EXPORT PROCESSING ZONES PROGRAM
ANNUAL PERFORMANCE REPORT, 2013

Table of Contents

1.0 Executive Summary

The performance of the EPZ program in the year 2013 showed an upward trend with respect to major indicators in the face of adverse global economic environment which has take unduly long time to recover from the recession which began in 2008.

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

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

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

Another recent development within the zone is the implementation of Export Business Accelerator (EBA) – Incubator, in which it has improved venture into the export business by small scale indigenous enterprises (SMEs). With the implementation of this project, number of EPZ firms with local ownership has risen from 17.3% in 2010 to 30.6% in 2013.

1.1 Introduction

The EPZ program experienced growth in the year 2013 as evidenced by performance of key indicators compared to the previous year.

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

At the national level was, The Second Medium Term Plan (MTP II) of Vision 2030 covering the period 2013 -2017 was launched. The theme of this MTP II is *Transforming Kenya: Pathway to Devolution, Socio - Economic Development, Equity and National Unity*. The MTP II coincides with the term of Jubilee Government and its emphasis on the full implementation of devolution in the context of a rapidly growing economy, promoting equity, inclusiveness, and employment to meet the needs of the youth. These goals were part of the Jubilee Coalition campaign platform and are in line with the long term objectives of Vision 2030, and the Kenya Constitution 2010. This medium term plan sets out the programmes, financing framework and the timelines that will guide the implementation of the promises made to people of Kenya in the manifesto.

The MTP II also aims to build on the successes of MTP I (2008 -2012), particularly in increasing the scale and pace of economic transformation through infrastructure development, and strategic emphasis on priority sectors under economic and social pillars of Vision 2030. Under MTP II, transformation of the economy is pegged on rapid economic growth on a stable macro-economic environment, modernization of infrastructure, diversification & commercialization of agriculture, food security, a higher contribution of manufacturing to GDP, wider access to African and global markets, job creation targeting unemployed youth among other goals .

Since promulgation of the Constitution, governance framework has been fundamentally altered with creation of two levels of governments. There, the MTP II takes into account these changes and aims at coordinated action between these two levels of government to meet the needs of the people of Kenya.

The progress achieved under MTP I (2008 -2012) include the following

- Enactment of the Constitution of Kenya (2010);
- Enrollment in early childhood education increased by 40% from 1.72 million in 2008 to 2.4 million;
- Three undersea submarine fibre optic networks linking Kenya to the global internet networks were completed including 5,500 km of terrestrial fibre optic network;
- Total installed capacity for generation of electricity increased by 22%;
- A total of 2,200 km of roads were constructed exceeding the MTP I target of 1,500 km.

Despite the achievements under MTP I, Kenya still faces significant development challenges which need to be addressed by MTPII. These include among others

- High levels of unemployment and poverty – non Bureau sources put youth unemployment rate at 25% which suggest almost doubling of unemployment over last 8 years given that youth unemployment rate the world over is generally lower than overall unemployment;

- Low domestic savings and investments;
- Major economic and social disparities across regions of the country;
- Slow structural transformation exemplified by low and declining share of manufacturing to GDP and low share of export to GDP;
- High dependence of the country on rain fed agriculture;
- High energy costs – of up to US cents 21 per kwh compared to about US cents 6 per kwh in India;
- Narrow range of exports and slow growth in their value compared to growth of imports;
- High cost of finance;
- Threats emanating from climate.

Priority areas to be addressed by MTPII to name but a few are as follows

- Constitution and Devolution and;
- Investment to support growth;
- Infrastructure development;
- Industrialization – government will facilitate growth of manufacturing sector; make agriculture competitive and diversify the economy for employment creation;
- Improved trade

At the institutional level, there is ongoing process of coming up with a strategic plan covering the period 2014 – 2018 to succeed the one for 2009-2013 which has come to an end. It is expected that the new plan will navigated the program into a bright future to successfully deliver on its mandate.

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

This report provides insight to the national and international economic environment borrowing highlights from *Economic Survey 2014*, EPZ performance analysis under various indicators, impact of African Growth Opportunity Act (AGOA), constraints/challenges, set & actual targets for the year 2011 to 2013 including projection for 2014, and finally the conclusion.

1.2 National and International Scene

According to *Economic Survey 2014*, the national/ domestic economy saw expansion of Gross Domestic Product (GDP) growth of 4.7% in 2013 compared to a growth of 4.6 % in 2012 (chart 1).

The macroeconomic environment remained stable for the better part of the year. The overall average inflation rate eased from 9.4% experienced in 2012 to 5.7% in 2013.
The year witnessed a restraint in National Government borrowing, while the setting up of the County Governments impacted positively on economic growth as public expenditure rose in line with the devolved system of government.

Challenges that impacted on the growth prospects of the country include; slowed business confidence due to the general election during the first quarter, rising incidents of insecurity, and insufficient rains during the fourth quarter of 2013.

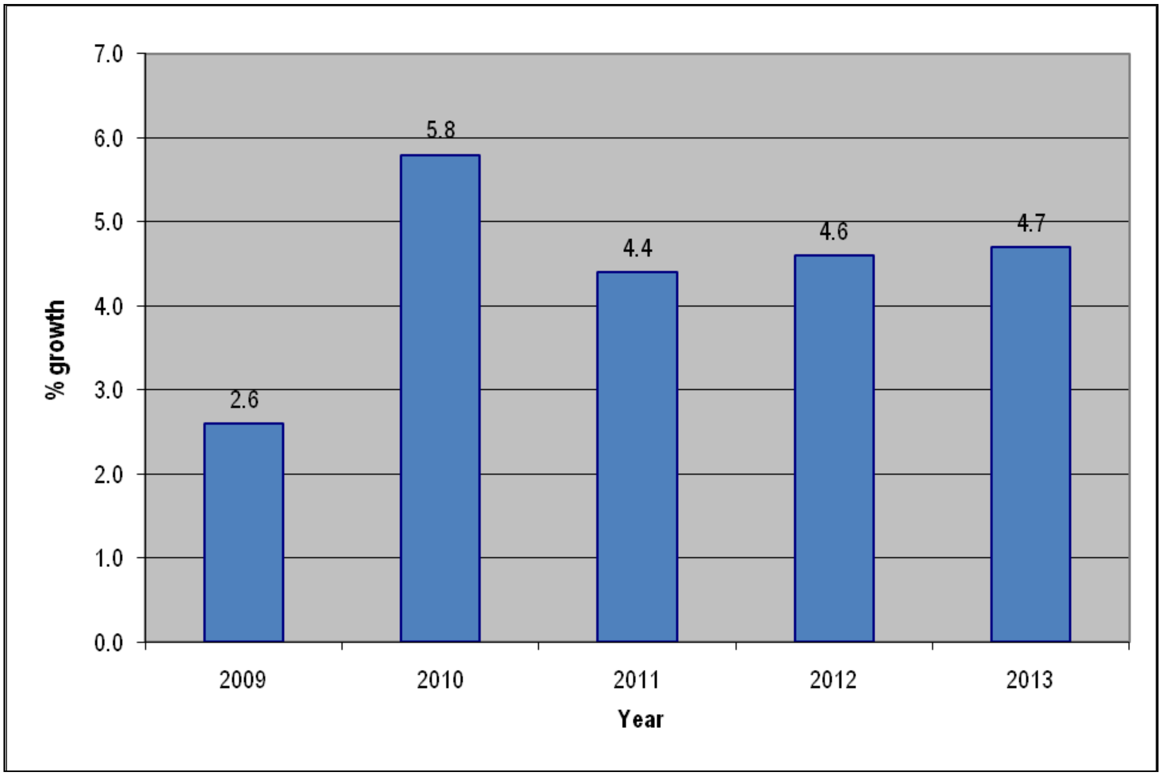
At the international scene, the global real GDP grew at slightly slower rate than had been forecasted. The world economy is estimated to have expanded by 3.0% compared to 3.1% in 2012.

