EXPORT PROCESSING ZONES PROGRAM
ANNUAL PERFORMANCE REPORT, 2017

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1.0 Executive Summary

The performance of the EPZ program in the year 2017 maintained an upward trend in several indicators.

Direct local employment expanded by 3.4 % from 52,947 persons recorded in 2016 to 54,764 persons in 2017.

Capital investment in form of equipment, machinery and other funds invested by the 131 operational enterprises increased by 4.7% to Kshs. 74,586 million in 2017 from Kshs.71,242 million recorded in the previous year. While the cumulative value of investment for enterprises and zones (developers/operators) stood at Kshs 95,278 million in 2017 from Kshs 88,977 million registered in year 2016.

Expenditure on local goods & services rose by 8.0% in the year 2017 to stand at Kshs 27,805 million compared to Kshs 25,735 million in 2016.

Total sales marginally declined by 1.9% to stand at Kshs 67,270 million in 2017 from Kshs 68,569 million in 2016, while exports decreased by 5.3% to stand at Kshs 60,729 million from Kshs 64,151 in 2016. The decline was mainly attributed to combination of factors ranging from drought in the course of year which affected supply of raw material to agro processing enterprises, inconsistency of orders for some apparel firms, global competition and anxiety over general elections.

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 30.6% in 2013 to 36.6% in 2017.

1.1 Introduction

During the year 2017 the Government continued its implementation of Economic Transformation Agenda (ETA) that commenced in the year 2014. The programs and policies under ETA have strengthened the resilience of the economy and laid a solid foundation for Kenya's industrialization as envisaged in the Vision 2030. To further accelerate growth, the Government prioritized policy objectives under 'The Big Four' Agenda that will lead to faster growth of the economy. The Agenda targets:

i. Support value addition & raise manufacturing sector's share of GDP to 15% by 2022;
ii. Focus on initiatives that guarantee food security & nutrition to all Kenyans by 2022;
iii. Provide Universal Health Coverage thereby guaranteeing quality & affordable healthcare to all Kenyans; and
iv. Provide housing to all Kenyans by targeting construction of at least five hundred thousand affordable houses by 2022.

During the year under review, the Government also launched other policy documents aimed at spurring growth and transform performance of the trade sector significantly. Among these are

i. National Trade Policy 2017;
ii. National Export Development & Promotion Strategy for Kenya 2017 to 2022; and
iii. Buy Kenya - Build Kenya Strategy 2017.

National Trade Policy (NTP) is geared towards stimulating income generation, distribution and poverty reduction throughout the country. This is premised on the reality that a vibrant trade sector impacts positively on the economy by placing and distributing incomes into all the production units in the country; thereby rising purchasing power of the entire economy. Therefore, the policy allows people to exploit their productive potential and spurs economic growth, while curtailing arbitrary policy interventions.

NTP has taken care of the threats arising from trade policy reforms, especially economic losses associated with the reforms, through integration of a complementary policy component in the policy document.

Effective implementation of the NTP is expected to transform Kenya to a most competitive and prosperous trading nation.

National Export Development & Promotion Strategy (NEDPS) is a five year sector development plan with defined actions on issues that affect export development. It is expected to among others

- Induce synergies for higher production in specific export sectors to enable better export performance;
- Identify & align constraints in export sector and propose mitigation measures;
- Allocate resources based on priority objectives;
- Streamline export sector management by defining and allocating responsibilities.

Buy Kenya, Build - Kenya Strategy is a strategy that seeks to enhance competitiveness and consumption of locally produced goods and services.

The super sales by EPZ apparel enterprises of their products in domestic market is part of this initiative.

The above policy initiatives are expected to enhance competitiveness of the EPZ program to play is rightful role in contributing to achievement of Government objectives especially in 'The Big Four Agenda', under manufacturing pillar.

At the institutional level, implementation of EPZ programs continued in line with the Strategic Plan 2014 – 2019. This has seen growth in zones in Counties/regions where there were none before like Narok and Kwale among others.

This report provides insight to the national and international economic environment borrowing highlights from *Economic Survey 2018*, EPZ performance analysis under various indicators, impact of African Growth Opportunity Act (AGOA), constraints/challenges, set & actual targets for the year 2015 to 2017 including projection/outlook for 2018, and finally the conclusion.

1.2 National and International Scene

According to *Economic Survey 2018*, Kenya's Gross Domestic Product (GDP) expanded by 4.9% in 2017 compared to a revised growth of 5.9% in 2016 (Chart 1). The slowdown in the performance of the economy was partly attributable to uncertainty associated with the prolonged electioneering period coupled with adverse effects of weather conditions. A wide spread drought experienced during the fourth quarter of 2016 and somewhat suppressed long rains in 2017, negatively impacted crop production and rearing of animals as well as generation of hydro - electric power. A slowdown in credit uptake to the private sector also contributed to the deceleration in growth during the year 2017.

Performance across various sectors of the economy varied widely, with Accommodation & Food services; Information & Communication Technology; Education; Whole sale & Retail trade; and Public Administration registering accelerated growths in 2017 compared to 2016. On the other hand, growths in Manufacturing; Agriculture, Forestry & Fishing; and Financial & Insurance decelerated significantly over the same period and therefore dampened the overall growth in 2017.

Generally, key macroeconomic indicators largely remained stable and therefore supportive of the growth in 2017. Weighted interest rates on commercial banks loans and advances declined to 13.64% in December 2017 from 13.69% in December 2016. The Central Bank Rate (CBR) was maintained at 10.00% throughout the year. In the money market, the Kenyan Shilling strengthened against most of the major trading currencies but weakened against the Euro and the US Dollar in 2017. There was moderate built up in inflationary pressures mainly due to significant increase in oil and food prices during the year under review. Consequently, inflation rate rose from 6.3% in 2016 to 8.0% in 2017 thereby overshooting the CBK's upper limit of 7.5%.

The current Account deficit widened from Kshs 375.3 billion in 2016 to a deficit of Kshs 518.9 billion in 2017 on account of significant growth of imports against a slower growth of exports. The Nairobi Securities

Exchange (NSE) 20 – Share index rose to 3,712 points in December 2017 from 3,186 points in December 2016.

Domestic prices of petroleum products rose significantly in 2017 in response to a 24.6% rise in the international oil prices. In particular, wholesale prices of premium petrol and light diesel increased by 9.7% and 8.7%, respectively, in 2017.

At the international scene, global economy recorded a broad based recovery in 2017 to register the highest in post 2008 global financial crisis period. World real GDP is estimated to have expanded by 3.6% in 2017 compared to 3.1% in 2016. The improved performance was mainly supported by a rebound in private and public investments; growth in international trade partly as a result of favourable financing costs; rising profits; improved business environment & consumer confidence, and waning effects of the fall in oil and commodity prices during 2014 – 2016. This was particularly due to large capital spending and robust external demand emanating from increased household incomes and business investments in the USA and Euro area.

Most advanced economies recorded accelerated growths due to supportive macroeconomic environment, improved labour markets and accommodative financial conditions. Similarly, improved growths were notable in most of the emerging market economies particularly in China where there was strong infrastructure investment.

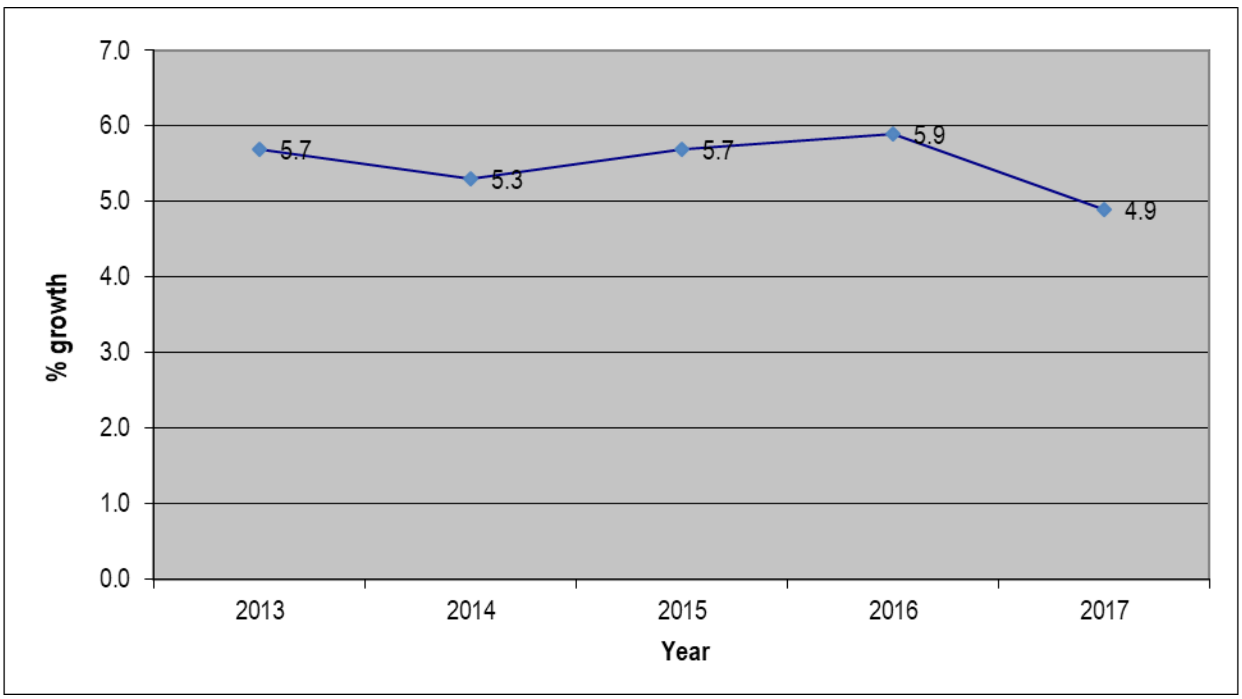
The international trade is estimated to have increased by 4.8% in 2017 compared to 2.6% growth in 2016. Key drivers of the improved performance in global trade were a growing external demand in Europe, increased trade in electronics in Asia, and a shift in the composition of global demand towards investment.

Global inflation rose to 3.1% from 2.8% in 2016 largely occasioned by rise in oil prices.
Global unemployment stabilized at an estimated rate of 5.6% in 2017, corresponding to 192.7 million unemployed persons. This represented an increase in the number of unemployed people by 2.6 million compared to 2016.
In the Sub Saharan Africa (SSA), GDP is estimated to have expanded by 2.6% in 2017 to 1.4% in 2016.

East African Community (EAC), real GDP in five partner states remained unchanged at 5.4%. The real GDP of Rwanda and Tanzania are estimated to have recorded the fastest growth of 6.2% and 6.5%, respectively, in 2017. The EAC's current account deficit as a percentage of GDP widened to 6.2% in 2017.

The Southern African Development Community (SADC) economies grew by 2.2% in 2017 compared to 1.5% in 2016. The growth was anchored on favourable weather conditions that supported agricultural production. The bloc's inflation rate stood at 10.3% in 2017 from 10.4% in 2016, while the current account deficit as a percentage of GDP Improved to 4.1% from 4.4% over the same period.

Chart 1: Real GDP growth rate (%), 2013 to 2017



Source: Economic survey, 2018

1.3 Performance by key sectors of the economy

1.3.1 Agriculture

Economic Survey 2018 reported that agricultural sector reported mixed performance in 2017 which led to a decelerated growth of 1.6% compared to 5.1% growth in 2016. Drought coupled with pests such as the fall army worms and diseases led to the overall decline in agricultural production in 2017.

Coffee production decreased by 11.5% from 46.1 thousand tonnes in 2015/16 to 40.8 thousand tonnes in 2016/17. The decline was attributable to cold and rainy weather conditions, the bio-modal production system where the crop takes time to recover in one year; and the extended dry weather during picking which adversely affected coffee production. The area under coffee production increased by 700 hectares from 114.0 thousand hectares in 2015/16 to 114.7 thousand hectares in 2016/17.

