'Textile City' is being constructed. Upon completion, total industrial space put up by public is expected to total 549,633 square feet. Athi River Zone indicators on investment & built up industrial space relate to projects put up using public resources. Five private zone developers (Transfleet EPZ Ltd, Capital Industrial Park EPZ Ltd, Property Vision EPZ Ltd, Growth Point EPZ Ltd and Rupa Cotton Mills EPZ Ltd) have made available industrial space of 905,328 square feet.

2.4.9 Other information on zones

The other zones are categorized as, newly gazetted, setting up, newly operational and zones hosting a branch of an enterprise.

2.4.10 Zones gazetted in the course of the year.

Five zones were gazetted in the year 2015; namely; Vipingo Business Park EPZ Ltd & Mtwapa EPZ Ltd (Kilifi County), Goodison 218 EPZ Ltd & Rainforest Farmland EPZ Ltd (Nakuru County) and Kenya Supply Platform EPZ Ltd in Machakos County. During the year 2014, two zones were gazetted; namely Stegro EPZ Tea Factory Ltd and Africa Marine Oil & Gas EPZ Ltd located in Bomet and Mombasa Counties respectively.

2.4.11 Zones in the process of setting up.

The following zones were in various stages of setting up; Talab EPZ Ltd (Mtwapa) which is the zone opposite the one that is being occupied by Brilliant Garments EPZ Ltd and Mombasa Apparel EPZ Ltd (Unit 3). The others include Goodison 218 EPZ Ltd located in Naivasha, Vipingo Business Park EPZ Ltd and Mtwapa EPZ Ltd, in Mtwapa area respectively. It is expected that upon completion and operation of these zones, they will contribute incremental benefits especially in employment creation in their geographical areas but also increase overall performance of EPZ program.

2.4.12 Newly operational zones.

These zones include; Organic Growers & Packers EPZ Ltd, located in Msabaha, Malindi. It is hosting an agro processing (fruit processing) firm. The other one is Chebango EPZ Tea Co. Ltd in Bomet dealing with tea processing.

2.4.13 Zones hosting a branch of an enterprise.

These include 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, Changamwe (host a branch of

Mombasa Apparel EPZ Ltd, unit 2), and Talab EPZ Ltd, Mtwapa (Mombasa Apparel EPZ Ltd; unit 3) respectively.

On the other hand, Milstar Investments EPZ Ltd was in the process of being occupied by Mega Garments Industries Kenya EPZ Ltd, unit 2.

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

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/electronics, food processing, garments, garment support services, minerals/gemstones, pharmaceuticals & medical supplies, plastics, printing, relief supplies, services and other (beverage spare parts and tobacco related products).

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 23.6% of enterprises, 82.7% of total local jobs, 61.4% of exports, 59.6% of total sales, 39.4% of expenditure on local goods & services and 32.6% of private investment compared to 24.4%, 81.8%, 63.9%, 59.3%, 40.3% and 28.0% respectively in the year 2014.

On average, garment sector contributed 44.4%, followed by agro processing at 17.8%, services at 5.7% and minerals/gemstones at 2.8% on all of the above indicators compared to 44.9%, 17.9%, 5.4% and 2.6% respectively in the previous year.

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

Table 4: Sectoral Performance year 2015 (Kshs)

Sector	no of firms	local jobs	exports	total sales	local resource	investment
Agro processing	24	4,707	10,497,913,927	11,229,714,736	8,628,739,714	10,504,575,930
Beverage/ spirits	3	78	40,923,251	40,923,251	34,681,978	52,384,906
Chemicals	1	76	160,582,738	160,582,738	100,228,873	977,595,884
commercial craft	3	146	42,809,454	42,809,454	42,515,396	100,959,628
Dartboard	1	380	1,048,626,320	1,048,626,320	339,095,855	976,458,882
Electricals/electronics	2	42	166,855,343	166,855,343	2,334,029	706,300
Food processing	2	114	597,579,556	890,126,191	270,353,974	2,007,541,000
Garments	21	41,597	37,390,047,592	38,674,854,224	9,407,705,272	15,708,138,040
Garments support services	5	83	18,476,276	204,835,654	42,738,425	220,149,160
Minerals/Metals/gemstones	2	189	1,894,090,891	1,894,090,891	1,985,541,690	1,034,146,000
Pharmaceuticals & medical supplies	3	535	463,541,548	884,048,686	372,607,696	4,351,820,800
Plastics	2	143	36,882,899	36,882,899	44,843,227	210,797,905
Printing	1	244	3,075,769,170	3,678,067,122	884,756,038	2,891,458,310
Relief supplies	3	213	1,823,703,561	2,187,205,839	678,313,515	1,441,122,395
Services	14	1,752	3,597,939,643	3,734,259,087	1,027,168,910	7,530,184,606
Other	2	3	23,234,581	23,234,581	8,688,800	120,000,000
Total	89	50,302	60,878,976,750	64,897,117,016	23,870,313,392	48,128,039,746

Table 5: Proportion of sector contribution year 2015 (%)

Sector	no of firms	local jobs	exports	total sales	local resource	investment	Average
Agro processing	26.97%	9.36%	17.24%	17.30%	36.15%	21.83%	17.84%
Beverage/ spirits	3.37%	0.16%	0.07%	0.06%	0.15%	0.11%	0.63%
chemicals	1.12%	0.15%	0.26%	0.25%	0.42%	2.03%	0.37%
commercial craft	3.37%	0.29%	0.07%	0.07%	0.18%	0.21%	0.66%
Dartboard	1.12%	0.76%	1.72%	1.62%	1.42%	2.03%	1.11%
Electricals/electronics	2.25%	0.08%	0.27%	0.26%	0.01%	0.00%	0.48%
Food processing	2.25%	0.23%	0.98%	1.37%	1.13%	4.17%	0.99%
Garments	23.60%	82.69%	61.42%	59.59%	39.41%	32.64%	44.45%
Garments support services	5.62%	0.17%	0.03%	0.32%	0.18%	0.46%	1.05%
minerals/metals/gemstones	2.25%	0.38%	3.11%	2.92%	8.32%	2.15%	2.83%
Pharmaceuticals & medical supplies	3.37%	1.06%	0.76%	1.36%	1.56%	9.04%	1.35%
plastics	2.25%	0.28%	0.06%	0.06%	0.19%	0.44%	0.47%
Printing	1.12%	0.49%	5.05%	5.67%	3.71%	6.01%	2.67%
Relief supplies	3.37%	0.42%	3.00%	3.37%	2.84%	2.99%	2.17%
services	15.73%	3.48%	5.91%	5.75%	4.30%	15.65%	5.86%
Other	2.25%	0.01%	0.04%	0.04%	0.04%	0.25%	0.39%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Chart 4: Sector contribution to local employment 2015