The lower performance was observed across most regions and major economic groups. The real GDP of the Euro Area improved slightly by contracting by 0.4% in 2013 compared to a contraction of 0.6% in 2012. The improvement in economic activity was driven by improved private sector confidence as a result of fiscal consolidation, external re-balancing and reforms in banking supervision within the European Union (EU).

Growth in Sub Saharan Africa and East African Community (EAC) remained relatively robust with the real GDP estimated to have expanded by 5.0% and 6.1%, respectively in 2013. This was due to an increase in trade and investment with emerging market economies.

Global trade recorded a growth of 3.0% in 2013, similar to that recorded in 2012.

Chart 1: Real GDP growth rate (%), 2009 to 2013



Source: Economic survey, 2014

1.3 Performance by key sectors of the economy

1.3.1 Agriculture

Economic Survey 2014 indicated that agricultural production declined in 2013 as a consequence of depressed performance of both the long and short rains. The agriculture sector real gross value added growth decelerated in 2013 to 2.9% from a revised growth of 4.2% in 2012.

Apart from rice and wheat which had their production increased by 6,908.1 tonnes and 31,797 tonnes, respectively in 2013, most cereal crops recorded significant declines in production during the review period.

Maize production went down from 39.7 million bags in 2012 to 38.9 million bags achieved in 2013. Over the same period, production of beans decreased from 6.8 million bags to 6.1 million bags.

During the year under review, area under coffee bushes remained constant at 109.8 thousand hectares. Coffee production decreased by 18.8% from 49.0 thousand tonnes in 2012 to 39.8 thousand tonnes in 2013. The decline in production is mainly associated to rising costs of farm and processing inputs. The average yield also decreased in both estates and cooperatives growing subsectors.

The area planted with tea went up by 4.2% from 190.6 thousand hectares in 2012 to 198.6 thousand hectares in 2013. The increase in area was mainly within the estates, whose area rose by 8.5% in 2013. Tea production increased by 17.1% in 2013 to 432.4 thousand tonnes from 369.4 thousand tonnes in 2012. The average yield for the estate subsector increased from 2,953 Kg/ha in 2012 to 3,209.1 Kg/ha in 2013 while the smallholder sub sector improved to 2,172 Kg/ha. Overall, the increased production from the estates resulted in a decline in the share of tea production from the smallholder from 59.1% in 2012 to 57.8% in 2013.

The horticultural subsector recorded improved performance in export volumes with total exports increasing from 205.7 thousand tonnes to 213.8 thousand tonnes during the year under review. This reversed the trend in reduction that had been experienced in the last two years. The bulk of fresh horticultural commodity exports were mainly vegetables which recorded a 16.3% increase from 66.4 thousand tonnes in 2012 to 77.2 thousand tonnes in 2013. However, the increase in total volume of fresh horticultural exports was not reflected in its value. Export earnings from fresh horticultural commodities dropped by 7.2% from Kshs 89.9 billion in 2012 to Kshs 83.4 billion in 2013.

Cut flowers continued to be the leading fresh horticultural commodity export, contributing Kshs 56.0 billion to the earnings from the sub sector in 2013.

Sugar sub sector indicated that the area under cane increased by 4.8% to 213.9 thousand hectares from 204.1 thousand hectares in 2012. This increase was mainly due to increased demand resulting from competition from new millers. However, the area harvested decreased marginally from 87.3 thousand hectares in 2012 to 86.9 thousand acres in 2013. Total cane deliveries increased by 15.5% from 5.8 million tonnes received in 2012 to 6.7 million tonnes received in 2013, implying the decrease in area harvested did not affect the production of the cane. In addition, cane yield improved from 51.0 tonnes per hectare in 2012 to 54.0 tonnes per hectare in 2013, representing a 5.9% increase. The increase in yield is attributed to improved cane husbandry and increased cane availability therefore reducing instances of harvesting of premature cane as witnessed in the previous year.

The quantity of milk delivered to dairy processors rose by 5.6% to 523.0 million litres in 2013.

Livestock subsector showed that the number of cattle slaughtered declined from 2,194.2 thousand in 2012 to 2,147.3 thousand head in 2013. This reduction is attributed to good availability of pasture for the better part of the year leading to fewer disposals of stocks especially from Arid and Semi Arid Lands (ASALs).

During the year 2013, farmers received lower gross prices for maize, coffee, tea, cotton and most fresh horticultural products leading to a slight deterioration of the sector terms of trade.

1.3.2 Manufacturing.

Manufacturing sector's output in real terms grew by 4.8% in 2013, a higher growth compared to the 3.2% recorded in 2012 (chart 2). This may be attributed to increased investor confidence, stable exchange rates, lower interest rates and ease of inflationary pressure in 2012.

Increase in production quantities were registered in the manufacture of cement, rubber, sugar, fabricated metal, basic metals, furniture, pharmaceutical, prepared & preserved fruits; and vegetables while refined petroleum products, processing & preserving of fish, manufacture of electrical equipment, beverages & tobacco sub sectors recorded declines.

Overall Producer Price Index (PPI) rose marginally by 0.4% in 2013 compared to a 3.3% increase in 2012.

The food products subsector, which contributes approximately a third of the total manufacturing sector, is highly dependent on the performance of the agricultural sector. Growth in the total food processing accelerated from 3.7% in 2012 to 9.2% in 2013.

Processing & preserving of fruit and vegetables subsector recorded a 12.2% growth in 2013. Fruit processing grew by 11.2% while vegetable processing dropped by 0.8% during the period under review.

The beverage sub sector recorded a negative 2.5% growth in 2013. The production of formal beer decreased by 11.2% in 2013, partly attributed to reduced consumption resulting from the introduction of excise duty on containerized beer 'keg' , that was previously exempted. On the other hand, production of spirits registered a growth of 11.7% over the same period. Production of carbonated drinks (soda) went up by 6.4% to stand at 405.5 million litres while manufacture of mineral water grew by 10.9% in 2013.

Production of wood and wood products increased by 1.2% in 2013. Manufacture of plywood and boards increased by 1.3% while production of paper and paper products increased by 5.8% in 2013. The growth in paper products was partly attributed to a 10.8% increase in the production of tissue paper & serviettes. Production of cartons & exercise books also went up by 4.0% and 3.9%, respectively during the same period.

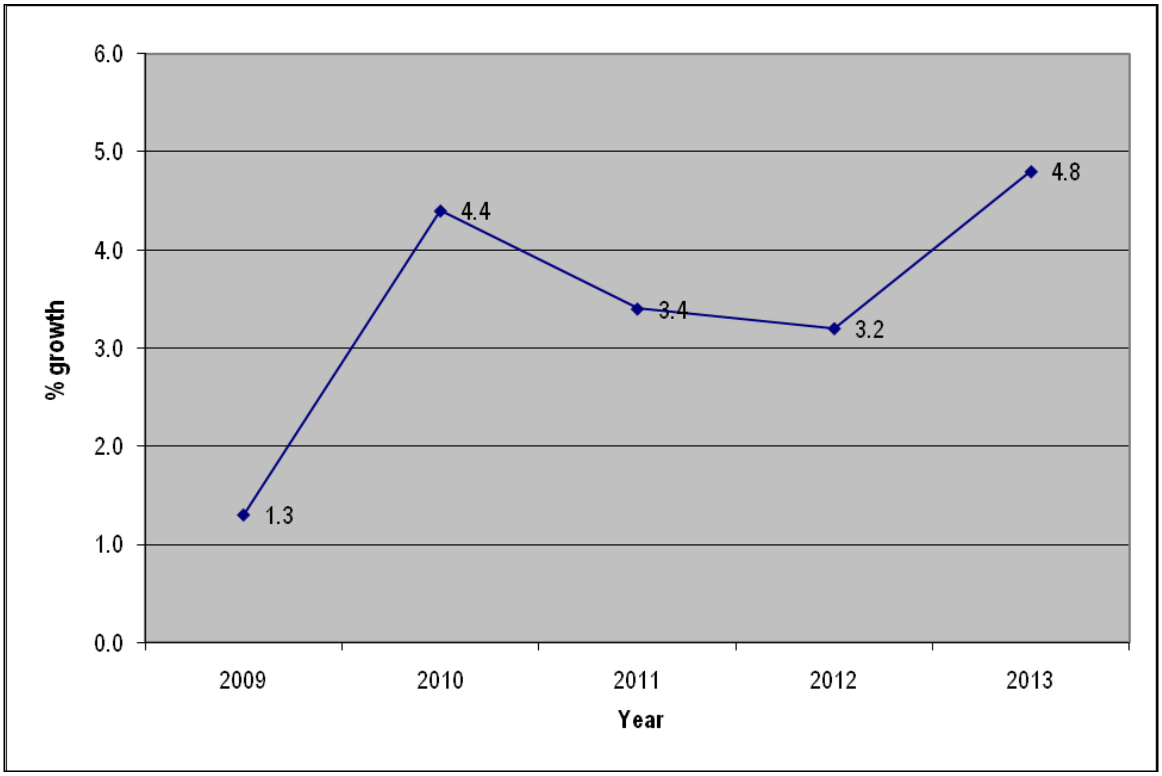
Leather and related products subsector grew by 0.3% during the year under review.