Tea production reduced by 7.0% from 473.0 thousand tonnes in 2016 to 439 thousand tonnes in 2017. Tea production by small holder growers decreased by 7.3% to 246.1 thousand tonnes in 2017 while output within the tea estates declined by 6.6% to 193.7 thousand tonnes over the same period. The depressed tea production was attributed to the drought that was experienced during the first half of 2017. The average yield for the small holder growers decreased from 2,086.4 kilograms per hectare in 2016 to 1,913.7 kilograms per hectare in 2017 while that within the tea estates decreased from 2,908.8 kilograms per hectare in 2016 to 2,603.5 kilograms per hectare in 2017.

The area under tea production increased by 6.5% from 218.5 thousand hectares in 2016 to 232.7 thousand hectares in 2017.

Export earnings from cut flowers grew by 16.1% to Kshs 82.2 billion in 2017 and accounted for 71.3% of total earnings from horticulture in 2017, mainly occasioned by a 19.7% increase in export volumes. Exports values of fruits and vegetables increased by 23.3% and 3.0%, respectively in 2017. The highest quantities of horticultural exports of over 30.0 thousand tonnes were recorded in the month of May 2017.

Total domestic sugar production declined by 41.2% from 639.7 thousand tonnes in 2016 to 376 thousand tonnes in 2017. A total of 989.6 thousand tonnes of sugar was imported in 2017 to bridge the deficit occasioned by the low production during the year. The area under cane reduced to 191.2 thousand hectares in 2017 compared to 220.8 thousand hectares in 2016. Reduction in cane area was attributable to conversion of some area under cane to other crops. In terms of quantity of cane delivered to factories reduced by 33.3% from 7.2 million tonnes in 2016 to 4.8 million tonnes in 2017. This was on account of prolonged dry weather conditions which were unfavourable for the growth of cane leading to harvesting of immature cane. As a result, the average sugarcane yield reduced to 55.3 tonnes per hectare in 2017 compared to 62.2 tonnes per hectare in 2016, representing a decrease of 10.9%.

Quantity of milk delivered to dairy processors recorded a significant drop of 17.4% from 648.2 million litres in 2016 to 535.7 million litres in 2017.

Number of cattle and calves slaughtered in abattoirs rose by 5.3% from 2,460.2 thousand in 2016 to 2,590.0 thousand in 2017. During the same period, the total number of goats and sheep slaughtered increased by 12.0% to stand at 9,206.7 thousand. The number of pigs slaughtered increased for the third consecutive year, to 360.1 thousand in 2017. The increase in the number of livestock slaughtered was attributable to the increased livestock off take occasioned by drought experienced during the period under review to cushion from losses.

1.3.2 Manufacturing.

Manufacturing sector real value added rose marginally by 0.2% in 2017 compared to a growth of 2.7% in 2016. The volume of output of the sector contracted by 1.1% attributed mainly to decline in food products, beverages & tobacco, leather & related products, rubber & plastics and non-metallic minerals subsectors.

The sector was negatively affected by uncertainities relating to general elections, rise in inflation, high production costs and competition from imported goods. The ban on production and use of plastic bags also had adverse effects on the volume of output of the sector. The food subsector declined by 10.8% mainly due to low availability of raw materials for some agro based industries resulting from unfavourable weather conditions during the year. Total approved credit to the sector rose to Kshs 311.8 billion in 2017 from Kshs 275.8 billion in 2016.

Manufacturing sector formal employment stood at 303,000 persons in year 2017 and accounted for 11.4% of the total formal employment.

The chemical and chemical products sub sector grew marginally in 2017. Production of paints went up by 2.1% while that of soaps, detergent and shoe polish increased by 6.2%, 4.8% and 1.9%, respectively in the period under review.

The production of basic metals increased by 4.0% in 2017 attributable to an increase of 12.0% in the volumes of iron bars and rods produced. However, there was a 2.2% decline in the output volumes of corrugated iron sheets to 262.8 thousand tonnes. In the same period, fabricated metal products, which include aluminium circles, metal structures and nails increased by 0.6%. The production of metal structures increased by 4.5% while that of nails increased by 2.4% during the same period.

The paper and paper products subsector registered a 4.2% growh in 2017. This growth was mainly driven by an increase of 10.7% and 5.5% in the production of toilet paper and exercise books respectively.

Production of electrical equipment in 2017 remained largely unchanged compared to the volumes recorded in 2016.

Leather and related products recorded a decline of 12.0% during the review period. This was attributed to reduced production of finished leather and shoes with uppers of leather, which decreased by 13.3% and 8.2%, respectively.

Production of pharmaceutical products decreased by 1.1% in 2017. This was on account of a 7.7% drop in production of capsules. On the contrary, production of tablets and syrup rose by 6.9% & 1.6%, respectively.

Manufacture of wood & wood products dropped further by 13.2% in 2017. The production of plywood and ceiling board decreased by 18.1% and 4.5%, respectively, in 2017.

The beverage and tobacco sub sector declined by 0.9%. Production of beverages declined marginally on account of a 5.2% drop in quantity of beer produced in 2017. In addition, tobacco products dropped by 4.4%

as a result of a 4.1% decline in production of cigarettes in 2017. However, production of carbonated soft drinks (soda) and spirits went up by 10.4% and 8.9%, respectively during the year under review.

Motor vehicles, trailer and semi-trailers production registered a drop of 16.4% in 2017. This was mainly attributed to the number of assembled vehicles which dropped by 25.4% & 4.9% reduction in trailer and semi-trailer body making.

The Producer Price Index (PPI) which measures change in prices of goods sold by producers at basic prices rose by 4.6% in 2017 to 118.89 from 113.67 in 2016. The main contributors to the increase in the index were manufacture of food products, electricity and manufacture of basic metals which increased by 9.3%, 5.0% and 5.3%, respectively.

1.3.3 Other sectors

Total electricity generation expanded by 3.0% to 10,359.9 Gwh in 2017.However, the hydro generated power registered a significant drop of 29.9% to 2,776.8 Gwh while thermal and geothermal generated power expanded by 72.3% and 6.1%, respectively, in 2017. The number of customers connected under the rural electrification program expanded by 30.6% from 972,018 in 2015/16 to 1,269,510 in 2015/16.

Global average murban crude oil prices rose to an average of US dollars 54.91 per barrel in 2017 up from an average of US dollars 44.18 per barrel in 2016. Total volume of petroleum products imported into the country increased from 5,990.0 thousand tonnes in 2016 to 6,347.7 thousand tonnes in 2017. However, domestic exports of petroleum products declined by 2.3% to 32.4 thounsand tonnes over the same period. In the year 2017, the total import bill of petroleum products increased by 34.2% to Kshs 265.3 billion while the total value of petroleum products exported, including re-exports, declined by 19.1% to Kshs 36.1 billion in 2017.

Petroleum throughput by pipeline rose by 10.8% from 5,557.9 thousand cubic metres in 2016 to 6,155.7 thousand cubic metres in 2017.

Transport & storage output expanded by 8.8% from Kshs 1,025.8 billion in 2016 to Kshs 1,115.7 billion in 2017. The value of output from road transport increased by 5.7% to Kshs 702.1 billion, accounting for 62.9% of the total output in the sector.

Total cargo throughput handled by Mombasa Port increased by 10.6% to 30.3 million tonnes in 2017. Total number of vessels that docked at the Port increased by 10.0% from 1,607 in 2016 to 1,767 in 2017. Total import traffic handled grew by 10.8% to 25.6 million tonnes, while export traffic handled expanded by 2.7% to 3.8 million tonnes in 2017. The volume of container traffic handled increased by 9.0% to 1.2 million Twenty Foot Equivalent Units (TEUs) in 2017.

Tourism earnings increased by 20.3% from Kshs 99.7 billion in 2016 to Kshs 119.9 billion in 2017.The number of international visitor arrivals increased by 8.1% to 1,448.8 thousand in 2017. The number of hotel bed nights occupancy increased by 11.3% from 6,448.5 thousand in 2016 to 7,174.2 thousand in 2017.

Building and construction sector grew by 8.6% in 2017 compared to 9.8% registered in 2016. The index of Government expenditure on roads increased from 462.8 in 2016 to 526.1 in 2017, due to major road projects undertaken during the review period. On the other hand, index of reported private building works completed in Nairobi City County rose from 409.3 in 2016 to 443.1 in 2017. Cement consumption decreased by 8.2% to 5,788.9 thousand tonnes in 2017. Loans and advances to the sector increased by 4.8% from Kshs 104.8 billion in 2016 to Kshs 109.9 billion in 2017.

The value of Information and Communication Technology (ICT) output increased by 10.9% from Kshs 311.1 billion in 2016 to Kshs 345.1 billion in 2017. Mobile commerce transactions grew by 85.5% from Kshs 1.8 trillion in 2016 to Kshs 3.2 trillion in 2017. Total mobile money transfers increased by 8.4% from Kshs 3,356 billion in 2016 to Kshs 3,638 billion in 2017.

1.4 Outlook

According to *Economic Survey 2018*, global economic recovery experienced in 2017 is expected to continue more strongly in 2018. The recovery is likely to be broad based with growth in most developed and emerging market economies projected to accelerate in 2018.similarly, growth of SSA is expected to improve significantly over the same period. The expectations are against expected favourable global financial conditions, strong world trade and improved business confidence. However, rising international oil prices could hamper economic growth in the non-oil producing countries in particular the developing economies. Moreover, there still exist some risks in the global financial systems that could negatively impact on developed and emerging market economies if they materialize.

In Kenya, the expected political stability and favourable macroeconomic environment are likely to be conducive for acceleration in growth in 2018. The ongoing investments in infrastructure, improved business confidence, and strong private sector consumption are likely to support growth in 2018. Weather forecast points to a possibility of sufficient and well spread long rains in 2018 which is likely to be a major boost for activities in agriculture, electricity and water supply sectors. This will in turn be favourable to manufacturing sector. However, rising oil prices and slow credit uptake by the private sector are likely to dampen growth in 2018.

Inflation is expected to ease in 2018 supported by lower food prices due to improved agricultural output. The expected strong world trade is likely to increase Kenya's export and therefore supportive of growth. Other macroeconomic indicators are projected to remain stable and supportive of growth in 2018. Overall, factors favourable to growth are likely to more than offset impacts of those against and result to a better economic growth in 2018 compared to 2017.

2.0 EPZ Performance for the year 2017

2.1 Overview of the program

During the year 2017, most of the performance indicators for EPZ program exhibited an upward trend compared to the year 2016.
The number of gazetted zones rose to 71 in year under review from 65 in 2016.

Direct local employment expanded by 3.4 % from 52,947 persons recorded in 2016 to 54,764 persons in 2017.

Capital investment in form of equipment, machinery and other funds invested by the 131 operational enterprises increased by 4.7% to Kshs.74,586 million in 2017 from Kshs.71,242 million recorded in the previous year. While the cumulative value of investment for enterprises and zones (developers/operators) stood at Kshs 95,278 million in 2017 from Kshs 88,977 million registered in year 2016.

Total sales marginally declined by 1.9% to stand at Kshs 67,270 million in 2017 from Kshs 68,569 million in 2016, while exports decreased by 5.3% to stand at Kshs 60,729 million from Kshs 64,151 in 2016. The decline was mainly attributed to combination of factors ranging from drought in the course of year which affected supply of raw material to agro processing enterprises, inconsistency of orders for some apparel firms, global competition and anxiety over general elections.

Domestic sales increased from Kshs 2,541 million in 2016 to Kshs 4,357 million in 2017. This indicated that there was increased demand within the domestic market during the year under review for some EPZ products especially for apparel products.

Imports increased marginally by 0.5% to stand at Ksh.30,305 million in the year under review from Kshs 30,160. Out of the total value of imports, inputs amounted to Kshs. 29,140 million while capital goods were valued at Kshs.1,165 million in year 2017 while in the year 2016 it amounted to Kshs.29,573 million and Kshs.587 million respectively.