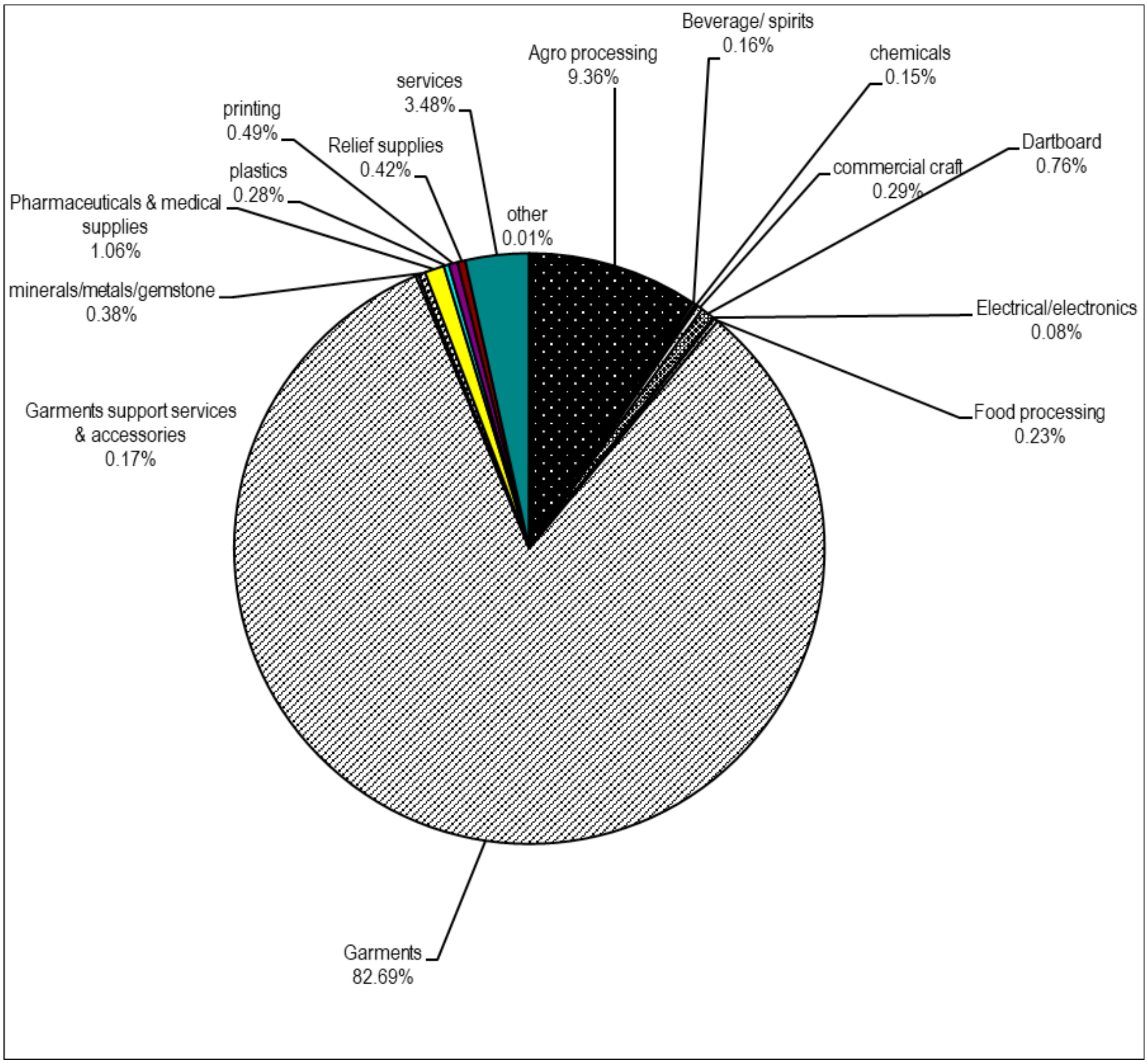
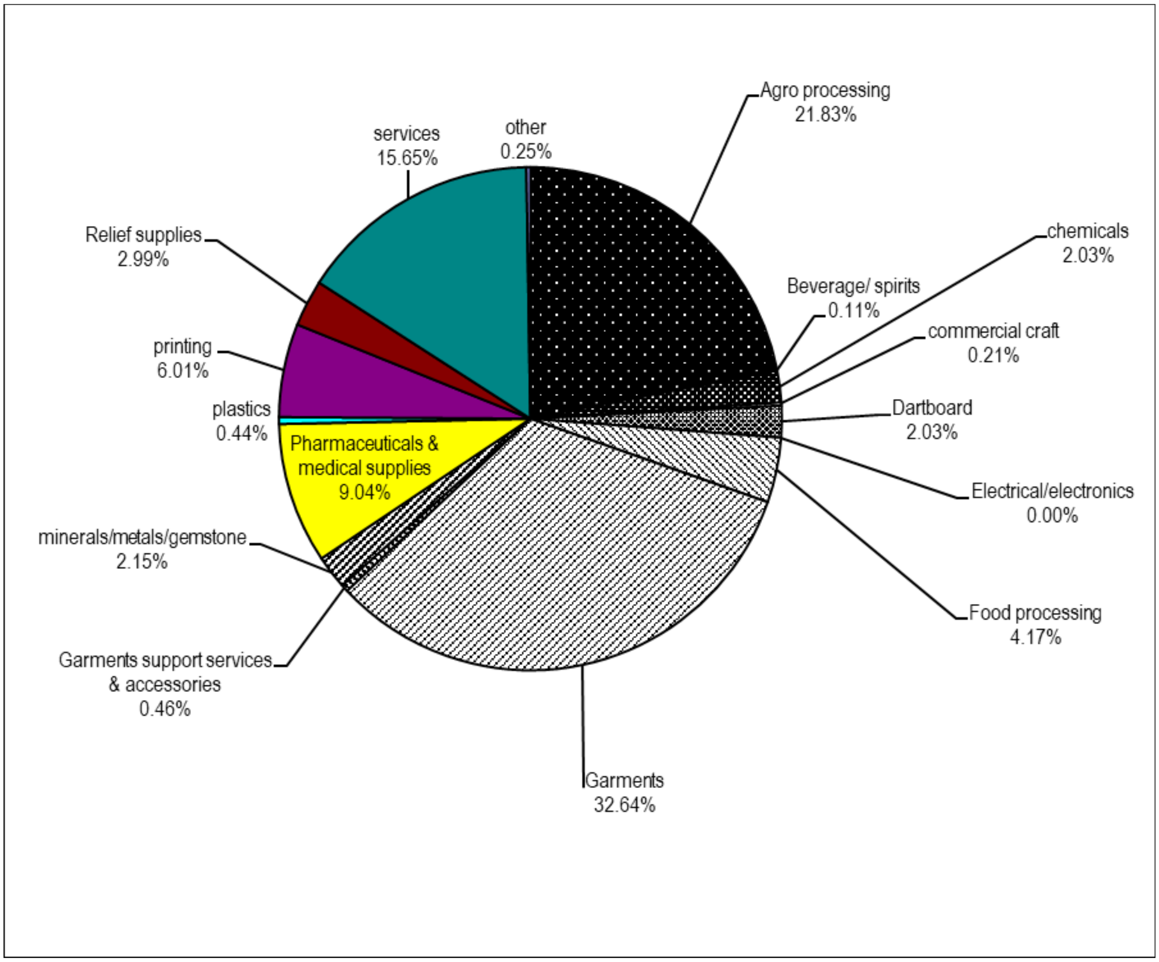