The volume of manufactured pharmaceutical products has been on the rise in recent years. The subsector recorded a 12.2% growth in 2013.

The chemical and chemical products subsector registered a marginal growth of 1.5% after recording a decline in the previous year. Production of industrial gases dropped by 4.2% while that of industrial spirits increased marginally by 0.6% in 2013.

Formal employment in the manufacturing sector increased by 3.4% from 271.0 thousand persons in 2012 to 280.0 thousand persons in 2013.

Chart 2: Manufacturing sector growth rate (%), 2009 to 2013.



Source: Economic Survey 2014

1.3.3 Other sectors

Total installed electricity generating capacity increased from 1,606.1 Mega Watts (MW) in 2012 to 1,717.8 MW in 2013. Similarly, total electricity total electricity generation expanded by 7.6% from 7,851.3 Gigawatt hours (Gwh) in 2012 to 8,447.9 Gwh in 2013, hydro power generation accounting for 52.5% of the total.

Total quantity of petroleum products imported into the country decreased by 3.5% from 4,142.5 thousand tonnes in 2012 to 3,996.2 thousand tonnes in 2013. There was no import of crude oil in the second half of the year following the closure of Kenya Petroleum Refineries Ltd (KPRL). Total domestic demand for petroleum products increased from 3,638.0 thousand tonnes to 3,707.9 thousand tonnes in 2013. The import bill of petroleum products declined to Kshs 315.4 billion.

Tourism sector suffered a number of setbacks that led to contraction of international visitor arrivals, resulting in a decline in tourism earnings. The number of international visitor arrivals decreased by 11.2% from

1,710.8 thousand in 2012 to 1,519.6 thousand in 2013. Consequently, tourism earnings decreased by 2.1% from Kshs 96.0 billion in 2012 to Kshs 94.0 billion in 2013.

Transport and storage sector recorded a growth of 3.3% in total output value to Kshs 645.8 billion in 2013 with transport sub sector accounting for 64.3% of the total output value.
Total cargo throughput handled at the port of Mombasa rose from 21,920 thousand tonnes in 2012 to 22,307 thousand tonnes in 2013, translating into an increase of 1.8%.

Total volume of refined petroleum products transported through the pipeline registered a growth of 6.5%.

Building and construction sector expanded by 5.5% up from a growth of 4.8% registered in 2012. Cement consumption increased by 6.9% in 2013 to 4,266.5 thousand tonnes compared to an increase of 3.1% in 2012.

Loans and advances from commercial banks to the building and construction sector grew by 2.3% to Kshs 70.8 billion mainly due to increased financing of real estate development.

In 2013, the trade deficit continued to widen, deteriorating from Kshs 856,740 million in 2012 to Kshs 911,029 million. During the year under review, total exports declined by 3.0% to stand at Kshs 502.3 billion. Total imports, on the other hand, increased by 2.8% from Kshs 1,374.6 billion in 2012 to Kshs 1,413.3 billion in 2013. This led to deterioration of export – import ratio from 37.7% in 2012 to 35.5% in 2013. The leading export earners were tea, horticulture, articles of apparel & clothing accessories; and coffee, collectively accounting for 51.5% of total export earnings, in 2013.

1.4 Outlook

According to *Economic Survey 2014* macroeconomic stability witnessed in 2013 spilled into the first quarter of 2014 and is likely to continue to continue to the rest of the year. In 2014, macroeconomic stability might be supported by a projected stable low inflation and moderate interest rates.
Manufacturing sector's performance is projected to maintain its current growth path supported by increased private and public consumption. Similarly, financial intermediation sector is likely to maintain its

momentum in 2014 mainly on account of enhanced performance in most of the sectors and technological advances.

World trade volume is projected to expand at 4.8% in 2014 supported by an increase in global commodity demand and may therefore see Kenya's exports register significant growth during the year. Similarly, the global economy is expected to post an enhanced growth of 3.7% in 2014 and is therefore likely to impact positively on the economy, in particular, increased of external remittances, foreign investments and tourism earnings.

However, the economy is still faced with a number of potential internal and external risks. Domestic oil retail prices have been on an upward trend since January 2014 despite the global price easing downwards. The weather pattern has so far been erratic and poses a threat to the agriculture sector which is heavily dependent on rain fed farming.

Furthermore, if the rains are insufficient, electricity and water supply sector will be adversely affected, leading to higher costs of energy. Insecurity concerns remain a key obstacle to the tourism industry and might therefore lead to underperformance of the sector.

Though most of the County Governments have laid the necessary governance structures, there still remains significant challenge that may hinder proper implementation of their budgets denying the country the anticipated level of grass root induced growths. The persistent widening of the current account deficit continues to pose a serious threat to the macroeconomic stability.

Based on the above scenarios and considering that the country has commenced implementation of the Medium Term Plan II of the Vision 2030, the country's prospects for enhanced growth are positive.

2.0 EPZ Performance for the year 2013

2.1 Overview of the program

In the year 2013, most of the performance indicators for EPZ program exhibited an upward trend compared to the year 2012.

The number of gazetted zones rose to 50 in year under review from 47 in 2012.

Exports and total sales value increased by 11.2% and 13.6% to stand at Kshs 44,427 million and Kshs 50,294 million respectively. Sales to the domestic market also exhibited an upward trend from Kshs 3,322 million in 2012 to Kshs 4,601 million in 2013.

Direct local employment expanded by 12.6 % from 35,501 persons recorded in 2012 to 39,961 persons in 2013, 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 85 operational enterprises increased by 24.6% to Kshs 48,004 million in 2013 from Kshs 38,535 million recorded in the previous year.

Imports also rose by 9.8 % to stand at Ksh 27,413 million in the year under review reflecting increase of activity within the zones and by extension international trade.

Expenditure on local goods and services increased by 6.5%, in 2013 to stand at Kshs 19,275 million from Kshs 18,097 million recorded in the year 2012. This translates to an average of Kshs 1,606 million being injected into the economy by EPZ firms monthly in the year 2013 compared to Kshs 1,508 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: 2009 - 2013

Indicator	2009	2010	2011	2012	2013	Growth % (2012 v/s 2013)
Gazetted zones (no.)	41	42	45	47	50	6.4
Projects approved (no)	21	19	28	20	21	5.0
Enterprises Operating (no.)	83	75	79	82	85	3.7
Employment – (Kenyans) [a]	30,115	31,026	32,043	35,501	39,961	12.6
Employment - (Expatriates) [b]	508	476	421	428	472	10.3
Total Employment (No)=a+b	***30,623***	***31,502***	***32,464***	***35,929***	***40,433***	***12.5***
Total sales (Kshs. million)**	26,798	32,348	42,442	44,273	50,294	13,6
Exports (Kshs. million)	23,948	28,998	39,067	39,962	44,427	11.2
Domestic Sales (Kshs. million)	2,214	2,389	2,553	3,322	4,601	38.5
Imports (Kshs. million)	12,672	16,518	21,443	24,973	27,413	9.8
Investment Kshs. million	21,507	23,563	26,468	38,535	48,004	24.6
Expenditure on local Purchases (Kshs million)[1]	3,942	4,661	6,276	8,027	7,721	-3.8
Expenditure on local Salaries (Kshs million)[2]	3,274	3,583	3,769	4,509	6,043	34.0
Expenditure on power (Kshs million)3	488	522	701	757	870	14.9
Expenditure on Telecommunication (Kshs million)4	90	135	61	66	63	-4.5
Expenditure on water (Kshs million)5	58	71	87	117	117	0.0
Other domestic expenditure (Kshs million)[6]	3,180	4,315	4,024	4,619	4,461	-3.4
Total Domestic Expenditure (Kshs million) = 1+2+3+4+5+6*	***11,032***	***13,287***	***14,921***	***18,097***	***19,275***	***6.5***