Expenditure on local goods and services increased by 8.0% in 2017 to stand at Kshs.27,805 million from Kshs.25,735 million recorded in the year 2016. This translates to an average of Kshs.2,317 million being injected into the economy by EPZ firms monthly in the year 2017 compared to Kshs.2,145 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: 2013 - 2017

Indicator	2013	2014	2015	2016	2017	Growth % (2016 v/s 2017)
Gazetted zones (no.)	50	52	56	65	71	9.2
Projects approved (no)	21	32	28	30	42	40.0
Enterprises Operating (no.)	85	86	89	111	131	18.0
Employment – (Kenyans) [a]	39,961	46,221	50,302	52,947	54,764	3.4
Employment - (Expatriates) [b]	472	517	597	618	722	16.8
Total Employment (No)=a+b	***40,433***	***46,738***	***50,899***	***53,565***	***55,486***	***3.6***
Total sales (Kshs. million)**	50,294	57,192	64,897	68,569	67,270	-1.9
Exports (Kshs. million)	44,427	51,377	60,879	64,151	60,729	-5.3
Domestic Sales (Kshs. million)	4,601	4,211	1,793	2,541	4,357	71.5
Imports (Kshs. million)	27,413	29,461	31,370	30,160	30,305	0.5
Investment Kshs. Million***	48,004	44,218	48,128	88,977	95,278[1]	7.1
Expenditure on local Purchases (Kshs million)[1]	7,721	8,170	8,815	10,742	11,089	3.2
Expenditure on local Salaries (Kshs million)[2]	6,043	7,511	8,377	9,212	10,069	9.3
Expenditure on power (Kshs million)3	870	1,004	878	741	772	4.2
Expenditure on Telecommunication (Kshs million)4	63	67	84	77	85	10.4
Expenditure on water (Kshs million)5	117	173	194	184	139	-24.5
Other domestic expenditure (Kshs million)[6]	4,461	4,045	5,522	4,779	5,651	18.2
Total Domestic Expenditure (Kshs million) = 1+2+3+4+5+6*	***19,275***	***20,970***	***23,870***	***25,735***	***27,805***	***8.0***

** 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 42 approvals with a potential investment of Kshs.21.9 billion, 6,112 jobs and year one sales valued at Kshs.11.8 billion in the year 2017 compared with 30 approvals with a potential investment of Kshs.

[1] Value of enterprises' investment = **Kshs 74,586 million** while zones' (developers/operators) investment = **Kshs 20,692**. During year 2016, enterprises' investment = **Kshs 71,242** while zone investment = **Kshs 17,735.**

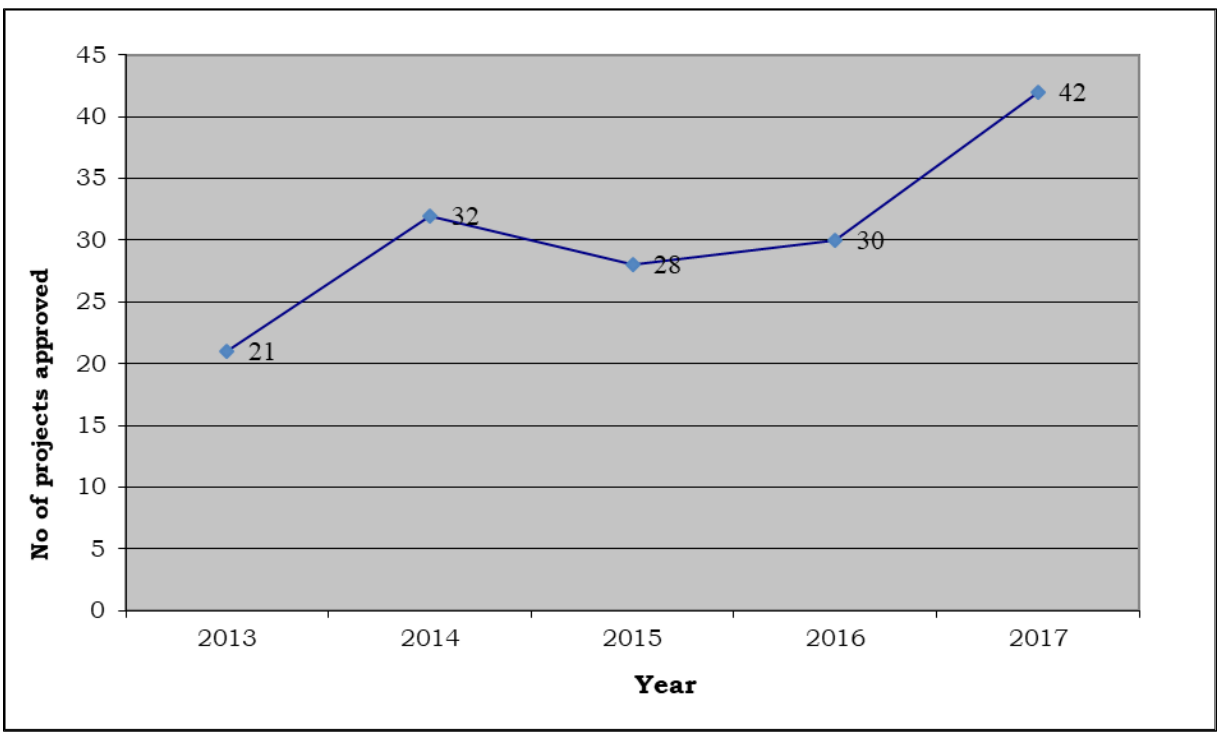
3.8 billion, 1,570 jobs and year one sales valued at Kshs.7.1 billion in the previous year.

Table 2 and chart 2 has more details.

Table 2: Projects Approved, Expected jobs, Investment & Sales from 2013 - 2017

Year	Number of projects approved	Jobs (number)	Investment (Kshs. million)	Year One Sales (Kshs. million)
2013	21	3,818	5,089	7,584
2014	32	7,607	8,300	10,098
2015	28	11,075	9,225	12,416
2016	30	1,570	3,822	7,092
2017	42	6,112	21,933	11,784

Chart 2: Trend of number of projects approved from 2013 - 2017



2.3 Status on gazetted zones

The number of gazetted zones as at the end at end of December 2017 stood at 71 compared to 65 in December 2016, out of which 66 are privately owned and operated while 5 are public zones (Athi River & Kinanie in Machakos; Kipevu in Mombasa, Samburu in Kwale and Homabay Counties respectively).

Seven zones are located in the County of Nairobi, 24 in Mombasa, 10 in Kilifi, 6 in Machakos, 4 in Bomet, 3 each in Nakuru, Kwale & Kiambu, one each in Muranga, Kajiado, Taita Taveta, Elgeyo Marakwet, Nandi, Uasin Gishu, Laikipia, Embu, Meru, Narok and Homa bay. Table 3 details distribution of gazetted zones.

Table 3: Geographical distribution of zones per County, year 2017

County	Former Province	Number of zones
Nairobi	Nairobi	7
Mackakos	Eastern	6
Kajiado	Rift Valley	1
Mombasa	Coast	24
Kilifi	Coast	10
Taita Taveta	Coast	1
Kiambu	Central	3
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	4
Nakuru	Rift Valley	3
Kwale	Coast	3
Embu	Eastern	1
Narok	Rift Valley	1
Homabay	Nyanza	1
Total: 19	**6**	**71**

Gazetted zones are dispersed across 19 out of 47 Counties constituting presence in 6 out of the 8 former provinces. 38 out of 71 zones were concentrated in larger coast region constituting 53.5% of the total zones in 2017 compared to 37 out of 65 which translated to 56.9% in 2016.

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.3,102 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.3,354 million. Additional ongoing infrastructural projects are estimated at Kshs.3 billion bringing cumulative zone investment to Kshs 6,354 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, Cranfield EPZ Ltd, Property Vision EPZ Ltd, Growth Point EPZ Ltd, Nexus Holdings EPZ Ltd, China International Investment EPZ Ltd and Ceytun EPZ Ltd among others) that have invested to gather for demand from the EPZ investors, especially with the advent of AGOA.

The public put up 12 industrial units with a total built up area of 160, 200 square feet which were being fully occupied by EPZ enterprises, thereby recording 100.0 % occupancy. Additional units with cumulative area of 258,300 square feet are under construction.

Transfleet EPZ Ltd has constructed industrial units with total built up area of about 308,160 square feet. All the godowns have been leased to 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 in the process of undertaking phase two of construction of godowns with similar space 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 two firms namely; Fairoils EPZ Ltd and Ethical Fashions Artisan EPZ Ltd occupied cumulative built up space of 167,768 square feet; representing occupancy of 76.3%. One of the other tenant (Reltex Tarpaulins Africa EPZ Ltd) that was occupying the godown wound up its operations in the course of the year due to adverse business environment and management related constraints.

Property Vision EPZ Ltd has constructed seven units totaling 49,700 square feet; Growth Point EPZ Ltd has developed industrial units with cumulative area of 105,000 square feet while Cranfield EPZ Ltd (took over from Rupa Cotton Mills EPZ Ltd) has an estimated 160,000 square feet to cater for investors' needs in which about 37% was occupied.

Other developers of industrial buildings include Nexus Holdings Holdings EPZ Ltd with 62,000 square feet; China International Investment EPZ Ltd 107,000 square feet and Ceytun EPZ Ltd with 16,560 square feet among others to cater for increased industrial demand for space within the zone.

The zone had 67 operating enterprises in the year 2017 compared to 54 in the previous year. The number of firms within the zone include those operating under Business Service Permit (BSP).

Some of the enterprises which commenced operations included Ken Meat EPZ Ltd, Shun Lida Foods Co. EPZ Ltd, Farmica EPZ Ltd, Tunasco EPZ Ltd and China International Investments EPZ Ltd. However, some of the enterprises within the zone were had remained dormant due to various constraints appeared to have would up operations. These included Reltex Tarpaulins Africa EPZ Ltd (had been under administration) and Purefry EPZ Ltd. Avenue Fresh EPZ Ltd, Mohazo EPZ Ltd, Redington Kenya EPZ Ltd, Precious Dynagold EPZ Ltd, Manda Bay SEZ EPZ Ltd and Belat EPZ Ltd also remained dormant due to various business related constraints.

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 79,000 square feet. EBA unit 3 with expected total built up area of 64,500 square feet is under construction.

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 a while ago to 120,423 square feet. Total area occupied was 90,707 square feet representing occupancy of 75.3%. It housed seven enterprises that dealt with activities which 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.

2.4.5 Milstar Investments EPZ Ltd, Changamwe

This zone was gazetted in March 2003 with industrial & office built up space of 40,000 square feet, fully occupied. It hosts Mega Garments Industries EPZ Ltd (unit 2); one of the leading garment manufacturing enterprise. The zone had remained dormant for a while since exit of Kevroe Plastics EPZ Ltd which was occupying the zone.

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 zones' occupancy

Cumulative built up area put up by the public zone/Athi River was 239,200 square feet; including the incubator phases I & II. Additional 258,300 square feet industrial sheds are being constructed. EBA unit III with space of 64,500 is under construction. Upon completion, total industrial space put up by public is expected to total 562,000 square feet. Athi River Zone indicators on investment & built up industrial space relate to projects put up using public resources. Private zone developers (Transfleet EPZ Ltd, Capital Industrial Park EPZ Ltd, Property Vision EPZ Ltd, Growth Point EPZ Ltd, Cranfield EPZ Ltd, Nexus Holdings EPZ Ltd, China International Investment EPZ Ltd and Ceytun EPZ Ltd) have made available industrial space of 871,220 square feet. Additional industrial space of 308,160 square feet is being constructed by Transfleet EPZ Ltd under phase two.

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 during the year.

Four zones were gazetted in the year 2017; namely Mara Tea Factory EPZ Ltd (Narok County), Sasini EPZ Park Ltd (Kiambu County), Evergreen Tea Factory EPZ Ltd (Bomet County) and Alpha Logistics Services EPZ Ltd (Mombasa County). During the year 2016, eight zones were gazette, namely; Privamnuts EPZ Kenya Ltd (Embu County), Siomo Tea Factory EPZ Ltd (Bomet County), Revital Healthcare EPZ Ltd & Swati Investments Co. EPZ Ltd (Kilifi County), Bedi Investments EPZ Ltd (Nakuru County), Ravco Kenya EPZ Ltd (Mombasa county) and Moringa For Life EPZ Ltd & Asante Capital EPZ Ltd located in Kwale County respectively.