Chart 5: Sector contribution to investment, 2015



2.6 Ownership of EPZ enterprises

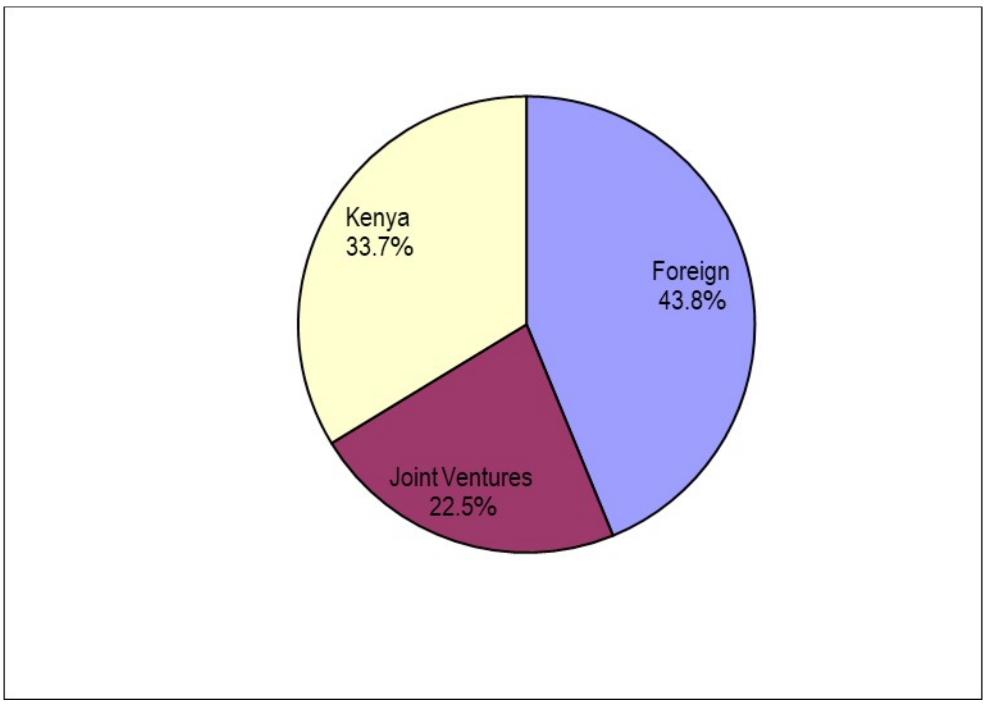
During the year 2015, 33.7% of total EPZ enterprises were wholly Kenyan, Joint ventures were 22.5% while foreign investments constituted 43.8%. In 2014, 33.7% were wholly Kenyan owned, 25.6% were joint ventures and 40.7% were foreign owned.

One of the reason contributing to 33.7% 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, 2015



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. 48,128 million in 2015 from Kshs.44,218 million in the year 2014, representing a increase of 8.8%.

When infrastructure investment of Kshs.8,062 million undertaken by EPZ developers included, the figure becomes Kshs.56,190 million compared with Kshs.50,324 million in the year 2014.

In terms of value of private investments, 73.4% (Kshs.35,340 million) were foreign owned while Kenyan accounted for 26.6% (Kshs.12, 788 million) in 2015 compared to 75.7% (Kshs.33,460 million) foreign owned and 24.3% (Kshs.10,758 million) Kenyan respectively in the year 2014 (table 6).

Table 6: Value of EPZ enterprises' investments: 2011 – 2015

Indicator	**2011**	**2012**	**2013**	**2014**	**2015**
Value of Kenya/Local investments (Kshs million)	6,869	11,513	13,057	10,758	12,788
Value of Foreign investment (Kshs million)	19,599	27,021	34,947	33,460	35,340
Total Investment (Kshs million)	**26,468**	**38,534**	**48,004**	**44,218**	**48,128**
Ratio of value of Kenya/Local investment to Total (%)	26.0	29.9	27.2	24.3	26.6
Ratio of value of Foreign investment to Total (%)	74.0	70.1	72.8	75.7	73.4

Source: EPZA records.

3.0 Impact of African Growth Opportunity Act (AGOA)

The EPZ program benefits from AGOA especially in the garment/apparel sector. 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 60% of exports.

Exports of articles of apparels to USA increased in value by 16.5% to stand at Kshs.35,224 million in 2015 from Kshs.30,244 million recorded in the year 2014. Quantity of apparels exported to US increased from 81.9 million pieces in 2014 to 84.6 million pieces in 2015. This could be attributed to expansion by some garments firms such as Mombasa Apparel EPZ Ltd and New Wide Garments K. EPZ Ltd.

During the year under review, there were some market diversification on apparel other than to the USA; which included Europe and Canada, During the year 2015, these alternative markets were a destination of Kshs.2.2 billion (4.3 million pieces) worth of apparel compared to Kshs. 2.6 billion (6.2 million pieces) of apparel consigned to these markets during the year 2014. It is evident that the alternative market is evolving in significance.

Direct employment expanded by 10.1% to stand at 41,597 from 37,785 recorded in the previous year. During the year 2015, garment sector contributed 82.7% of total local employment compared with 81.7% in 2014.

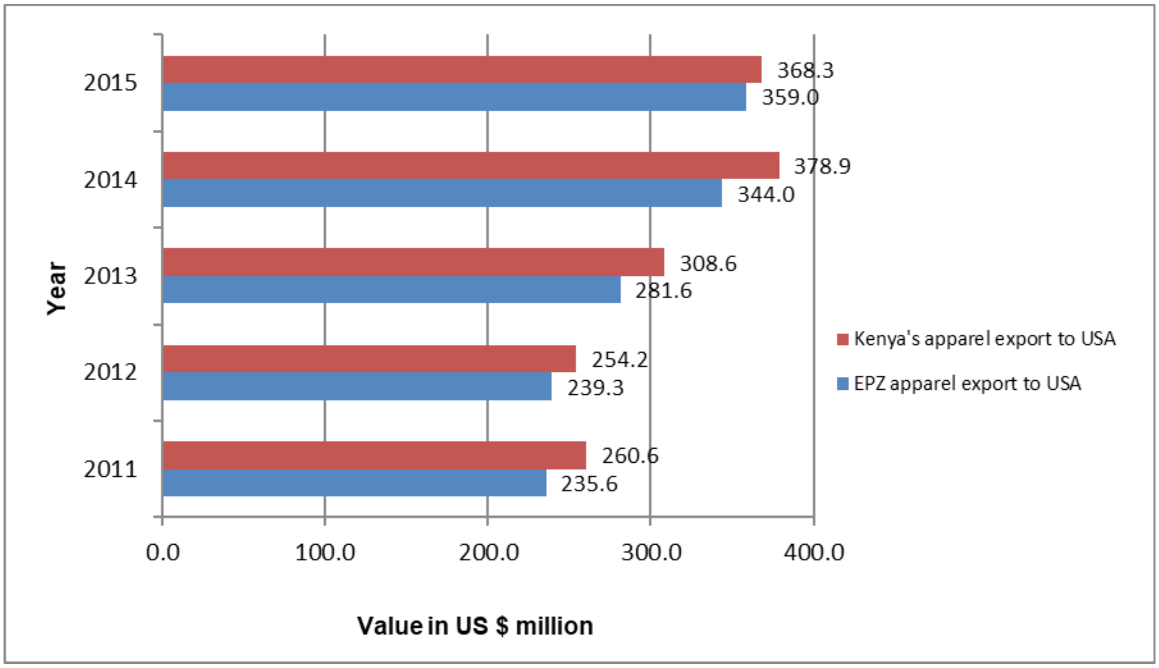
Investment on the other hand registered an increase of 4.4% to stand at Kshs.15,708 million from Kshs.15,051 million in year 2014 as result of the enterprises expanding operations and acquisition of new plant, machinery and equipment to meet market demands.
The trend is as shown in table 7 chart 7.

Table 7: Impact of AGOA on EPZ Garment Sector: 2011 - 2015

Indicator	**2011**	**2012**	**2013**	**2014**	**2015**	**% growth (2014 v/s 2015**
Number of Enterprises	18	22	22	21	21	0.0
Employment (No.)	25,169	28,298	32,932	37,785	41,597	10.1
Investment (Kshs million)	7,407	10,732	13,465	15,051	15,708	4.4
Exports (Kshs million)	20,948	20,217	24,246	30,244	35,224	16.5
Quantity of exports (million pieces)	65.6	81.3	79.3	81.9	84.6	3.3
Imports (Kshs million)	13,966	14,699	18,750	20,452	19,028	-7.0

Indicator	**2011**	**2012**	**2013**	**2014**	**2015**	**% growth (2014 v/s 2015**
Exports (US$ million)	235.6	239.3	281.6	344.0	359.0	4.4
Annual average exchange rate (Kshs/US$)	88.9	84.5	86.1	87.9	98.1	11.6

Chart 7: Trend of EPZ Garment Exports v/s Overall Kenya Garment/ apparel Exports to US under AGOA: 2011 - 2015 (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 mixed in the year 2015.