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

2.2 Project Approvals

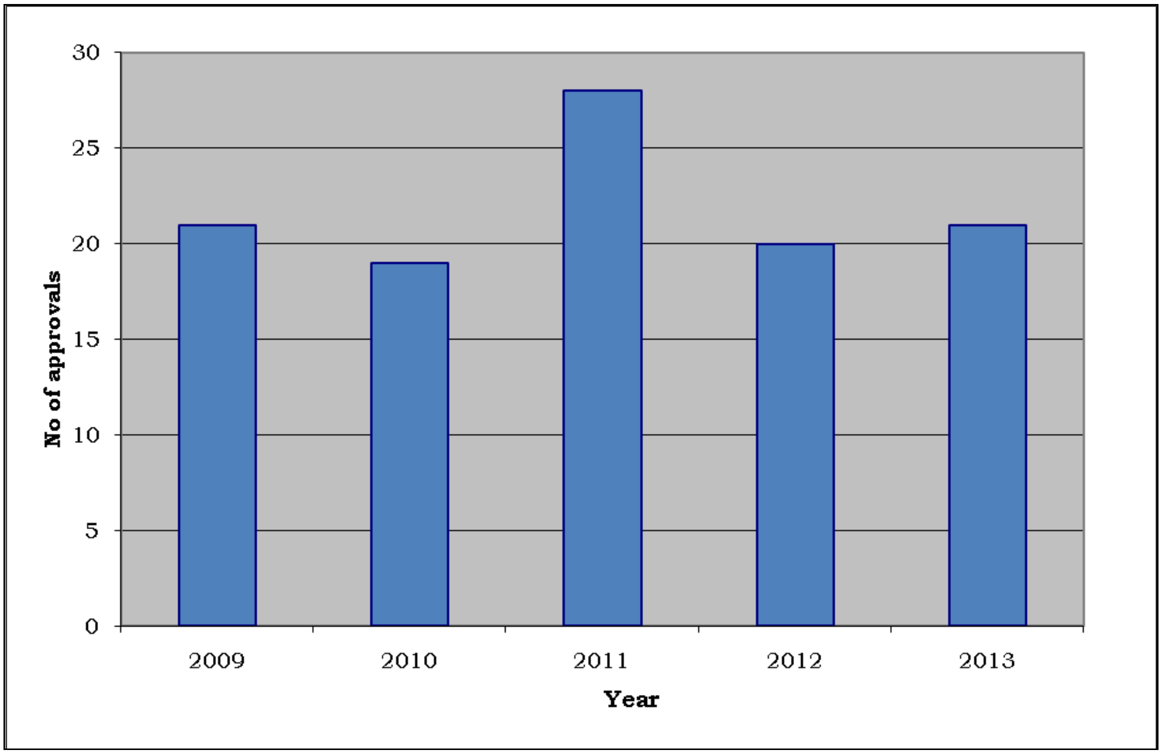
There were 21 approvals with a potential investment of Kshs 5.1 billion, 3,818 jobs and year one sales valued at Kshs 7.6 billion in the year 2013 compared with 20 approvals with a potential investment of Kshs 3.8 billion, 5,026 jobs and year one sales valued at Kshs 7.3 billion in the previous year.

Table 2 and chart 3 has more details.

Table 2: Projects Approved, Expected jobs, Investment & Sales from 2009 - 2013

Year	Number of projects approved	Jobs (number)	Investment (Kshs million)	Year One Sales (Kshs million)
2009	21	2,769	2,496	4,471
2010	19	7,826	1,742	7,826
2011	28	2,072	5,734	29,400
2012	20	5,026	3,798	7,311
2013	21	3,818	5,089	7,584

Chart 3: Trend of number of projects approved from 2009 - 2013



2.3 Status on gazetted zones

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

Eight zones are located in the County of Nairobi, 21 in Mombasa, 6 in Kilifi, 4 in Machakos, 2 in Kiambu, one each in Muranga, Kajiado, Taita Taveta, Elgeyo Marakwet, Nandi, Uasin Gishu, Laikipia, Meru and Bomet. Zones are located in 14 Counties (which constituted 5 of the former provinces).

Table 3 has more details on location of the zones.

Three new zones were gazette in the year 2013; namely Talab EPZ Ltd, Chebango EPZ Tea Factory Ltd and House of Smart Perfumes EPZ Ltd while in the year 2012 two zones were gazetted (Organic Growers & Packers EPZ Ltd and Barnes EPZ Ltd.

Table 3b: Geographical distribution of zones per County, 2013

County	Former Province	Number of zones
Nairobi	Nairobi	8
Mackakos	Eastern	4
Kajiado	Rift Valley	1
Mombasa	Coast	21
Kilifi	Coast	6
Taita Taveta	Coast	1
Kiambu	Central	2
Muranga	Central	1
Elgeyo Marakwet	Rift Valley	1
Uasin Gishu	Rift Valley	1
Laikipia	Rift Valley	1
Nandi	Rift Valley	1
Meru	Eastern	1
Bomet	Rift Valley	1
Total: 14	**5**	**50**

Table 3 shows that 56.0% of zones 2013 were concentrated in Coast Counties compared to 55.3% in 2012.

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 2,583.0 million) to put up the infrastructure and initial industrial buildings. When the investment used to develop phases I & II of Export Business Accelerator (Incubator) of Kshs 140.0 million & Kshs 111.4 million respectively is taken into account total public investment increases to Kshs 2,834.4 million. It is managed by the Authority on behalf of the Government.

The zone has two categories of industrial buildings, one put up by the public and the other by private developers (Trans fleet EPZ Ltd and Capital Industrial Park EPZ Ltd) that have invested to gather for demand from the EPZ investors, especially with the advent of AGOA.

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

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

Capital Industrial Park EPZ Ltd put up a total area of 221,000 square feet; although it has remained largely unoccupied for some time, it now hosts two firms namely; Red Dot Distribution EPZ Ltd and Reltex Tarpaulin Africa EPZ Ltd which occupy cumulative built up space of 78,000 square feet; representing occupancy of 35.3%. The slow uptake of these go downs is attributed to the fact that they are large facilities which are not in investors' preference.

The zone had 42 operating enterprises in the year 2013, compared to 40 recorded in 2012. Wondernut EPZ Ltd is one of the enterprise at an advanced stage of setting up operations within the zone.

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

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

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

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

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

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

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

2.4.2 Kipevu Zone.

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

2.4.3 Balaji EPZ Ltd

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

2.4.4 Sameer Industrial Park EPZ Ltd

This is the first private EPZ to be gazetted in November 1990. The zone down scaled its operations as a result of prolonged unfavourable business environment. It forced the zone to reduce the total built up area eligible for EPZ activity from 316,542 square feet to 122,232 square feet, all of which was occupied. It housed seven enterprises, dealing in garments/apparels, agro processing, call centre, relief supplies, gemstones and macadamia.

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

2.4.5 Mazeras Kenya EPZ Ltd

This is a private zone located in Mazeras, Kilifi County, gazetted in March 2002. It hosts Hantex Garments EPZ Ltd, one of the leading garment manufacturing EPZ enterprises. The zone has a total built up area of 238,066 square feet of which whole was being occupied, recording 100% occupancy. The zone has approximately 26,000 square feet land available for development.