2.4.11 Zones in the process of setting up.

These include Mara Tea Factory EPZ Ltd located (Narok County), Evergreen Tea Factory EPZ Ltd and Sasini EPZ Park EPZ Ltd (Kiambu County).
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.

There are two zones which have taken long time to set up despite having been gazetted a while ago. These include Taurus EPZ Ltd (formerly Plethico Africa EPZ Ltd) located in Mlolongo and Biocorn Products EPZ Ltd within Eldoret municipality. The former was gazetted in September 2007 while the later in November 2009. After many years of operational constraints associated with startups, these zones are now setting up and are likely to be fully operational in the course of year 2018. Specifically, Taurus EPZ Ltd is a capital intensive and technical in nature. It is a pharmaceutical project. While on the other hand, Bicorn Products EPZ Ltd project was held back by financial and technological upgrade constraints. It is mainly expected to produce formic acid among other products for use in petroleum industry.

2.4.12 Zone that commenced operations.

These zones include; Revital HealthCare EPZ Ltd in Mtwapa (Kilifi County); Ravco Kenya EPZ Ltd (Mombasa County), Asante Capital EPZ Ltd (Kwale County) and Siomo Tea Factory EPZ Ltd in Bomet County.

2.4.13 Zones hosting a branch of an enterprise.

These include Laburnum Investment EPZ Ltd, Miritini, (formerly Birch Investment EPZ Ltd) Ltd, host branch of Simba Apparel EPZ Ltd while Kingorani EPZ Ltd EPZ Ltd (host Hui Commercial EPZ K. Ltd & Hantex Garments EPZ Ltd), Talab EPZ Ltd, Mtwapa (Mombasa Apparel EPZ Ltd unit 3) and Milstar Investments EPZ Ltd (hosts Mega Garments Industries Kenya EPZ Ltd, unit 2) respectively.

2.5 Sector performance

In the year 2017 fifteen industrial sub sectors were operational, namely, agro processing, Business Service Permit (BSP), chemicals, commercial & commercial craft and leather, dartboard, electrical/electronics, food processing, garments, garment support services, minerals/gemstones, pharmaceuticals & medical supplies, printing, relief supplies, services and other (beverages, plastics, joinery works and silicone products).

During the year 2016, there were sixteen industrial subsectors namely; agro processing, Business Service Permit (BSP),chemicals, commercial & commercial craft dartboard, electrical/electronics, food processing, garments, garment support services, minerals/gemstones, pharmaceuticals & medical supplies, plastics, printing, relief supplies, services and other (beverage & silicone 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 3 & 4 show sector contribution to investment and exports.

The garment sector remains the most dominant sector within the program as shown by selected performance indicators. It constituted 16.0% of enterprises, 80.3% of total local jobs, 61.2% of exports, 56.7% of total sales, 37.8% of expenditure on local goods & services and 21.3% of private investment compared to 18.9%, 80.3%, 57.5%, 55.3%, 38.2% and 21.5% respectively in the year 2016.

However, agro processing sector which is the second dominant sector within the program was the highest performer in number of enterprises at 30.5% and utilization of local resources at 45.8% compared to garment sector in which it recorded 16.0% and 37.8% respectively in year 2017. During the year 2016, agro processing contributed 27.9% in number of firms and 42.1% in local resource while garments sector recorded 18.9% and 38.2% respectively.

On average, garment sector contributed 50.4%, followed by agro processing at 27.1%, services at 7.8%, printing at 2.6% and pharmaceuticals & medical supplies at 1.59% on all of the above indicators compared to 50.0%, 23.8%, 8.6%, 2.7% and 1.58% respectively in the previous year.

More details are shown by tables 4 & 5, and Charts 3 & 4.

Table 4: Sectoral Performance year 2017 (Kshs)

sector	no of firms	local jobs	exports	total sales	local resource	investment
Agro processing	40	7,273	14,499,017,374	14,777,111,360	12,740,471,014	13,817,056,433
Business Service Permit (BSP)	5	352	0	0	185,038,852	16,252,416,053
chemicals	2	164	116,383,310	116,383,310	135,392,692	3,351,119,645
commercial & commercial craft and leather	4	66	105,718,142	105,718,142	44,987,317	280,976,255
Dartboard	1	455	929,771,197	932,037,844	344,589,147	1,072,062,769
Electricals/electronics	2	3	0	0	3,853,208	50,606,300
Food processing	4	228	2,593,038,678	3,585,820,849	500,315,395	2,567,174,043
Garments	21	43,987	37,166,217,761	38,115,861,219	10,508,910,387	15,880,071,437
Garments support services	4	70	8,099,436	198,835,376	48,677,691	204,130,679
minerals/metals/gemstones	3	9	158,832,054	158,832,054	4,549,371	950,236,000
Pharmaceuticals & medical supplies	5	465	506,081,891	840,120,068	336,895,137	3,775,442,000
printing	1	305	1,338,769,966	4,531,664,648	775,234,334	4,001,601,500
Relief supplies	3	63	1,056,904,228	1,176,731,343	526,596,933	1,243,706,845
services	31	1,160	2,217,409,033	2,698,774,057	1,602,681,150	10,766,056,855
other	5	164	32,655,257	32,655,257	46,526,582	373,367,905
Total	**131**	**54,764**	**60,728,898,327**	**67,270,545,527**	**27,804,719,210**	**74,586,024,719**

Table 5: Proportion of sector contribution year 2017 (%)

Sector	no of firms	local jobs	exports	total sales	local resource	investment	average
Agro processing	30.53%	13.28%	23.87%	21.97%	45.82%	18.52%	27.10%
Business Service Permit (BSP)	3.82%	0.64%	0.00%	0.00%	0.67%	21.79%	1.03%
chemicals	1.53%	0.30%	0.19%	0.17%	0.49%	4.49%	0.54%
commercial craft	3.05%	0.12%	0.17%	0.16%	0.16%	0.38%	0.73%
Dartboard	0.76%	0.83%	1.53%	1.39%	1.24%	1.44%	1.15%
Electricals	1.53%	0.01%	0.00%	0.00%	0.01%	0.07%	0.31%
Food processing	3.05%	0.42%	4.27%	5.33%	1.80%	3.44%	2.97%
Garments	16.03%	80.32%	61.20%	56.66%	37.80%	21.29%	50.40%
Garments support services	3.05%	0.13%	0.01%	0.30%	0.18%	0.27%	0.73%
minerals/metals/gemstones	2.29%	0.02%	0.26%	0.24%	0.02%	1.27%	0.56%
Pharmaceuticals & medical supplies	3.82%	0.85%	0.83%	1.25%	1.21%	5.06%	1.59%
printing	0.76%	0.56%	2.20%	6.74%	2.79%	5.37%	2.61%
Relief supplies	2.29%	0.12%	1.74%	1.75%	1.89%	1.67%	1.56%
services	23.66%	2.12%	3.65%	4.01%	5.76%	14.43%	7.84%
other	3.82%	0.30%	0.05%	0.05%	0.17%	0.50%	0.88%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Chart 3: Sector contribution to local employment 2017

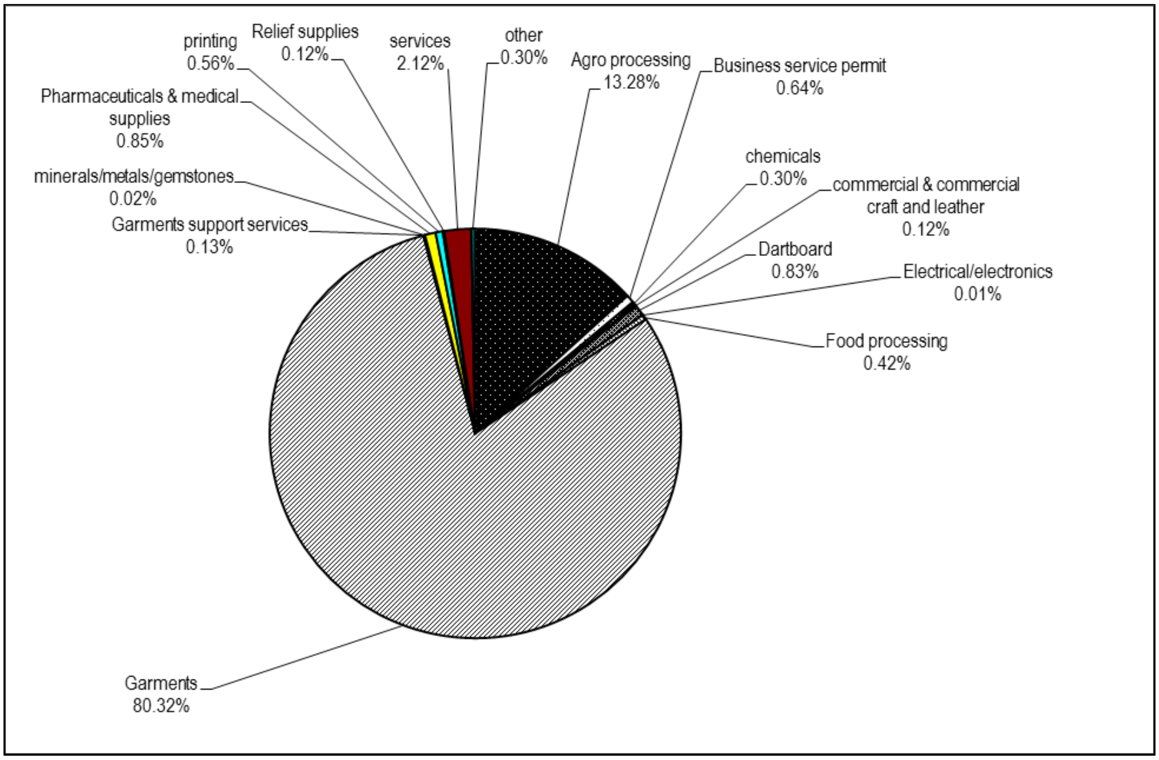
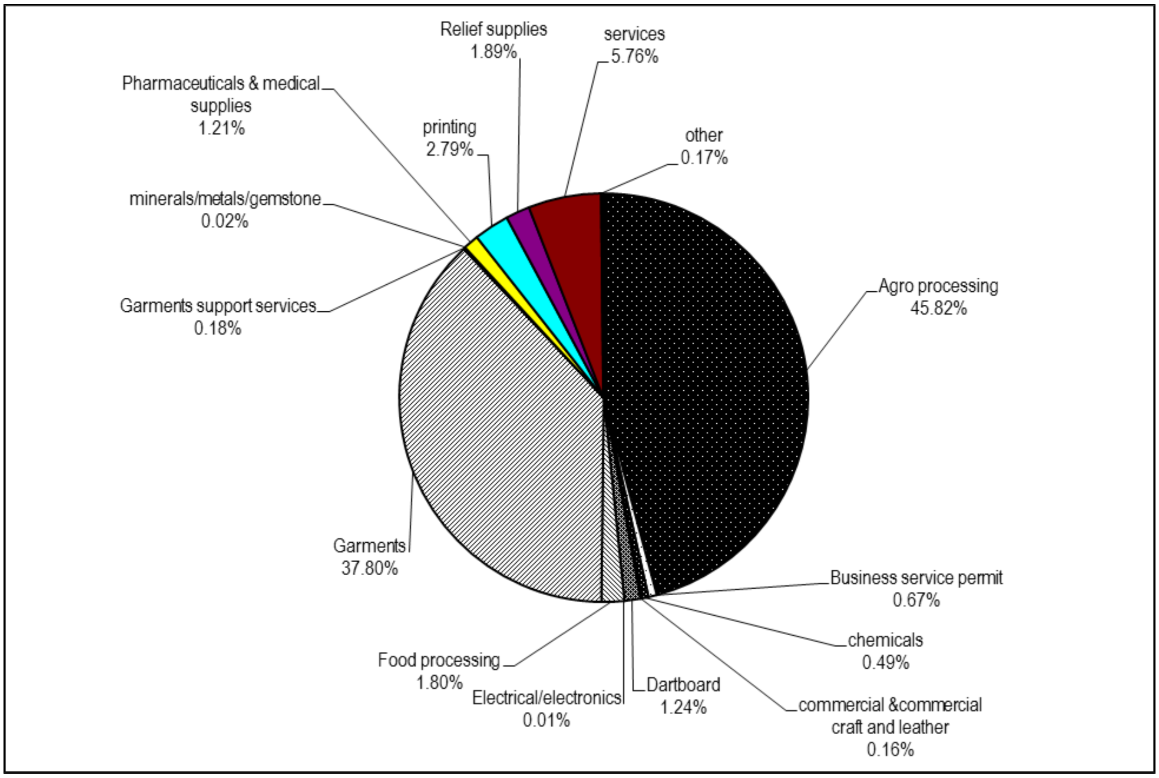