Total apparel exports from Kenya to US decreased marginally by 2.8% in year 2015 to stand at US$ 368.3 million from US$ 378.9 million recorded in 2014. This could be attributed to the uncertainty that grips the industry whenever the Third Country Fabric provision draw approaches, which later saw a 10 year extension.

EPZ garment/apparel exports were US$ 359.0 million; constituting 97.4% of the national apparel exports while during the previous year it accounted for 90.8%.

Apparel exports from Lesotho saw a marginal increase of 3.2% to stand at US$299.7 million while those from Mauritius declined by 3.5% to US$215.2 million.

Overall, Kenya maintained her SSA top apparel exporter to US for the last two consecutive years in 2015.

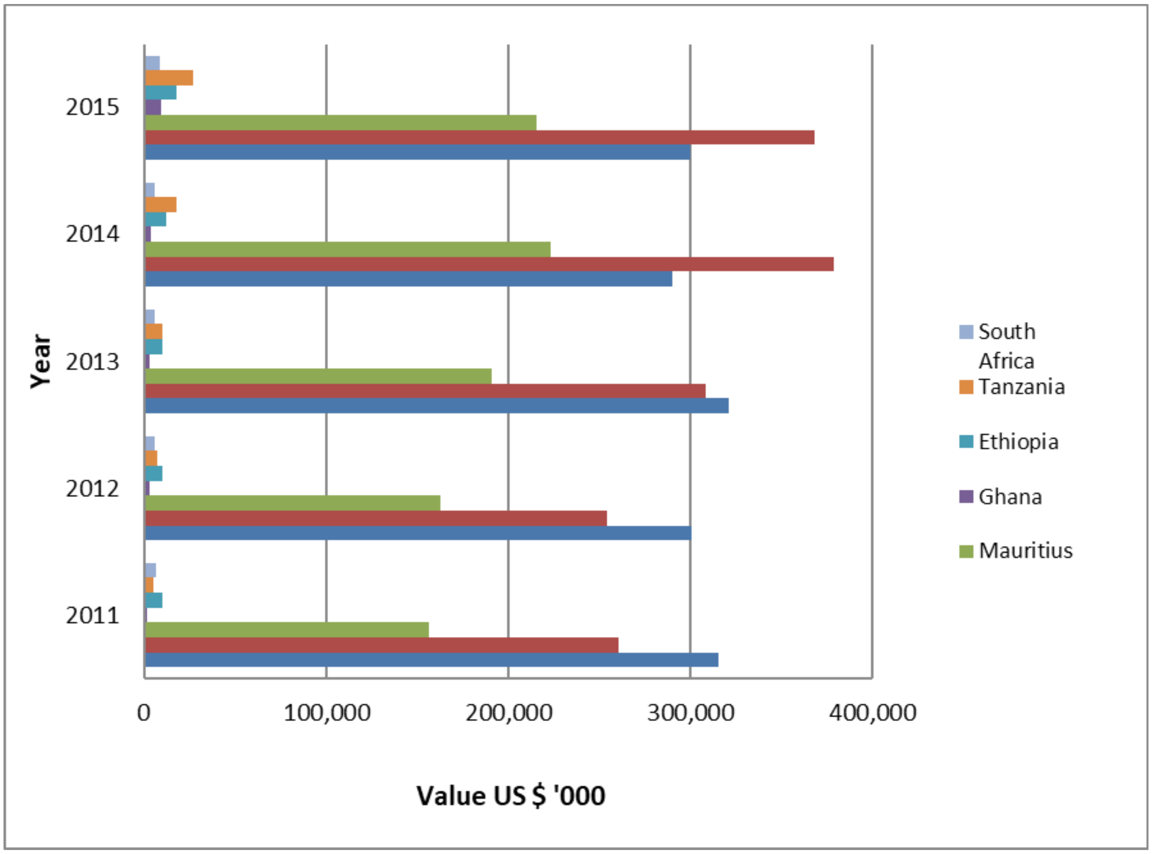
Table 8 and chart 8 has trend on performance of selected SSA countries which are non oil producers and heavily rely on apparel/garment exports to US under AGOA program.

Table 8: Exports to US under AGOA provisions for selected Africa AGOA eligible countries 2011 – 2015 (US $ '000)

Country	2011	2012	2013	2014	2015	% change 2014 -2015
Kenya	260,588	254,232	308,563	378,911	368,273	-2.8
Lesotho	315,323	300,930	321,276	290,309	299,690	3.2
Mauritius	156,768	162,788	191,188	223,060	215,255	-3.5
Ghana	1,578	2,799	2,729	3,831	9,204	140.3
Ethiopia	10,004	10,199	10,348	12,030	17,647	46.7
Tanzania	5,290	7,531	10,389	17,480	27,316	56.3
South Africa	6,518	6,132	5,837	6,092	8,370	37.4

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

Chart 8: Trend of apparel exports to US from selected AGOA Africa countries under AGOA, 2011 – 2015 (US $ '000).



US extended the Third Country Fabric provision for 10 years effective October 2015. This would give opportunity to both enterprises in apparel/textile and other sector to exploit.

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 2015 Forum was held in Libreville, Gabon while the one for 2016 is scheduled to take place in USA.

There have been some initiatives within 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, 2015 - 2025.

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 2015, the export processing zones contribution to the total manufacturing sector employment accounted for 17.03% from 16.08% posted in the year 2014.

In the year under review, EPZ contribution to manufacturing sector output rose to 3.27% from 3.12% registered in the previous year. Manufacturing sector contribution is based on revised rebased national accounts that came into being in September 2014.

EPZ exports to total Kenya exports showed that it increased from 9.56% in 2014 to 10.48% in the year 2015.

Contribution to Gross Domestic Product (GDP) at market price of the economy has averaged 1.04% as a result arising from rebasing of GDP in the course of year 2014.

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

Table 9: EPZ contribution to the national economy: 2011 – 2015

Indicator	Units	2011	2012	2013	2014	2015
Total Kenya Exports	Kshs Million	512,604	517,847	502,287	537,236	581,045
Manufacturing sector Value of Output	Kshs Million	1,580,775	1,619,622	1,732,412	1,831,071	1,986,733
GDP at market prices	Kshs Million	3,725,918	4,261,151	4,730,801	5,398,020	6,224,369
Total national employment	number	12,116,200	12,782,000	13,517,000	14,319,200	15,160,800
Manufacturing sector employment	Number	271,500	277,900	283,000	287,456	295,400
Total output EPZ	Kshs Million	42,442	44,273	50,294	57,192	64,897

Indicator	**Units**	**2011**	**2012**	**2013**	**2014**	**2015**
Exports EPZ	Kshs Million	39,067	39,962	44,427	51,377	*60,879*
Total Employment EPZ (local)	*Number*	*32,043*	*35,501*	*39,961*	*46,221*	*50,302*
EPZ contribution to total Kenya Exports	Percent	7.64	7.72	8.84	9.56	10.48
EPZ contribution to manufacturing sector value of output	Percent	2.68	2.73	2.90	3.12	3.27
EPZ contribution to total national employment	Percent	0.28	0.28	0.30	0.32	0.33
EPZ contribution to manufacturing sector employment	Percent	11.80	12.77	14.12	16.08	17.03
EPZ contribution to GDP (constant prices)	Percent	1.14	1 .04	1.06	1.06	1.04

Source: Economic Survey 2016 and EPZA various reports.

Chart 9: Contribution of EPZ output to manufacturing sector output, 2011 - 2015.