2.4.6 Mvita Industrial Park EPZ Ltd, Changamwe

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

2.4.7 Pwani Industrial Park EPZ Ltd, Changamwe

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

2.4.8 Emirates Agencies EPZ Ltd, Jomvu

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

2.4.9 General information on zone occupancy

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

2.4.10 Other information zones

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

2.4.11 Zones gazette in the course of the year.

There were three zones gazetted in the course of the year 2013. Talab EPZ Ltd was gazetted in March 2013. It is located in Mtwapa, Kilifi County. The promoter is preparing to develop the zone.

Chebango EPZ Tea Factory Ltd was gazetted in October 2013. It is located in Bomet County. This is a greenfield project expected to deal in agro processing, making use of the local raw materials and create strong backward linkage.

The final zone that was gazetted in 2013 was House of Smart Perfumes EPZ Ltd gazetted in November 2013 and located in Mombasa County.

2.4.12 Zones hosting a branch of an enterprise.

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

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

2.4.13 Non operational and dormant zones

These are either zones which have been non operational since being gazetted or those which experienced low/no activity in the course of the year under review.

They comprise both the zones which have been developed and those which have not. This category includes Josem Trust EPZ Ltd in Nairobi (gazetted in August 1998). The zone is unlikely to be developed in the near future due to unresolved issues which have surrounded this project. It was further complicated with the demise of the promoter.

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

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

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

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

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

2.5 Sector performance

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

The sector performance is outlined in table 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 remains the most dominant sector within the program. It constituted 25.9% of enterprises, 82.4% of total local jobs, 59.4% of exports, 54.2% of total sales, 34.6% of expenditure on local goods & services and 28.0% of private investment compared to 26.8%, 79.7%, 53.1%, 48.9%, 30.6% and 27.9% respectively in the year 2012.

On average, garment sector contributed 42.8%, followed by agro processing at 16.5% and minerals/metals/gemstones at 6.2% on all of the above indicators compared to 44.5%, 18.1% and 9.9% respectively in the previous year.

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

Table 4: Sectoral Performance year 2013 (Kshs)

Sector	**No of firms**	**No. local jobs**	**Exports**	**Total sales**	**Local resource**	**Investment**
Agro processing	21	3,556	7,550,475,806	7,931,355,445	6,340,616,315	8,063,303,974
Beverage/ spirits	3	203	263,435,623	263,435,623	242,199,945	245,314,906
chemicals	1	82	52,367,479	52,367,479	60,756,288	1,130,634,224
commercial craft	3	36	0	0	1,119,500	14,000,000
Dartboard	1	310	738,523,719	741,692,469	238,138,452	710,000,000
Electricals	3	16	826,012,013	826,012,013	21,872,685	475,215,660
Food processing	1	149	338,615,265	486,143,022	228,094,160	1,658,541,000
Garments	22	32,932	26,391,077,101	27,248,843,084	6,674,832,980	13,465,436,753
Garments support services	4	23	0	21,007,436	13,714,932	72,589,680
minerals/metals/gemstones	4	355	2,955,594,866	4,738,974,787	2,933,388,947	9,695,919,000
Pharmaceuticals & medical supplies	3	301	429,551,834	618,889,446	237,716,822	3,719,712,074
plastics	5	405	651,029,162	999,914,318	340,939,019	1,261,853,326
printing	1	281	682,373,457	2,690,436,022	663,611,306	2,708,387,114
Relief supplies	2	78	925,619,148	971,061,483	316,253,005	520,500,200
services	10	1,216	2,622,450,248	2,703,623,506	961,558,948	4,218,073,729
other	1	18	0	0	378,000	45,000,000
Total	**85**	**39,961**	**44,427,125,721**	**50,293,756,133**	**19,275,191,304**	**48,004,481,640**

Table 5: Proportion of sector contribution year 2013 (%)

Sector	no of firms	local jobs	exports	total sales	local resource	investment	Average
Agro processing	24.71%	8.90%	17.00%	15.77%	32.90%	16.80%	16.54%
Beverage/ spirits	3.53%	0.51%	0.59%	0.52%	1.26%	0.51%	1.07%
chemicals	1.18%	0.21%	0.12%	0.10%	0.32%	2.36%	0.32%
commercial craft	3.53%	0.09%	0.00%	0.00%	0.01%	0.03%	0.60%
Dartboard	1.18%	0.78%	1.66%	1.47%	1.24%	1.48%	1.05%
Electricals	3.53%	0.04%	1.86%	1.64%	0.11%	0.99%	1.20%
Food processing	1.18%	0.37%	0.76%	0.97%	1.18%	3.45%	0.74%
Garments	25.88%	82.41%	59.40%	54.18%	34.63%	28.05%	42.75%
Garments support services	4.71%	0.06%	0.00%	0.04%	0.07%	0.15%	0.81%
minerals/metals/gemstones	4.71%	0.89%	6.65%	9.42%	15.22%	20.20%	6.15%
Pharmaceuticals & medical supplies	3.53%	0.75%	0.97%	1.23%	1.23%	7.75%	1.29%
plastics	5.88%	1.01%	1.47%	1.99%	1.77%	2.63%	2.02%
printing	1.18%	0.70%	1.54%	5.35%	3.44%	5.64%	2.03%
Relief supplies	2.35%	0.20%	2.08%	1.93%	1.64%	1.08%	1.37%
services	11.76%	3.04%	5.90%	5.38%	4.99%	8.79%	5.18%
other	1.18%	0.05%	0.00%	0.00%	0.00%	0.09%	0.20%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Chart 4: Sector contribution to investment 2013