Chart 4: Sector contribution to local resource utilization, 2017



2.6 Ownership of EPZ enterprises

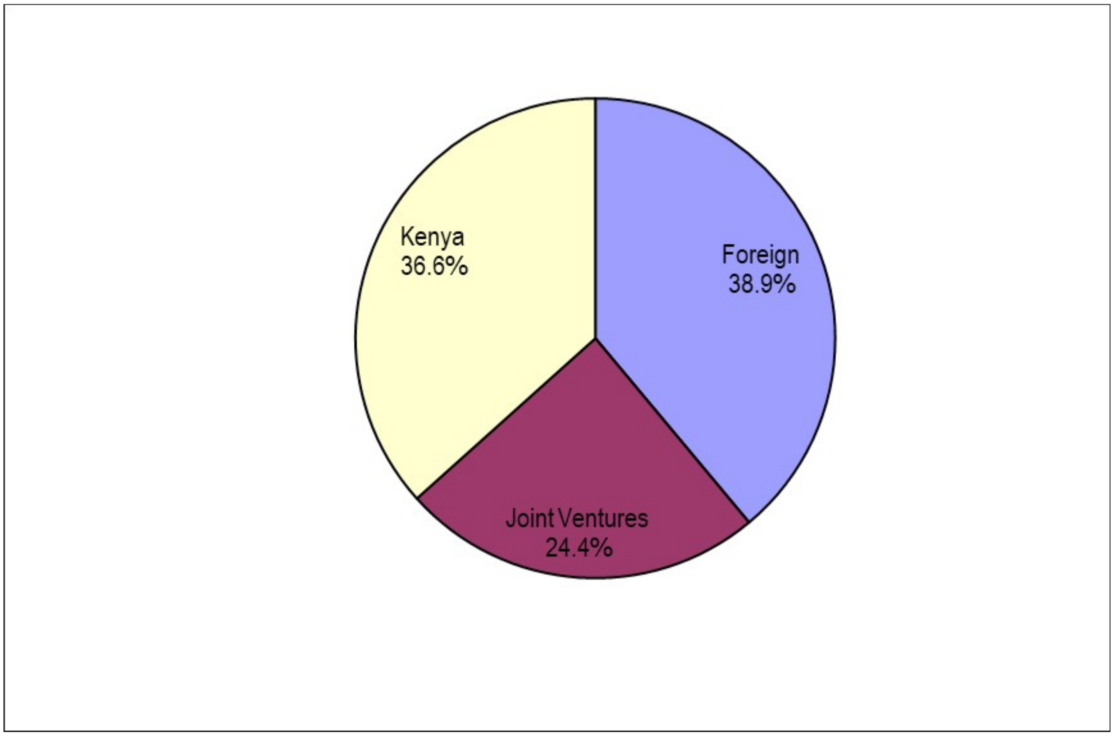
During the year 2017, 36.6% of total EPZ enterprises were wholly Kenyan, Joint ventures were 24.4% while foreign investments constituted 38.9%. In 2016, 35.1% were wholly Kenyan owned, 24.3% were joint ventures and 40.6% were foreign owned.

One of the reason contributing to 36.6% 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, China, Qatar, Singapore, USA, UK, Belgium, Netherlands, Denmark, Australia, Mauritius, and Tanzania among others.

Chart 5 shows the ownership structure of EPZ enterprises in the year 2017.

Chart 5: Ownership of EPZ enterprises, 2017



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. 74,586 million in 2017 from Kshs.71,242 million in the year 2016.

When infrastructure investment of Kshs.20,692 million undertaken by EPZ developers included, the figure becomes Kshs. 95,278 million compared with Kshs.88,977 million in the year 2016. The rise in the value of investment within the zone is attributed to capturing of data on upcoming developers/zone as well as Business Service Permit (BSP) companies.

In terms of value of private investments, 63.7% (Kshs.47,534 million) were foreign owned while Kenyan accounted for 36.3% (Kshs.27,052 million) in 2017 compared to 68.0% (Kshs.48,459 million) foreign owned and 32.0% (Kshs.22,783 million) Kenyan respectively in the year 2016 (table 6).

Table 6: Value of EPZ enterprises' investments: 2013 – 2017

Indicator	2013	2014	2015	2016	2017
Value of Kenya/Local investments (Kshs million)	13,057	10,758	12,788	22,783	27,052
Value of Foreign investment (Kshs million)	34,947	33,460	35,340	48,459	47,534
Total Investment (Kshs million)	**48,004**	**44,218**	**48,128**	**71,242**	**74,586**
Ratio of value of Kenya/Local investment to Total (%)	27.2	24.3	26.6	32.0	36.3
Ratio of value of Foreign investment to Total (%)	72.8	75.7	73.4	68.0	63.7

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 decreased marginally in value by 3.9% to stand at Kshs.32,051 million in 2017 from Kshs.34,410 million recorded in the year 2016. However, quantity of apparels exported to US increased from 74.0 million pieces in 2016 to 76.2 million pieces in 2017. This could be attributed to focus on quantity production facilitated by economies of scale.

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 2017, these alternative markets were a destination of Kshs.4.1 billion (8.5 million pieces) worth of apparel compared to Kshs. 2.4 billion (4.3 million pieces) of apparel consigned to these markets during the year 2016. It is evident that the alternative market is evolving in significance as indicated by trend on table (7b).

Direct employment expanded by 3.5% to stand at 43,987 from 42,496 recorded in the previous year. During the year 2017, garment sector contributed 80.3% of total local employment compared with 81.0% in 2016.

Investment on the other hand registered an increase of 3.8% to stand at Kshs.15,880 million from Kshs.15,300 million in year 2016 as result of continued investment by firms on machinery.

The trend is as shown in table 7a chart 6.

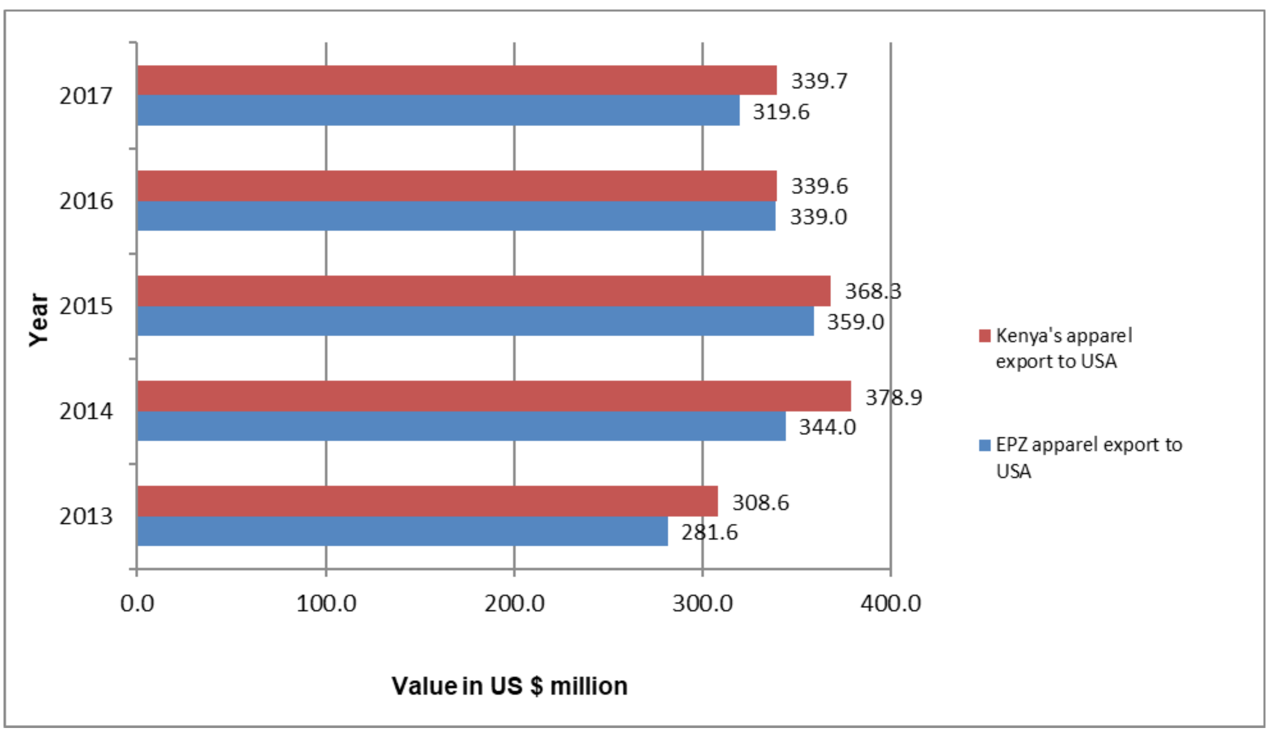
Table 7a: Impact of AGOA on EPZ Garment Sector: 2013 - 2017

Indicator	2013	2014	2015	2016	2017	% growth (2016 v/s 2017
Number of Enterprises	22	21	21	21	21	0.0
Employment (No.)	32,932	37,785	41,597	42,496	43,987	3.5
Investment (Kshs million)	13,465	15,051	15,708	15,300	15,880	3.8
Exports (Kshs million)	24,246	30,244	35,224	34,410	33,051	-3.9
Quantity of exports (million pieces)	79.3	81.9	84.6	74.0	76.2	3.0
Imports (Kshs million)	18,750	20,452	19,028	17,468	22,656	29.7
Exports (US$ million)	281.6	344.0	359.0	339.0	319.6	-5.7
Annual average exchange rate (Kshs/US$)	86.1	87.9	98.1	101.5	103.4	1.9

Table 7 b: Value & quantity of apparel export to USA and to rest of the world: 2012 - 2017

Indicator	2013	2014	2015	2016	2017
Value of apparel exports to USA (Kshs m)	24,246	30,244	35,225	34,410	33,051
Value of apparel export rest of world (Kshs m)	2,144	2,600	2,165	2,472	4,115
Total value	**26,391**	**32,844**	**37,390**	**36,882**	**37,166**
Quantity apparel of exports to USA (million pieces)	79.3	81.9	84.6	74.0	76.2
Quantity of apparel export to rest of the world (million pieces)	5.4	6.2	4.3	4.3	8.5
Total quantity	**84.7**	**88.1**	**88.9**	**78.3**	**84.7**

Chart 6: Trend of EPZ Garment Exports v/s Overall Kenya Garment/ apparel Exports to US under AGOA: 2013 - 2017 (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 2017.

Total apparel exports from Kenya to US increased marginally by 0.03% in year 2017 to stand at US$ 339.7 million from US$ 339.6 million recorded in 2016. This could be attributed to the prolonged electioneering period in the country in the year 2017.