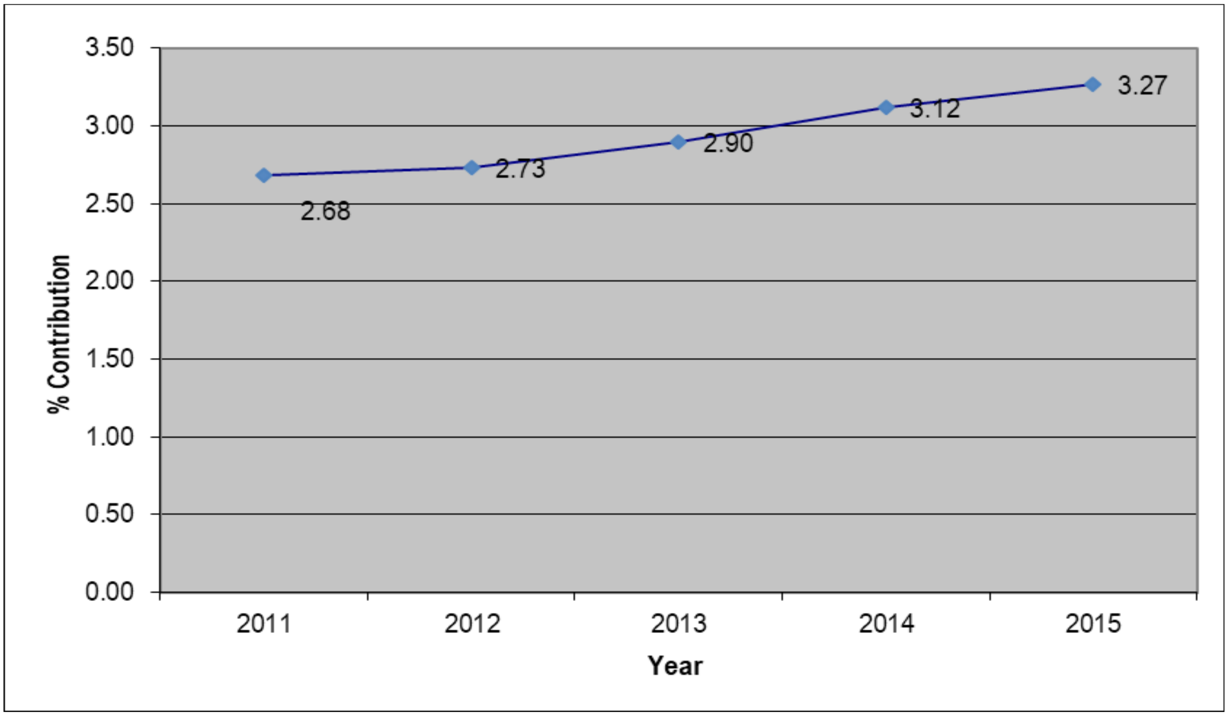
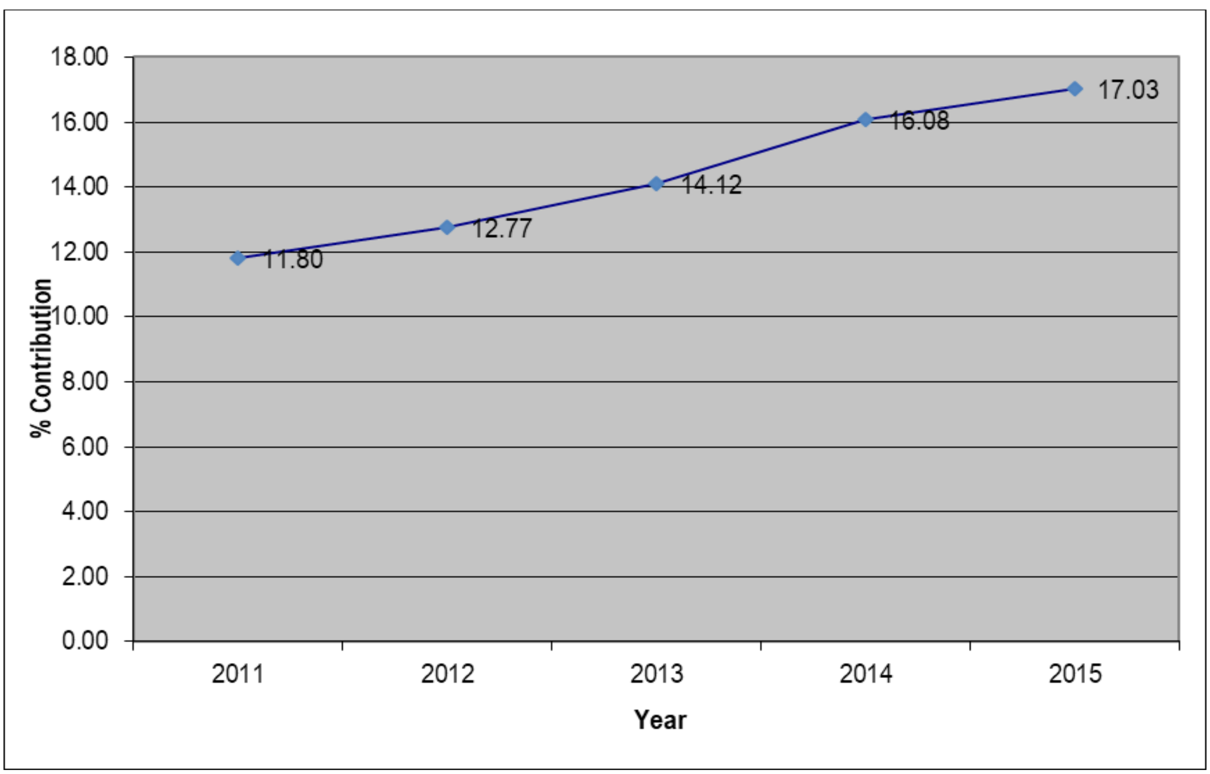


Chart 10: EPZ Contribution to manufacturing sector employment; 2011 – 2015



4.0 Regional Performance

Regional performance constitutes analysis of EPZ enterprises performance as per their geographical locations which are Athi River/ /Isinya, Nairobi, Mombasa, Kerio Valley, Thika/Muranga, Laikipia and Nandi/Bomet. 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 an indication 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 23, it generated total local employment of 21,070 compared to 44 firms in Athi river region creating 14,899 jobs. During the year 2014, Mombasa region created 18,627 while Athi River region managed 13,622 jobs respectively

Average performance for the regions with respect to the selected indicators were 32.2%, 37.6%,22.1%, 2.7% and 1.6% for Athi River/ Isinya, Mombasa, Nairobi, Thika/Muranga and Laikipia for 2015 compared with 35.1%, 35.7%, 21.8%, 3.1% and 1.1% respectively in 2014.