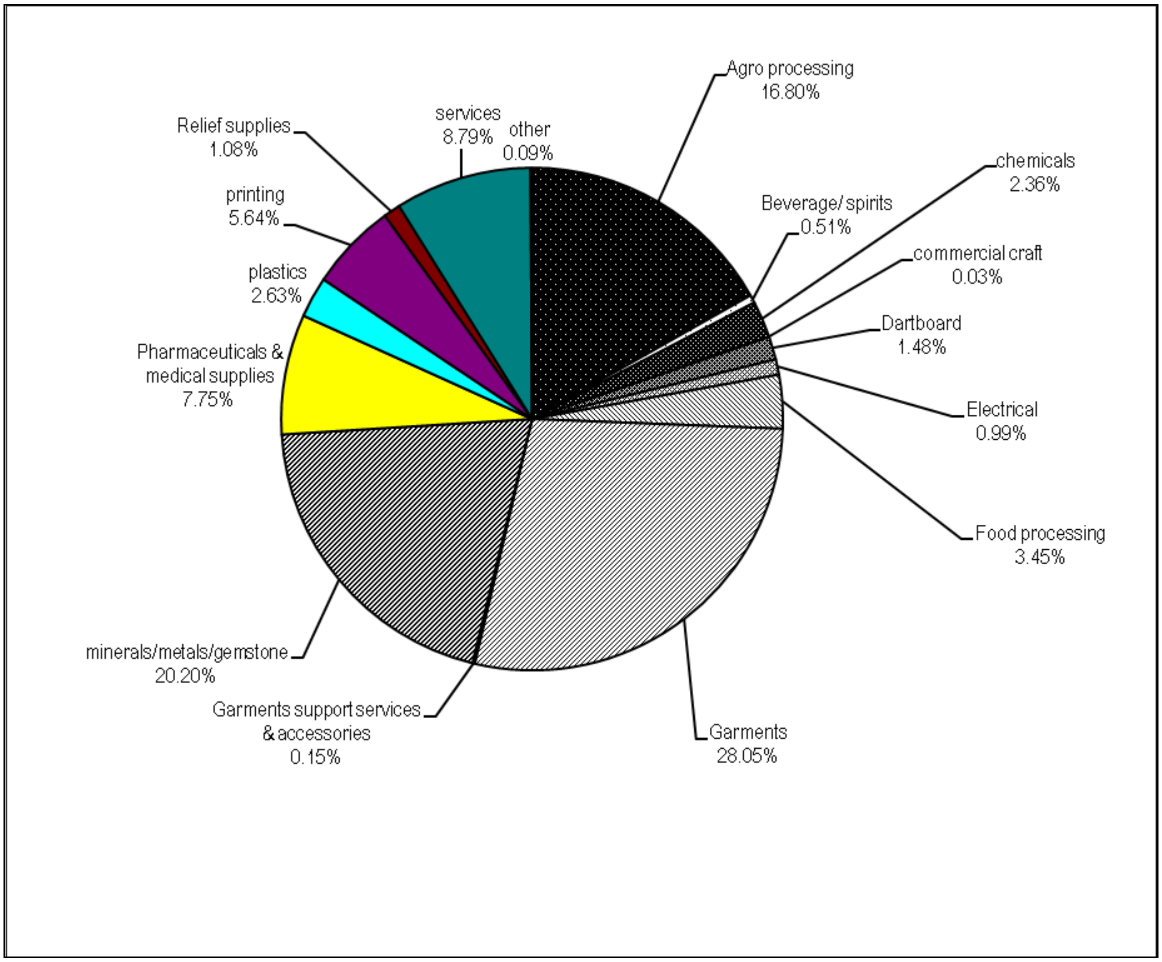
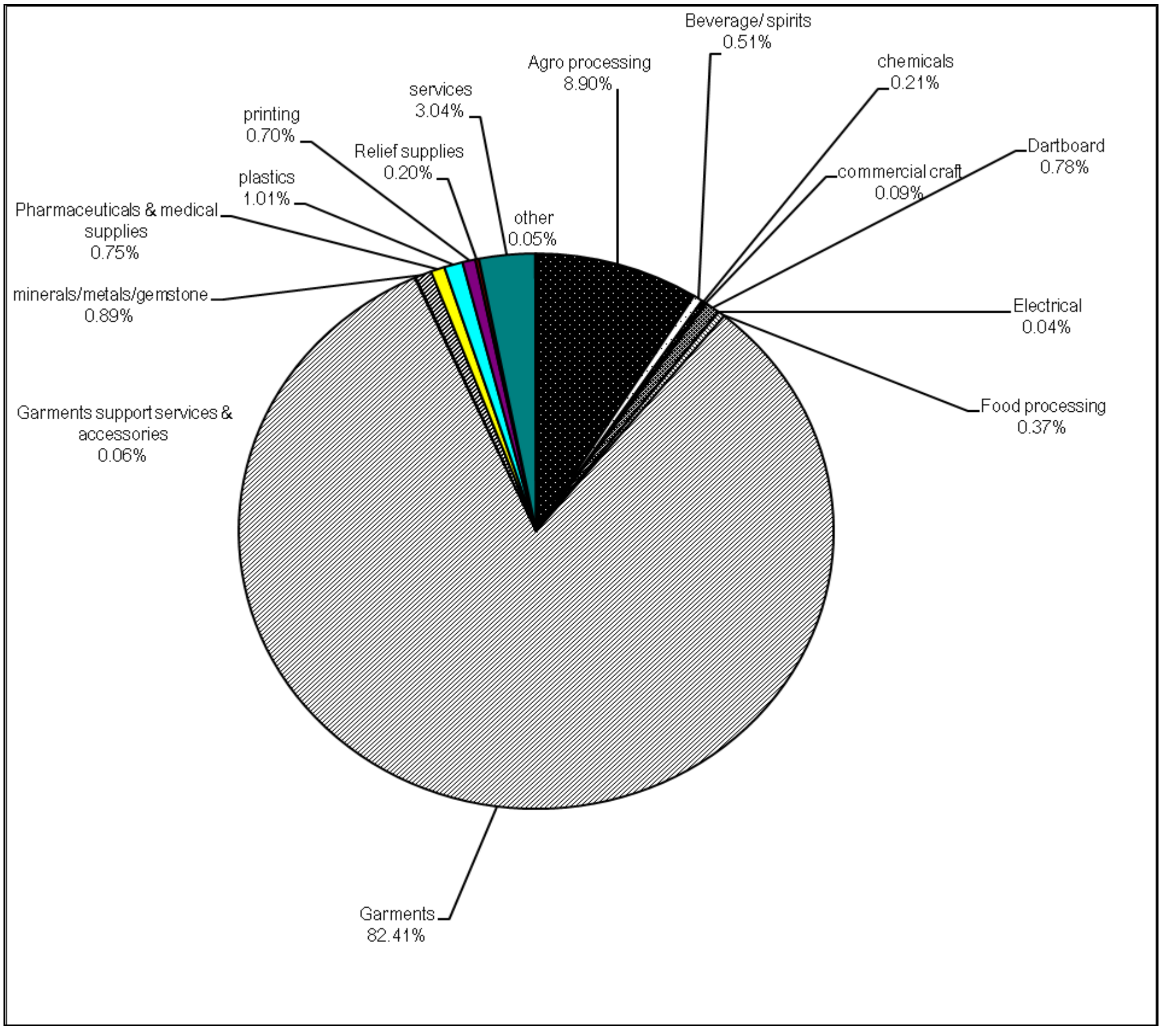


Chart 5: Sector contribution to local employment, 2013



2.6 Ownership of EPZ enterprises

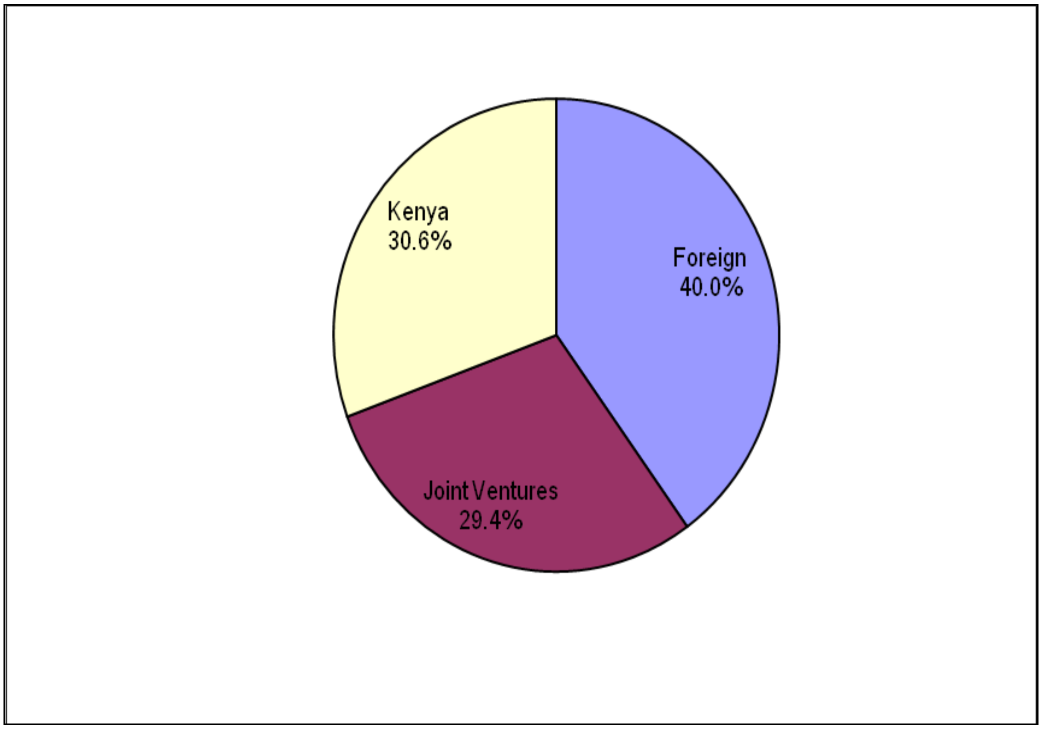
During the year 2013, 30.6% of total EPZ enterprises were wholly Kenyan, Joint ventures were 29.4% while foreign investments constituted 40.0%. In 2012, 25.6% were wholly Kenyan owned, 24.4% were joint ventures and 50.0% were foreign owned.

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

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

Chart 6 shows the ownership structure of EPZ enterprises in the year 2013.