EPZ garment/apparel exports were US$ 319.6 million; constituting 94.1% of the national apparel exports while during the previous year it accounted for 99.8%.
Apparel exports from Lesotho saw a marginal decrease of 1.4% to stand at US$290.4 million while those from Mauritius declined by 25.6% to US$146.6 million. Madagascar was removed from AGOA in year 2010 due to ineligibility requirements. It was not after year 2013 that the country was reinstated. Its apparel exports rose by 55.1% to stand at US$158,994 in 2017 from US$ 102,527 recorded in 2016.

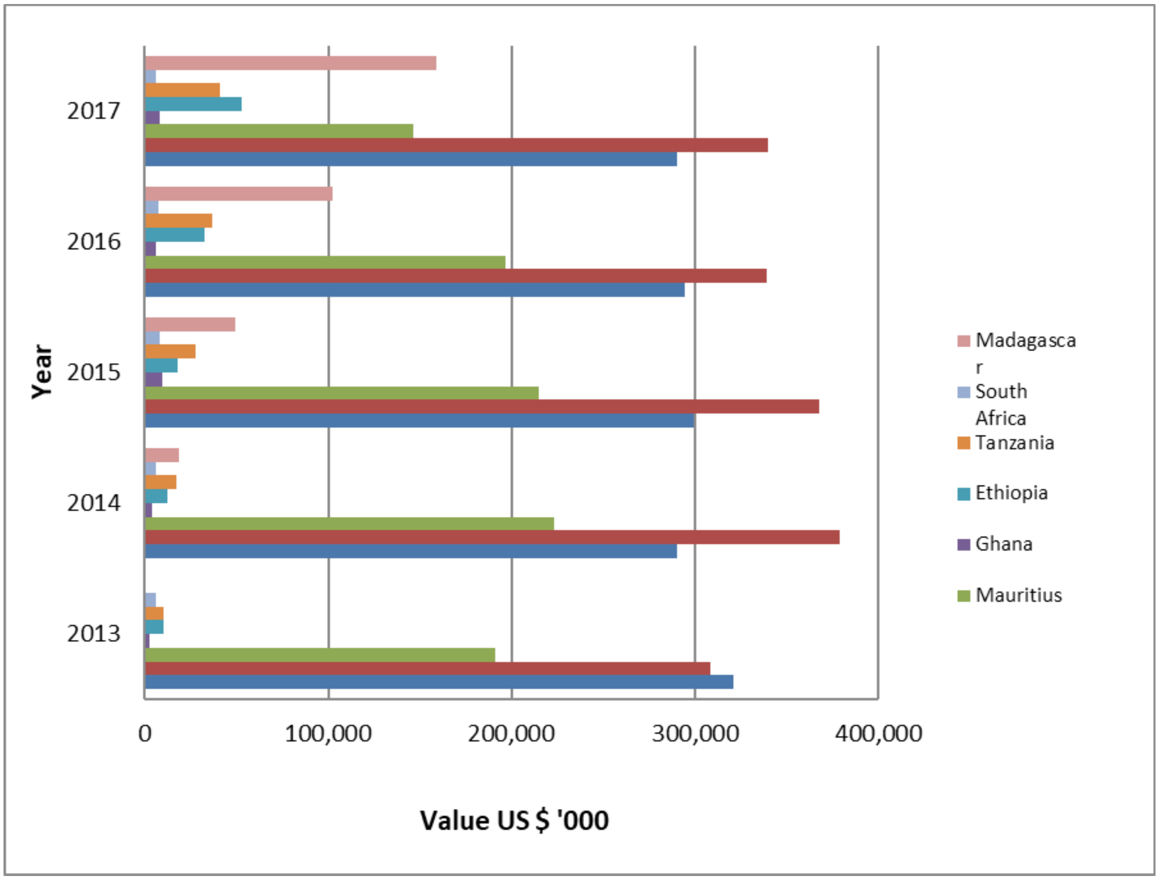
Overall, Kenya maintained her SSA top apparel exporter to US for the last four consecutive years in 2017.
Table 8 and chart 7 has trend on performance of selected SSA countries which are non oil producers and heavily rely on apparel/garment exports to US under AGOA program.

Table 8: Exports to US under AGOA provisions for selected Africa AGOA eligible countries 2013 – 2017 (US $ '000)

Country	2013	2014	2015	2016	2017	% change 2016 - 2017
Kenya	308,563	378,911	368,273	339,630	339,745	0.03
Lesotho	321,276	290,309	299,690	294,531	290,435	-1.39
Madagascar	0	18,668	48,978	102,527	158,994	55.08
Mauritius	191,188	223,060	215,255	197,037	146,599	-25.60
Ghana	2,729	3,831	9,204	6,255	8,342	33.37
Ethiopia	10,348	12,030	17,647	32,668	53,095	62.53
Tanzania	10,389	17,480	27,316	36,955	40,643	9.98
South Africa	5,837	6,092	8,370	7,584	6,164	18.72

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

Chart 7: Trend of apparel exports to US from selected AGOA Africa countries under AGOA, 2013 – 2017 (US $ '000).



Annual AGOA Forums which are hosted alternately by SSA and US provide a platform to address some of the challenges which affect full realization of AGOA benefits by SSA. The 16th AGOA Forum was held in Lome, Togo in August 2017 with the next Forum will be hosted in USA in July 2018.

4.0 Regional Performance

Regional performance constitutes analysis of EPZ enterprises performance as per their geographical locations which are Athi River/Mlolongo, Nairobi, Mombasa, Kerio Valley/Eldoret, Thika/Kiambu/Muranga/Embu, Laikipia/Naivasha/Nakuru and Nandi/Bomet/Narok. Most of these firms are concentrated around Athi River, Nairobi and Mombasa regions.

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 Athi River, Mombasa and Nairobi 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 33, it generated total local employment of 20,573 compared to 69 firms in Athi river region creating 18,914 jobs. During the year 2016, Mombasa region created 20,124 while Athi River region managed 18,033 jobs respectively.

Average performance for the regions with respect to the selected indicators were 40.6%, 33.9%, 16.9%, 3.0% and 2.1% for Athi River, Mombasa, Nairobi, Thika/Kiambu/Muranga/Embu and Laikipia/Naivasha/Nakuru for 2017 compared with 35.5%, 32.4%, 25.2%, 3.1% and 1.6% respectively in 2016.

Refer to tables 9 & 10 and chart 8 for more details.

Table 9: Regional performances year 2017

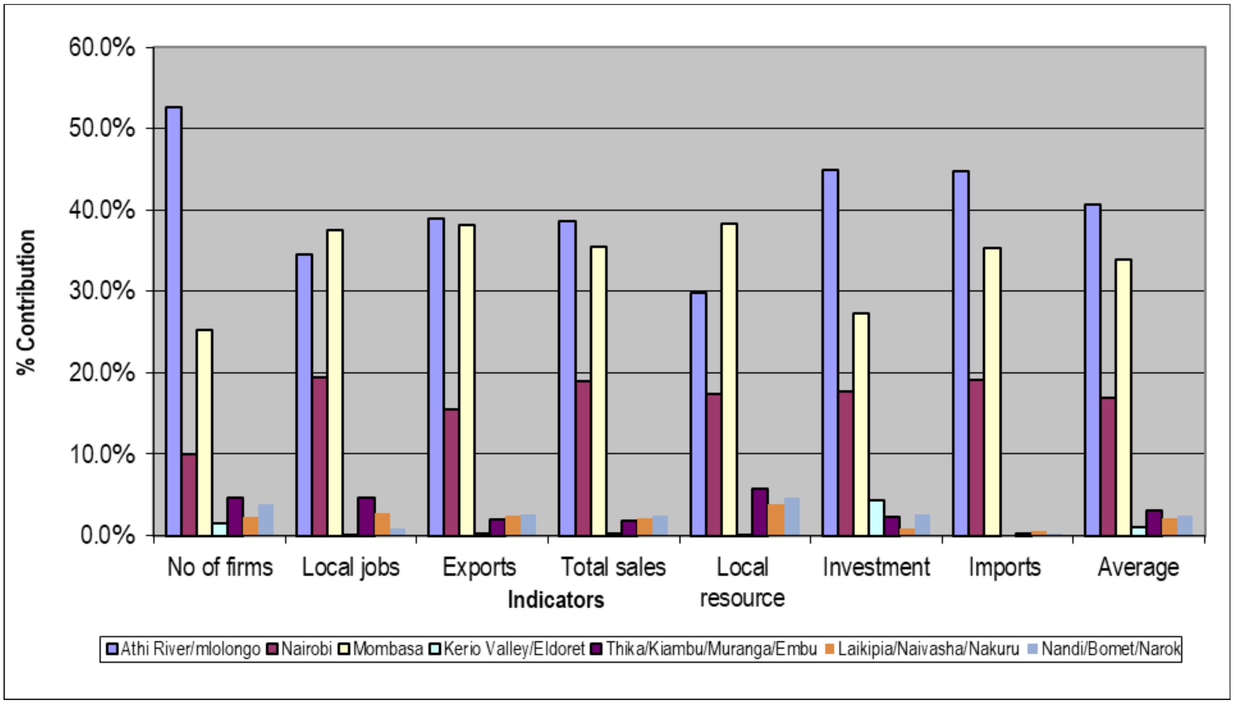
Zone/region	Firms (no)	Local jobs (no)	Exports (Kshs m)	Total sales (Kshs m)	Local resource (Kshs m)	Investment (Kshs m)	Imports (Kshs m)
Athi River/mlolongo	69.0	18,914.0	23,702.0	26,020.0	8,316.0	33,484.0	13,565.0
Nairobi	13.0	10,678.0	9,410.0	12,815.0	4,831.0	13,197.0	5,780.0
Mombasa	33.0	20,573.0	23,189.0	23,870.0	10,647.0	20,320.0	10,690.0
Kerio Valley/Eldoret	2.0	60.0	159.0	159.0	39.0	3,283.0	0.0

Zone/region	Firms (no)	Local jobs (no)	Exports (Kshs m)	Total sales (Kshs m)	Local resource (Kshs m)	Investment (Kshs m)	Imports (Kshs m)
Thika/Kiambu/Muranga/Embu	6.0	2,515.0	1,233.0	1,257.0	1,607.0	1,708.0	50.0
Laikipia/Naivasha/Nakuru	3.0	1,535.0	1,482.0	1,482.0	1,058.0	645.0	170.0
Nandi/Bomet/Narok	5.0	489.0	1,554.0	1,667.0	1,306.0	1,949.0	50.0
total	**131**	**54,764**	**60,729**	**67,270**	**27,804**	**74,586**	**30,305**

Table 10: Contribution by region, 2017 (%)

Zone/region	No of firms	Local jobs	Exports	Total sales	Local resource	Investmen t	Imports	Average
Athi River/mlolongo	52.7%	34.5%	39.0%	38.7%	29.9%	44.9%	44.8%	40.6%
Nairobi	9.9%	19.5%	15.5%	19.1%	17.4%	17.7%	19.1%	16.9%
Mombasa	25.2%	37.6%	38.2%	35.5%	38.3%	27.2%	35.3%	33.9%
Kerio Valley/Eldoret	1.5%	0.1%	0.3%	0.2%	0.1%	4.4%	0.0%	1.0%
Thika/Kiambu/Muranga/Emb u	4.6%	4.6%	2.0%	1.9%	5.8%	2.3%	0.2%	3.0%
Laikipia/Naivasha/Nakuru	2.3%	2.8%	2.4%	2.2%	3.8%	0.9%	0.6%	2.1%
Nandi/Bomet/Narok	3.8%	0.9%	2.6%	2.5%	4.7%	2.6%	0.2%	2.5%
total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Chart 8: Contribution by region (%) year 2017