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

Table 10: Regional performances year 2015

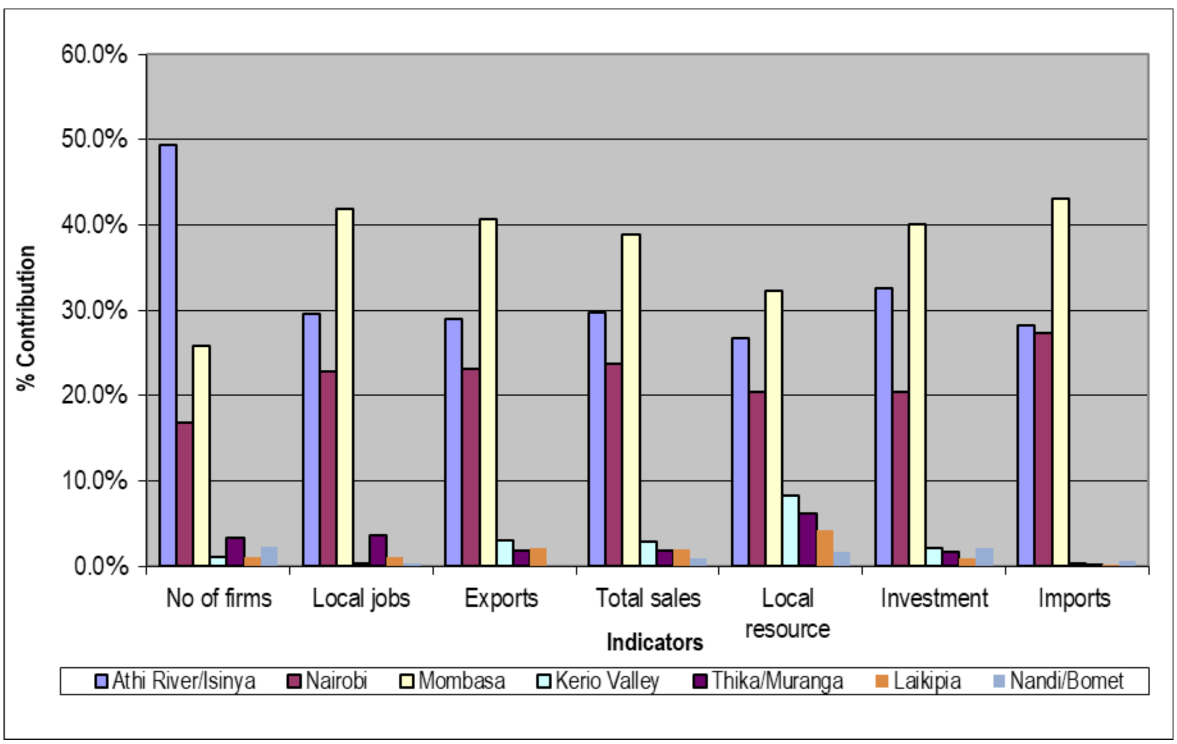
Zone	Firms (no)	Local jobs (no)	Exports (Kshs m)	Total sales (Kshs m)	Local resource (Kshs m)	Investment (Kshs m)	Imports (Kshs m)
Athi River/Isinya	44.0	14,899.0	17,656.0	19,314.0	6,394.0	15,659.0	8,859.0
Nairobi	15.0	11,521.0	14,076.0	15,362.0	4,869.0	9,853.0	8,577.0
Mombasa	23.0	21,070.0	24,805.0	25,253.0	7,711.0	19,283.0	13,531.0
Kerio Valley	1.0	185.0	1,894.0	1,894.0	1,984.0	1,019.0	126.0
Thika/Muranga	3.0	1,873.0	1,161.0	1,189.0	1,495.0	803.0	35.0
Laikipia	1.0	546.0	1,287.0	1,288.0	998.0	455.0	25.0
Nandi/Bomet	2.0	208.0	0.0	597.0	419.0	1,056.0	217.0

total	**89**	**50,302**	**60,879**	**64,897**	**23,870**	**48,128**	**31,370**

Table 11: Contribution by region, 2015 (%)

Zone	No of firms	Local jobs	Exports	Total sales	Local resource	Investment	Imports	Average
Athi River/Isinya	49.4%	29.6%	29.0%	29.8%	26.8%	32.5%	28.2%	32.2%
Nairobi	16.9%	22.9%	23.1%	23.7%	20.4%	20.5%	27.3%	22.1%
Mombasa	25.8%	41.9%	40.7%	38.9%	32.3%	40.1%	43.1%	37.6%
Kerio Valley	1.1%	0.4%	3.1%	2.9%	8.3%	2.1%	0.4%	2.6%
Thika/Muranga	3.4%	3.7%	1.9%	1.8%	6.3%	1.7%	0.1%	2.7%
Laikipia	1.1%	1.1%	2.1%	2.0%	4.2%	0.9%	0.1%	1.6%
Nandi/Bomet	2.2%	0.4%	0.0%	0.9%	1.8%	2.2%	0.7%	1.2%
total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Chart 11: Contribution by region (%) year 2015

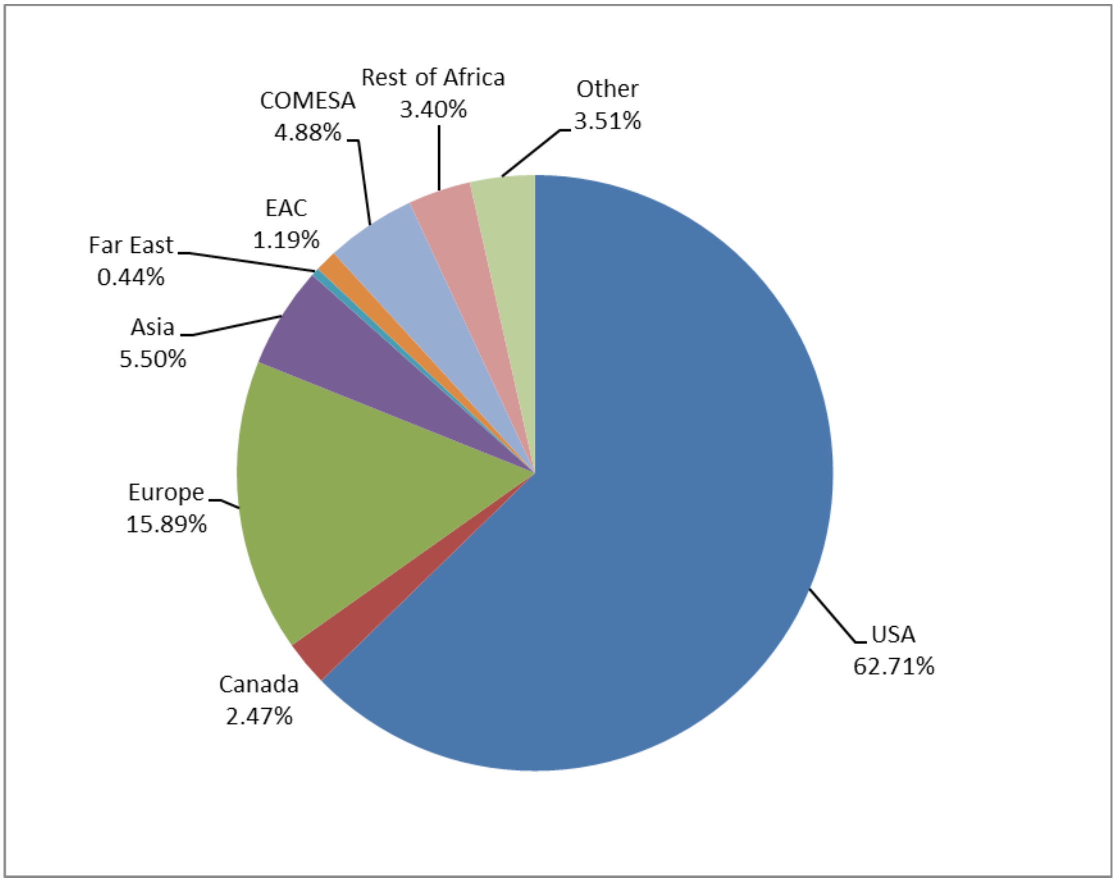


5.0 Destination of Exports

During the year under review, 62.7 % (Kshs.38,179 million) of all exports were consigned to USA market out of which 92.3% (Kshs.35,224 million) constituted exports of garment products. In the year 2014, 61.9% (Kshs. 31,810 million) were exported to US out of which 95.1% (Kshs.30,244 million) accounted for garment exports.

Europe accounted for 15.9 % (Kshs.9,671 million) of the export market, EAC 1.2% (Kshs.725 million), Asia 5.50 % (Kshs.3,349 million), COMESA 4.9 % (Kshs.2,970 million), Rest of Africa 3.40 %(Kshs.2,071 million), Far East 0.44 %(Kshs.269 million) and 3.5% (Kshs.2,136 million) was destined to the rest of the world. During the previous year, Europe accounted for 13.4% (Kshs.6,905 million), 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) to the rest of the world (chart 12).

Chart 12: Market destination for all exports, 2015



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 9,803 in the year 2011 to Kshs 13,891 in the year 2015, representing 41.7% increase. This meant that there has been an average of over 8.3% increase in local wages per annum in the last five years.