Chart 6: Ownership of EPZ enterprises, 2013



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, 004 million in 2013 from Kshs 38,535 million in the year 2012, representing an increase of 24.6%. When infrastructure investment of Kshs 5,517 million undertaken by EPZ developers is included, the figure becomes Kshs 53,521 million compared with Kshs 43,753 million in year 2012.

In terms of value of private investments, 72.8% (Kshs 34,948 million) were foreign owned while Kenyan accounted for 27.2% (Kshs13, 057 million) in 2013 compared to 70.1% (Kshs 27,021 million) foreign owned and 29.9% (Kshs 11,513 million) Kenyan respectively in the year 2012.

3.0 Impact of African Growth Opportunity Act (AGOA)

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

Exports of articles of apparels to US increased in value by 20.0% to stand at Kshs 24,246 million in 2013 from Kshs 20,217 million recorded in the year 2012. Quantity of apparels exported to US decreased marginally from 81.3 million pieces in 2012 to 79.3 million pieces in 2013. This could be attributed to exports made to other markets in addition to the fact that the firms now focus more on quality aspects than merely mass production.

During the year under review, there were some noticeable market diversification other than to the US; which included Europe, Canada, and South Africa. During the year 2013, these alternative markets were a destination of Kshs 2.1 billion (5.4 million pieces) worth of apparel compared to Kshs 991.5 million (2.6 million pieces) of apparel consigned to these markets during the year 2012. It is evident that the alternative market is evolving in significance.

Direct employment expanded by 16.4% to stand at 32,932 from 28,298 recorded in the previous year.

Investment on the other hand registered an increase of 25.4% as result of the enterprises expanding operations and acquisition of new plant, machinery and equipment to meet market demands. The situation was boosted by one enterprise previously dealing with spinning which began apparel production hence necessitating classification as a garment firm.

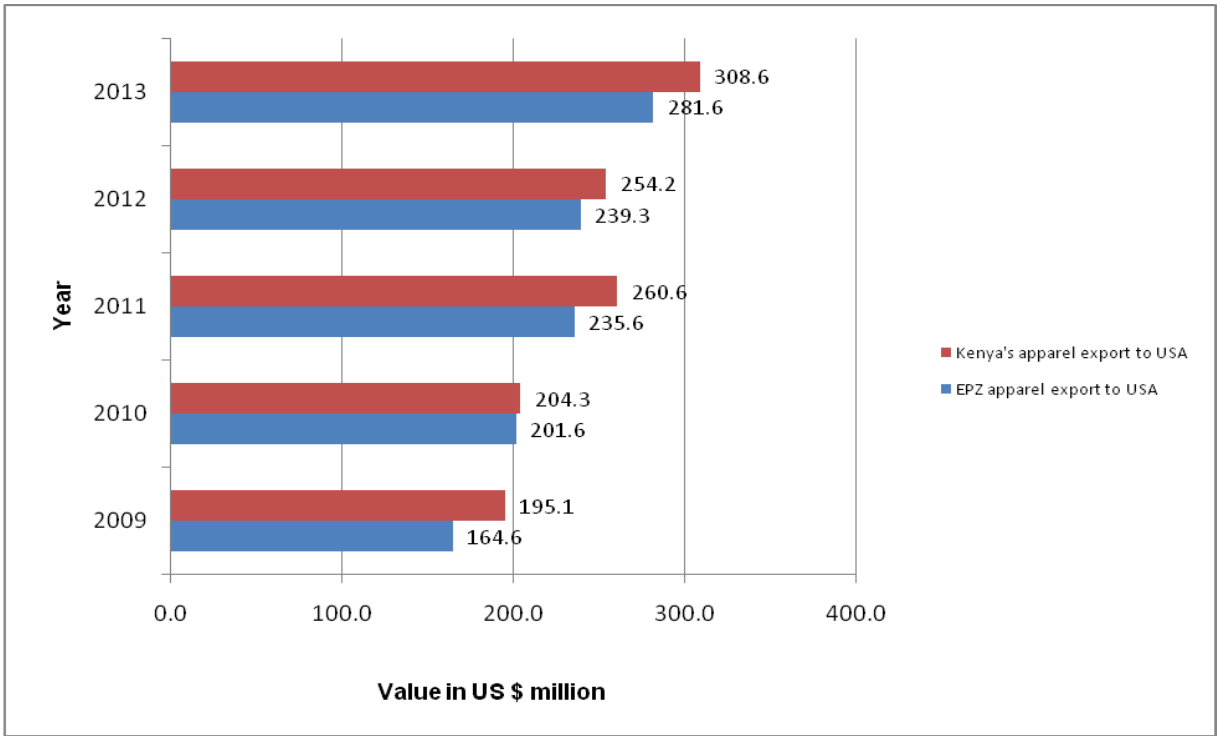
The trend is as shown in table 6 and chart 7.

Table 6: Impact of AGOA on EPZ Garment Sector: 2009 - 2013

Indicator	2009	2010	2011	2012	2013	% growth (2012v/s 2013
Number of Enterprises	19	16	18	22	22	0.0
Employment (No.)	24,359	24,114	25,169	28,298	32,932	16.4
Investment (Kshs million)	5,490	6,959	7,407	10,732	13,465	25.4
Exports (Kshs million)	12,699	16,190	20,948	20,217	24,246	19.9

Indicator	2009	2010	2011	2012	2013	% growth (2012v/s 2013
Quantity of exports (million pieces)	58.1	70.3	65.6	81.3	79.3	-2.5
Imports (Kshs million)	6,443	10,123	13,966	14,699	18,750	27.6
Exports (US$ million)	164.6	201.6	235.6	239.3	281.6	17.7
Annual average exchange rate (Kshs/US$)	77.4	79.2	88.9	84.5	86.1	1.9

Chart 7: Trend of EPZ Garment Exports v/s Overall Kenya Garment/ apparel Exports to US under AGOA: 2009- 2013 (US $ million)



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

The overview of the performance of selected SSA countries indicated that the growth was generally on an upward trend in the year 2013.

Total apparel exports from Kenya to US increased by 21.4% in year 2013 to stand at US$ 308.6 million from US$ 254.2 million recorded in 2012. This could be attributed to the increase of orders in target market as well as expansion of production by some EPZ firms.

Lesotho and Mauritius saw their apparel exports to US increase by 6.8% and 17.4% to stand at US$ 321.3 million and US$ 191.2 million respectively.

EPZ garment/apparel exports were US$ 281.6 million; constituting 91.2% of the national apparel exports while during the previous year it accounted for 94.1%.

Apparel exports from Lesotho, Kenya and Mauritius accounted for over 86% of total AGOA apparel exports to US in the year 2013 compared to 83% during the previous.

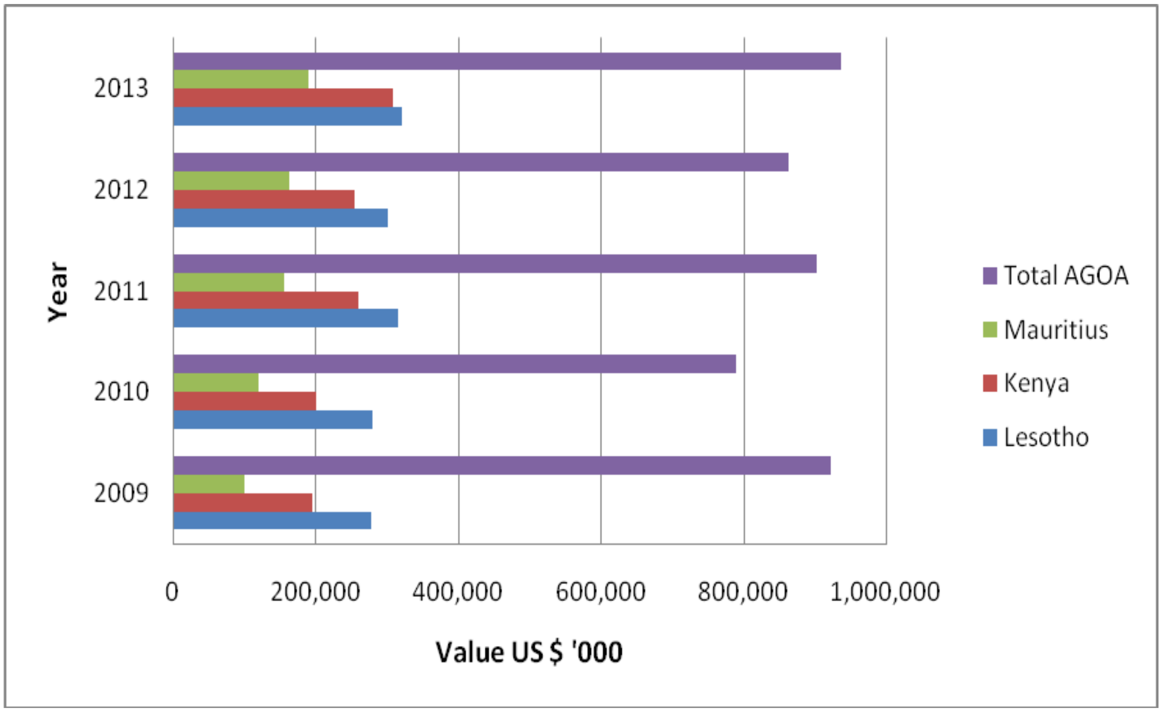
Table 7 and chart 8 has trend on performance of selected SSA countries which are non oil producers and heavily rely on apparel/garment exports to US under AGOA program.