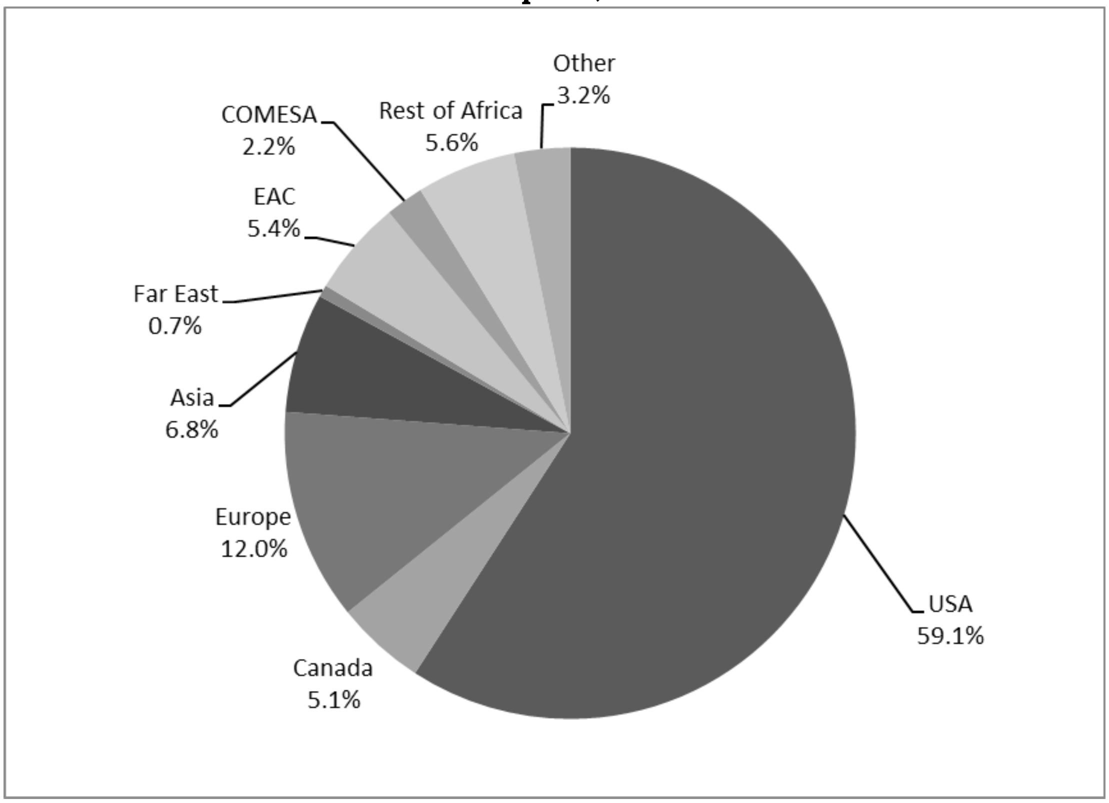


5.0 Destination of Exports

During the year 2017, 59.1% (Kshs.35,920 million) of all exports were consigned to USA market out of which 92.0% (Kshs.33,051 million) constituted exports of garment products. In the year 2016, 57.0% (Kshs. 36,510 million) were exported to US out of which 94.2% (Kshs.34,409 million) were accounted for by garment exports.

Europe accounted for 12.0 % (Kshs.7,272 million) of the export market, EAC 5.4% (Kshs.3,286 million), Asia 6.8 % (Kshs.4,113 million), COMESA 2.2 % (Kshs.1,311 million), Rest of Africa 5.6 %(Kshs.3,410 million), Far East 0.7 % (Kshs.411 million) and 3.2% (Kshs.1,924 million) was destined to the rest of the world. During the previous year, Europe accounted for 12.2% (Kshs.7,825 million), EAC 3.4% (Kshs.2,179 million), Asia 16.9% (Kshs.10,832 million), COMESA 3.5% (Kshs.2,234 million), Rest of Africa 2.4% (Kshs.1,540 million), Far East 0.83% (Kshs.529 million) and 2.15 % (Kshs.1,379 million) to the rest of the world (chart 9).

Chart 9: Market destination for all exports, 2017



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 11 and Chart 10. The average monthly wages has increased from Kshs 12,602 in the year 2013 to Kshs 15,322 in the year 2017, representing 21.6% increase. This meant that there has been an average of over 4.3 % increase in local wages per annum in the last five years.

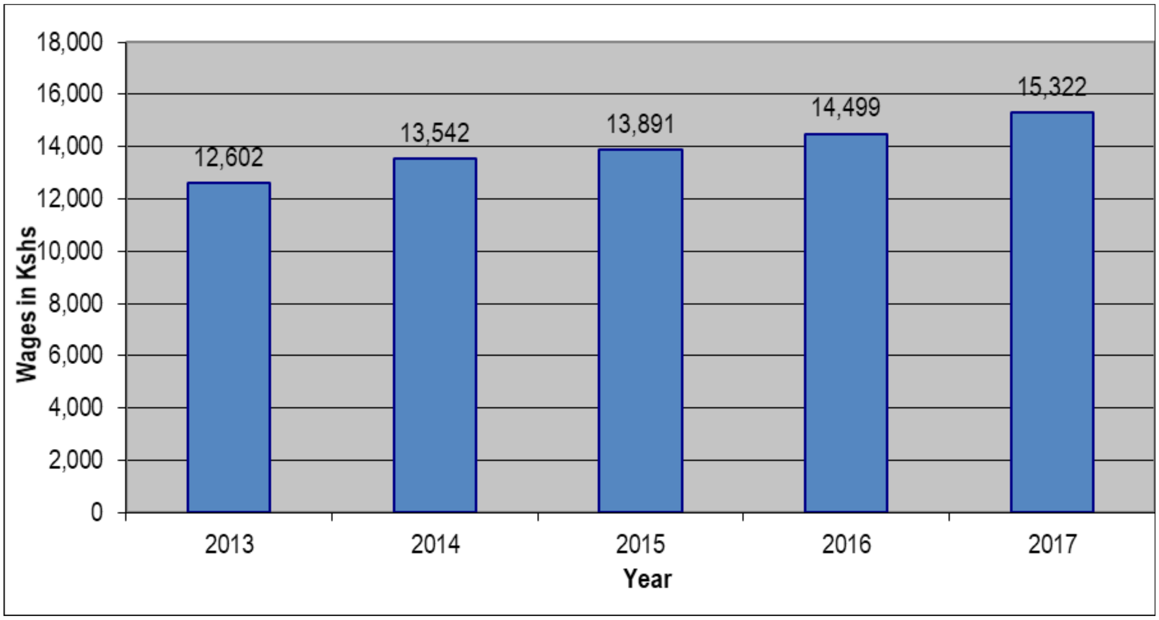
Table 11: Employment and Wages: 2013 – 2017

Indicator	2013	2014	2015	2016	2017
Local employees (Number)	39,961	46,221	50,302	52,947	54,764
Expatriates (Number)	472	517	597	618	722

Total employment (Number)	40,433	46,738	50,899	53,565	55,486
Local wages (Kshs)	6,042,912,860	7,511,228,508	8,376,738,910	9,212,279,985	10,069,320,267
Expatriate wages (Kshs)	467,535,058	537,187,843	683,747,557	768,274,397	893,338,136
Total wages (Kshs)	6,510,447,918	8,048,416,351	9,060,486,467	9,980,554,382	10,962,658,403
Average Annual wages locals (Kshs)	151,220	162,507	166,691	173,991	183,867
Average Annual wages expatriates (Kshs)	990,540	1,039,048	1,145,306	1,243,162	1,237,310
Average monthly wage locals (Kshs)	12,602	13,542	13,891	14,499	15,322
Average monthly wage expatriates (Kshs)	82,545	86,587	95,442	103,597	103,109
Average monthly wage locals (US$)	147	154	142	143	148
Average monthly wage expatriates (US$)	959	985	973	1,021	997
Average annual exchange rate(Kshs/US$)	86.1	87.9	98.1	101.5	103.4

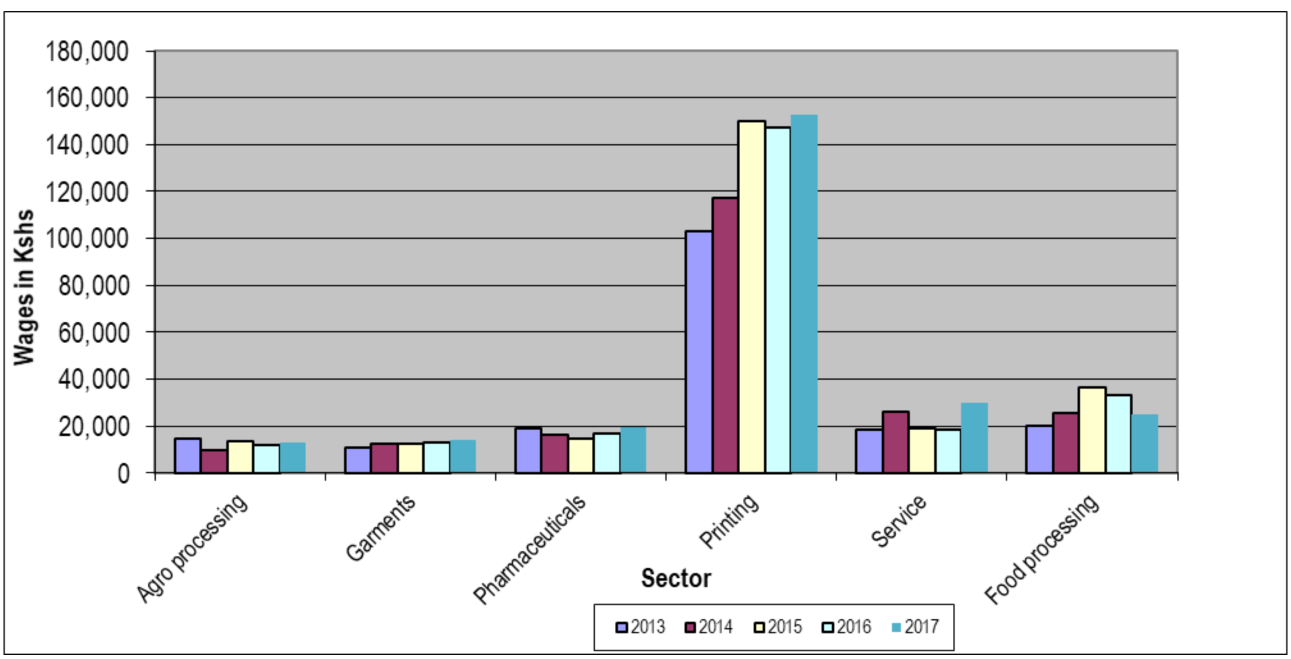
Source: EPZA records

Chart 10: Average monthly wages for local employees, 2013 to 2017 (Kshs)



With respect to selected sectoral wages, the printing sector continued to offer high remuneration to its employees in 2017 compared to other sectors; a similar position was exhibited in the previous year. More details are outlined on chart 11.

Chart 11: Average sectoral monthly wages, 2013 - 2017



6.1 Training of local workers and transfer of technology

In the year 2017, 55 enterprises (42.0%) trained local employees in various industrial disciplines compared to 45 (40.5%) 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 Significance of EPZ Program to 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 2017, the export processing zones contribution to the total manufacturing sector employment accounted for 18.07% from 17.60% posted in the year 2016.

In the year under review, EPZ contribution to manufacturing sector output declined marginally to 3.05% from 3.22% 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 stood at 10.22% in 2017 from 11.10% in the year 2016.

Contribution to Gross Domestic Product (GDP) at market price of the economy declined marginally from 0.96% in 2016 to 0.87% in 2017 as a result of GDP rebasing a while back.