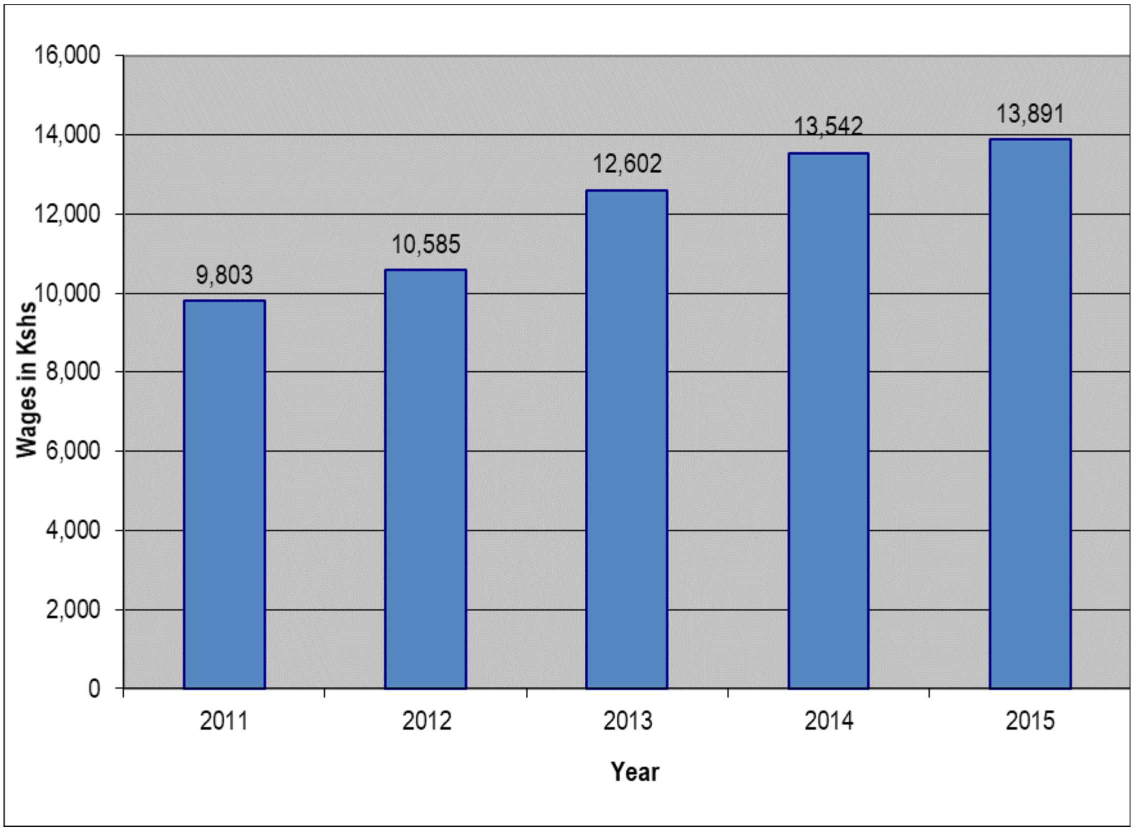
Table 12: Employment and Wages: 2011 – 2015

Indicator	2011	2012	2013	2014	2015
Local employees (Number)	32,043	35,501	39,961	46,221	50,302
Expatriates (Number)	421	428	472	517	597
Total employment (Number)	32,464	35,929	40,433	46,738	50,899
Local wages (Kshs)	3,769,215,481	4,509,251,454	6,042,912,860	7,511,228,508	8,376,738,910

Expatriate wages (Kshs)	368,560,214	400,803,713	467,535,058	537,187,843	683,747,557
Total wages (Kshs)	4,137,775,695	4,910,055,167	6,510,447,918	8,048,416,351	9,060,486,467
Average Annual wages locals (Kshs)	117,630	127,018	151,220	162,507	166,691
Average Annual wages expatriates (Kshs)	875,440	936,457	990,540	1,039,048	1,145,306
Average monthly wage locals (Kshs)	9,803	10,585	12,602	13,542	13,891
Average monthly wage expatriates (Kshs)	72,953	78,038	82,545	86,587	95,442
Average monthly wage locals (US$)	111	125	147	154	142
Average monthly wage expatriates (US$)	821	924	959	985	973
Average annual exchange rate(Kshs/US$)	88.9	84.5	86.1	87.9	98.1

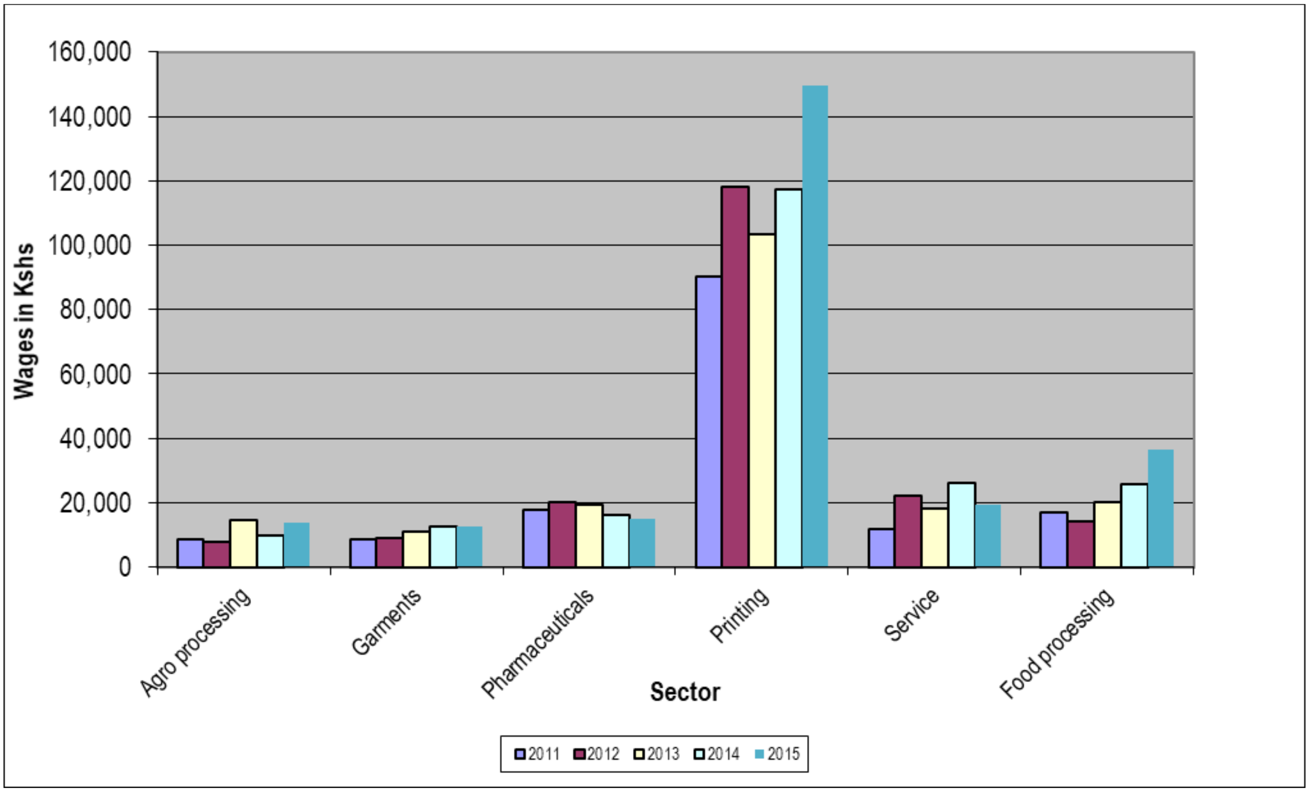
Source: EPZA records

Chart 13: Average monthly wages for local employees, 2011 to 2015 (Kshs)



With respect to selected sectoral wages, the printing sector continued to offer high remuneration to its employees in 2015 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, 2011 - 2015



6.1 Training of local workers and transfer of technology

In the year 2015, 48 enterprises (53.9%) trained local employees in various industrial disciplines compared to 41 (47.7%) in the previous year.