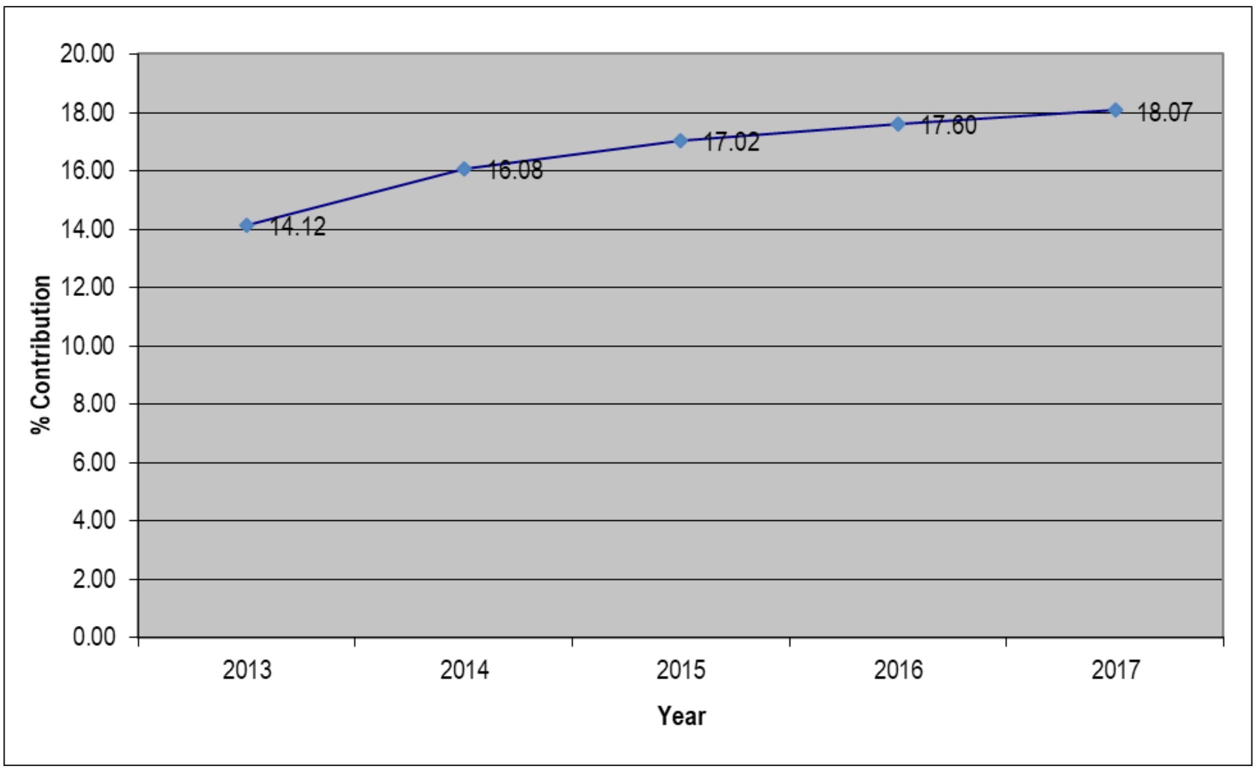
A summary on table 12 and Chart 12 shows EPZs contribution to the national economy.

Table 12: EPZ contribution to the national economy: 2013 – 2017

Indicator	**Units**	**2013**	**2014**	**2015**	**2016**	**2017**
Total Kenya Exports	Kshs Million	502,287	537,236	581,045	578,067	594,128
Manufacturing sector Value of Output	Kshs Million	1,737,699	1,820,369	1,977,169	2,120,718	2,204,805
GDP at market prices	Kshs Million	4,745,100	5,402,600	6,284,200	7,194,100	7,749,400
Total national employment	number	13,517,000	14,319,200	15,163,600	15,995,700	16,893,500
Manufacturing sector employment	Number	283,000	287,456	295,500	300,900	303,000
Total output EPZ	Kshs Million	50,294	57,192	64,897	68,569	67,270
Exports EPZ	Kshs Million	44,427	51,377	*60,879*	*64,151*	*60,729*
Total Employment EPZ (local)	*Number*	*39,961*	*46,221*	*50,302*	*52,947*	*54,764*
EPZ contribution to total Kenya Exports	Percent	8.84	9.56	10.48	11.10	10.22
EPZ contribution to manufacturing sector value of output	Percent	2.90	3.12	3.27	3.22	3.05
EPZ contribution to total national employment	Percent	0.30	0.32	0.33	0.33	0.32
EPZ contribution to manufacturing sector employment	Percent	14.12	16.08	17.02	17.60	18.07
EPZ contribution to GDP (constant prices)	Percent	1.06	1.06	1.04	0.96	0.87

Source: Economic Survey 2018 and EPZA various reports.

Chart 12: EPZ Contribution to manufacturing sector employment; 2013 – 2017



8.0 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 which affected mainly the agro based enterprises as a result of prolonged drought, 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 exports to EAC/domestic market , unpredictable market factors, global economic uncertainty especially in the face of Brexit and US inward looking policies, 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 2017 are tabulated on table 13.

Table 13: Constraints/ impediments reported by EPZ enterprises, 2017.

Constraint/impediment	Number of firms which reported/ affected (2017)	% of enterprises affected to total no. of operating firms in 2017	Number of firms which reported/ affected (2016)	% of enterprises affected to total no. of operating firms in 2016	Number of firms which reported/ affected (2015)	% of enterprises affected to total no. of operating firms in 2015
Labour productivity/turn over/efficiency, labour unrest	8	6.1	7	7.6	10	11.2
Unfavourable economic condition/ inflation etc	6	4.6	3	3.3	4	4.5
High Cost of production	12	9.2	12	13.0	15	16.9
Customs regulations/KRA	13	9.9	7	7.6	8	9.0
High cost of power/electricity	20	15.3	12	13.0	10	11.2
Lack of locally sourced inputs	5	3.8	2	2.2	1	1.1
Issues pertaining to inefficiency of port/railway transport	4	3.1	2	2.2	3	3.4
Competition from other countries	10	7.6	10	10.9	7	7.9
High cost of water/ unreliable water supply	4	3.1	3	3.3	4	4.5
Local currency fluctuation	1	0.8	1	1.1	7	7.9
Poor infrastructure	9	6.9	10	10.9	5	5.6
Shortage of raw materials	14	10.7	16	17.4	14	15.7
Market access/market barriers	10	7.6	6	6.5	9	10.1
Diminishing demand	11	8.4	9	9.8	3	3.4
Adverse weather conditions	13	9.9	8	8.7		
Others (Lead time, Insecurity, price factor, delays, unfamiliarity with EPZ operations, bureaucracy, corruption, insensitiveness to investors, dependency on other EPZs, lack of	41	31.3	32	34.8	40	44.9

Constraint/impediment	Number of firms which reported/ affected (2017)	% of enterprises affected to total no. of operating firms in 2017	Number of firms which reported/ affected (2016)	% of enterprises affected to total no. of operating firms in 2016	Number of firms which reported/ affected (2015)	% of enterprises affected to total no. of operating firms in 2015
appropriate machines/technology by subcontract EPZ garment firms, marketing, political instability, security concern, congestion among others).						

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

9.0 Challenges facing the program

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

i) Lack of affordable finance for EPZ enterprises to access.

The cost of borrowing of funds by EPZ enterprises is prohibitive, hence deny several existing and potential investors opportunity to timely commence or expand their operations.

ii) Global Competition.

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

iii) Global inward looking policy trend.

Great Britain (UK) has opted out of the Europen Union while United States of America (USA) is focusing on domestic policy. This is affecting exports from Kenya because these markets are likely to be protected;

iv) **Inadequate supply of raw materials.**

Agro processing EPZ companies experienced inadequate supply of raw materials. This is attributed to change in weather patterns especially the prolonged drought. Nut and tea processing firms were mostly affected;

v) **Emergence of brokers** who have interfered with pricing and availability of some agro based raw materials like the macadamia nuts. This has in essence distorted pricing as it intereferences with the market forces of demand and supply ;

vi) **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. In addition, EPZ firms which sell to the local market face numerous taxes and levies which make their product uncompetitive compared with those that are imported from third country. Total duty and levies that the firm is expected to pay is 6.75% (ie IDF = 2%; Poison Board = 0.75%; Railway Development Levy = 1.5% & surcharge = 2.5%). This has the impact of making its product expensive while those firms dealing with similar pharmaceutical/medical products in domestic market pay no duty;

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

This continued to affect EPZ operations adversely. 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. Some of the products exported to South Sudan by EPZ firms include, 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);

viii) **Poor infrastructure in rural areas where some EPZ zones/enterprises are located.** This has made it difficult for the product to reach port of export in a timely manner especially flowers and vegetables. There by making the enterprises face loses, increase cost of production and reduce their compettiveness;

ix) **Most of the EPZ enterprises** have been adversely affected by Government policy to have goods destined up country from Mombasa Port be transported by Standard Gauge Railway (SGR). However, delays and increased costs have since been experienced because containers have to be transported by trucks from ICD to the factories. Hence affected their competitiveness and delivery schedules.

10.0 Way forward/required support

i) **Diversification of products eligible under AGOA**. Extension of AGOA with effect from 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 Kenya Industrial Transformation Programme (KITP) and Vision 2030;

ii) **Improve market access to the EAC:** EPZ firms are constrained by limited EAC market to only 20% of their total export. This is important market and especially with South Sudan having joined it. Thus to encourage expansion of existing firms and new companies, the cap should be increased;

iii) **EPZA to continue marketing** EPZ products in international exhibitions as well as identifying export markets through research;

iv) **Allowing agriculture as an eligible EPZ activity**: EPZ agro processing firms can only buy and process agricultural raw material and pack them for exports. They are not allowed to engage in actual growing. Thus, to encourage value addition chain, it is recommended that agriculture be an eligible EPZ activity;

v) **Encourage EPZ agro processing firms to subcontract farmers to ensure availability of raw materials.** This will also assist in dealing with emergence of brokers who destabilizes the industry like what is unfolding in the macadamia sub sector;

vi) **Enhance facilitation and support** to cover as many sectors as possible including those in pharmaceutical industry;

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

viii) **Allow EPZ firms the flexibility to choose mode of transport for goods destined upcountry**: The Government has directed that transportation of upcountry imports be done through the Standard Gauge Railway (SGR) to Inland Container Depot (ICD) Nairobi. This is a positive measure. However, delays and increased costs have since been experienced because containers have to be transported by trucks from ICD to the factories. It is therefore prudent that they be given an option to choose whichever mode of transport is convenient for them;

ix) **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.

11.0 Set targets and Actual performance.

The projections for the year 2018 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 160 based on facilitation of new enterprises to commence operation by end of year 2018, while local employment is estimated to expand by 8% based on the average growth for the last five years.

Exports are expected to grow by 8.5% while total sales to expand by 7.7%. Capital investment which constitutes value of plant, machinery, equipment and other funds invested by EPZ firms is likely to grow by an average of 5%, while domestic expenditure is expected to increase by an estimated 7.6%.

A summary of set and actual targets for years 2015 to 2017 and projections for year 2018 are outlined on table 14.

Table 14: Set and Actual Targets for 2015 to 2017 and Projections for 2018

	Target			Actual			% attained			Target
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2018
Operating enterprises (Number)	100	100	120	89	111	131	89.0	100	100	160
Employment (Kenyans) Number.	55,465	56,539	56,672	50,302	52,947	54,764	90.7	93.6	96.6	60,000
Investment (Kshs million)	48,640	52,171	73,242	48,128	71,242	74,586	98.9	100.0	100	76,486
Total sales (Kshs million)	68,630	69,310	74,740	64,897	68,569	67,270	94.6	98.9	90.0	73,147
Exports (Kshs million)	61,767	65,749	68,989	60,879	64,151	60,729	98.6	97.6	88.0	66,729
Ratio of domestic sales to total sales (%)	9	9	20	2.8	3.7	6.5	100.0	100.0	100	10
Domestic expenditure (Kshs million)	22,970	26,185	28,234	23,870	25,735	27,805	100.0	98.3	98.5	30,000

Average attainment of set targets for the year 2017 was 96.2% compared to 98.3% in the previous year.

Some of the targets set for the year 2017 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 points 8 and 9 respectively.

12.0 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 2017 is expected to be maintained in 2018, measures aimed at mitigating high cost of production are some of the factors which are likely to play key role in the performance of the program going forward in 2018. In the external scene, inward looking global policies like what is currently taking shape in US and UK (Brexit) could influence performance as these regions constitute significant EPZ export markets.

Research Planning & Innovation Department
May 2018