The training provided include: machine operation & quality assurance, setting corporate & personal targets, technical cashewnut processing methods, apprenticeship (e.g Department for International Development, UK), good manufacturing practice (GMP), Global Gap Certification, Hazard Analyses Critical Control Point (HACCP), principles of food 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, accounting e.g sage, energy saving, basic boiler operation, value addition, post-harvest management, pest control, shipping & logistics, Kikoy braiding, first aid, firefighting, fire marshall, fire drill, team building, setting of personal & corporate targets, training of trainers, inhouse/induction courses, risk assessment, 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 2015 are tabulated on table 13.

Table 13: Constraints/ impediments reported by EPZ enterprises, 2015.

Constraint/impediment	Number of firms which reported/ affected (2015)	% of enterprises affected to total no. of operating firms in 2015	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
Labour productivity/turn over/efficiency, labour unrest	10	11.2	9	10.5	9	10.6
Unfavourable economic condition/ inflation etc	4	4.5	6	7.0	7	8.2
High Cost of production	15	16.9	7	8.1	11	12.9
Customs regulations/KRA	8	9.0	9	10.5	4	4.7
High cost of power/electricity	10	11.2	16	16.6	14	16.5
Lack of locally sourced inputs	1	1.1	8	9.3	9	10.6
Issues pertaining to inefficiency of port/railway transport	3	3.4	5	5.8	10	11.8
Competition from other countries	7	7.9	11	12.8	11	12.9
High cost of water/ unreliable water supply	4	4.5	5	5.8	3	3.5
Local currency fluctuation	7	7.9	4	4.7	3	3.5
Poor infrastructure	5	5.6	6	7.0	4	4.7
Shortage of raw materials	14	15.7	13	15.1		
Market access/market barriers	9	10.1	7	8.1		
Diminishing demand	3	3.4	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).	40	44.9	35	40.7	33	38.8

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

i) Lack of industrial space.

Limited availability of industrial space continued to be experienced in 2015.
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) Global Competition.

The global market has become competitive for EPZ products. Customer orders have become fewer or reduced especially for fluorspar. Consequently the export market potential has shrunk. Companies therefore have to contend with available demand.

iii) High Interest rates.

Loans continue to attract high interest rates. The Central Bank rate increased from 8% to 11.5% as at December 2015. Consequently commercial bank lending rates increased in tandem with the tightened monetary policy stance that increased to an average of 18.30% in 2015 from 15.93% in 2014.

iv) Increased cost of doing business

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.

v) Inadequate supply of raw materials.

Agro processing EPZ companies experienced inadequate supply of raw materials. This is attributed to change in weather patterns. Nut processing firms were mostly affected.

vi) Policy changes

The Government from time to time makes policy pronouncements that affect business operating environment. In 2015, a requirement was introduced that all imports should be inspected for quality as per Pre – Export Verification of Conformity guidelines. These slowed down operations of EPZ firms as delays were experienced. EPZ firms had been exempted from pre inspection requirements.

vii) Pharmaceuticals firms operating within the EPZ program encounter lengthy product registration/approval process by relevant agencies. This has been compounded by lack of harmonized standards within the region and in Africa.

viii) Expansion of East Africa Community (EAC) market to include South Sudan

The EAC partner states have been expanded to include South Sudan. The other members being Burundi, Kenya, Rwanda, Tanzania and Uganda.

As per the Customs Union Protocol, the EAC is considered as a domestic market. Thus, sales by any export promotion scheme enterprise such as an EPZ firm to any of the partner states is a domestic sale.
A population of 157.9 million which includes 11.9 million of South Sudan is a lucrative market size for EPZ firms. Expansion of EAC to include South Sudan is diminishing their market as they are allowed to sell upto 20% of their total

production to domestic market. South Sudan no longer qualifies to be an export market. EPZ companies export tarpaulins, pharmaceuticals, relief supplies and fortified food among others.

Another related issue is that when such sales are made to the domestic market they attract third country tariffs even if the raw materials are from EAC. EAC own raw materials are taxed at common external tariff (CET).

ix) 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) Government to continue funding for the construction of additional industrial buildings and to encourage private developers to construct more warehouses.

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) **Encourage EPZ agro processing firms to subcontract farmers to ensure availability of raw materials.**

v) Enhance facilitation and support to cover as many sectors as possible including those in pharmaceutical industry.

vi) **Increase the level of domestic sales to 70% for EAC partner states and tax based on imported content**

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

viii) Any new levies or fees that need to be introduced should be subjected to investor requirements and global prevailing economic competition.

ix) Diversification of products eligible under AGOA.

Extension of AGOA effective October 2015 to September 2025 provided an opportunity to promote other products for export to the US market. Implementation of the diversification strategy will enable realization of benefits that contributes towards socio economic development as outlined in both Medium Term Plan Two (2013 -2017) and Vision 2030.

x) Encourage investors and stakeholders to participate in policy formulation or issues that affect them. In addition provide sufficient notice before implementation of new measures to enable proper planning.

xi) Provide additional incentives to reduce cost of doing business.

Lower corporate tax to 15% for EPZ companies after the tax holiday and allow duty for a limited number of vehicles especially for transporting cargo and vessels for EPZ companies. Extend power subsidy other priority sector that is being enjoyed by the apparel/garment firms.

10.0 Set targets and Actual performance.

The projections for the year 2016 took into account the challenges and opportunities facing the EPZ program.

Forecast on performance of selected EPZ indicators is based on the conservative estimates while taking into account objectives outlined in the Strategic Plan for 2014 to 2019.

Operating firms are expected to rise to 100 based on facilitation of new enterprises to commence operation by end of year 2016, while local employment is estimated to expand by 12.4% based on the average growth for the last three years.

Exports are expected to grow by 8% while total sales to expand by 7%. Capital investment which constitutes value of plant, machinery, equipment and other funds invested by EPZ firms is likely to grow by an average of 8.4%, while domestic expenditure is expected to increase by 9.7%.

A summary of set and actual targets for years 2013 to 2015 and projections for year 2016 are outlined on table 14.

Table 14: Set and Actual Targets for 2013 to 2015 and Projections for 2016

Indicator	**Target**			**Actual**			**% attained**			**Target**
	2013	**2014**	**2015**	**2013**	**2014**	**2015**	**2013**	**2014**	**2015**	**2016**
Operating enterprises (Number)	94	97	100	85	86	89	90.4	88.7	89.0	100
Employment (Kenyans) Number.	38,501	45,000	55,465	39,961	46,221	50,302	100.0	100.0	90.7	56,539
Investment (Kshs million)	40,468	52,014	48,640	48,004	44,218	48,128	100.0	85.0	98.9	52,171
Total sales (Kshs million)	46,442	53,763	68,630	50,294	57,192	64,897	100.0	100.0	94.6	69,310
Exports (Kshs million)	41,798	48,287	61,767	44,427	51,377	60,879	100.0	100.0	98.6	65,749
Ratio of domestic sales to total sales (%)	9	9	9	9.1	7.4	2.8	100.0	100.0	100.0	9
Domestic expenditure (Kshs million)	20,335	21,505	22,970	19,275	20,970	23,870	94.8	97.5	100.0	26,185

Average attainment of set targets for the year 2015 was 96.0% compared to 95.9% in the previous year.

Some of the targets set for the year 2015 which were not attained like the number of operating enterprises & employment 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 2015 is expected to be maintained in 2016, high cost of production and external shocks (eg impact of US General Elections) are some of the factors which are likely to play key role in the performance of the program going forward in 2016.

Research Policy & Planning Department
May 2016