Table 7: Exports to US under AGOA provisions for selected Africa AGOA eligible countries 2009 – 2013 (US $ '000)

Country	2009	2010	2011	2012	2013	% change 2012-2013
Lesotho	278,345	280,754	315,323	300,930	321,276	6.8%
Kenya	195,116	201,602	260,588	254,232	308,563	21.4%
Mauritius	100,688	119,654	156,768	162,788	191,188	17.4%
Total AGOA	**921,908**	**789,496**	**903,215**	**864,176**	**936,649**	**8.4%**
Kenya/Total AGOA (%)	21.2%	25.5%	28.9%	29.4%	32.9%	12.0%
Lesotho/Total AGOA (%)	30.2%	35.6%	34.9%	34.8%	34.3%	-1.5%
Mauritius/Total AGOA (%)	10.9%	15.2%	17.4%	18.8%	20.4%	8.4%

Source: http://www.wewear.org/assets/1/7/usimportsapparel1312.pdf

Chart 8: Trend of apparel exports to US from selected AGOA Africa countries under AGOA, 2009 – 2013 (US $ '000).



Third Country Fabric provision which had been extended in the year 2012 is to expire in September 2015. There is need to fast track development of adequate capacity on fabric provision and supply within the region to ensure sustainability of the trade program.

Other developments on AGOA in SSA eligible countries indicate that US government reinstated Mali for eligibility for AGOA benefits effective January 2014, after the country inaugurated a democratically elected Government in July 2013. The country had been declared ineligible in January 2013 due to governance issues originating in March 2012.

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 2013 Forum was held in Ethiopia while the one for 2014 is scheduled to take place in the course of the year 2014 in USA.

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 2013, EPZ contribution to manufacturing sector output rose to 4.58% from 4.25% registered in the previous year.

In the year under review, the export processing zones contribution to the total manufacturing sector employment accounted for 14.12% from 12.77% posted in the year 2012.

EPZ exports to total Kenya exports showed that it increased from 7.72% in 2012 to 8.84% in the year 2013.

Contribution to Gross Domestic Product (GDP) at market price of the economy has risen from 1.13% in 2009 to 1.32% in 2013.

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

A summary on table 8 and Charts 9 & 10 shows EPZs contribution to the national economy.

Table 8: EPZ contribution to the national economy: 2009– 2013

Indicator	2009	2010	2011	2012	2013
Total Kenya Exports (Kshs Million)	344,950	409,794	512,604	517,847	502,287
Manufacturing sector Value of Output(Kshs Million)	770,370	842,506	1,015,542	1,049,345	1,097,082
GDP at market price ; constant prices; (Kshs Million)	2,375,971	2,570,334	3,047,392	3,403,534	3,797,988
Total national employment (number)	10,703,100	11,457,100	12,116,200	12,782,000	13,524,800
Manufacturing sector employment (number)	265,300	268,100	271,500	277,900	283,000
Exports EPZ (Kshs. Million)	23,948	28,998	39,067	39,962	44,427
Total output EPZ (Kshs Million)	26,798	32,348	42,442	44,273	50,294
Total Employment EPZ	*30,623*	*31,502*	*32,043*	*35,501*	*39,961*
EPZ contribution to total Kenya Exports (%)	6.94	7.08	7.64	7.72	8.84

Indicator	2009	2010	2011	2012	2013
EPZ contribution to manufacturing sector value of output (%)	3.63	3.76	4.21	4.25	4.58
EPZ contribution to total national employment (%)	0.29	0.29	0.28	0.28	0.30
EPZ contribution to manufacturing sector employment (%)	11.54	11.75	11.80	12.77	14.12
EPZ contribution to GDP; constant prices (%)	1.13	1.26	1.39	1.30	1.32

Source: Economic Survey 2014 and EPZA various reports.

Chart 9: Contribution of EPZ output to manufacturing sector output, 2009 - 2013.

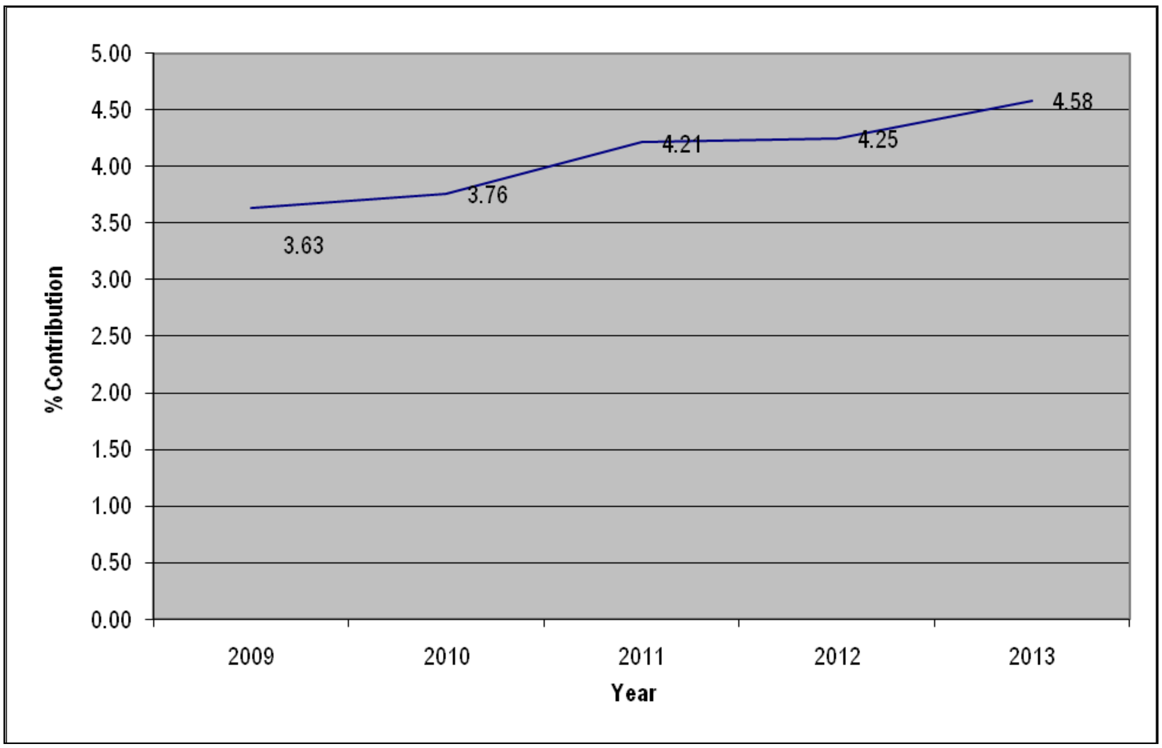
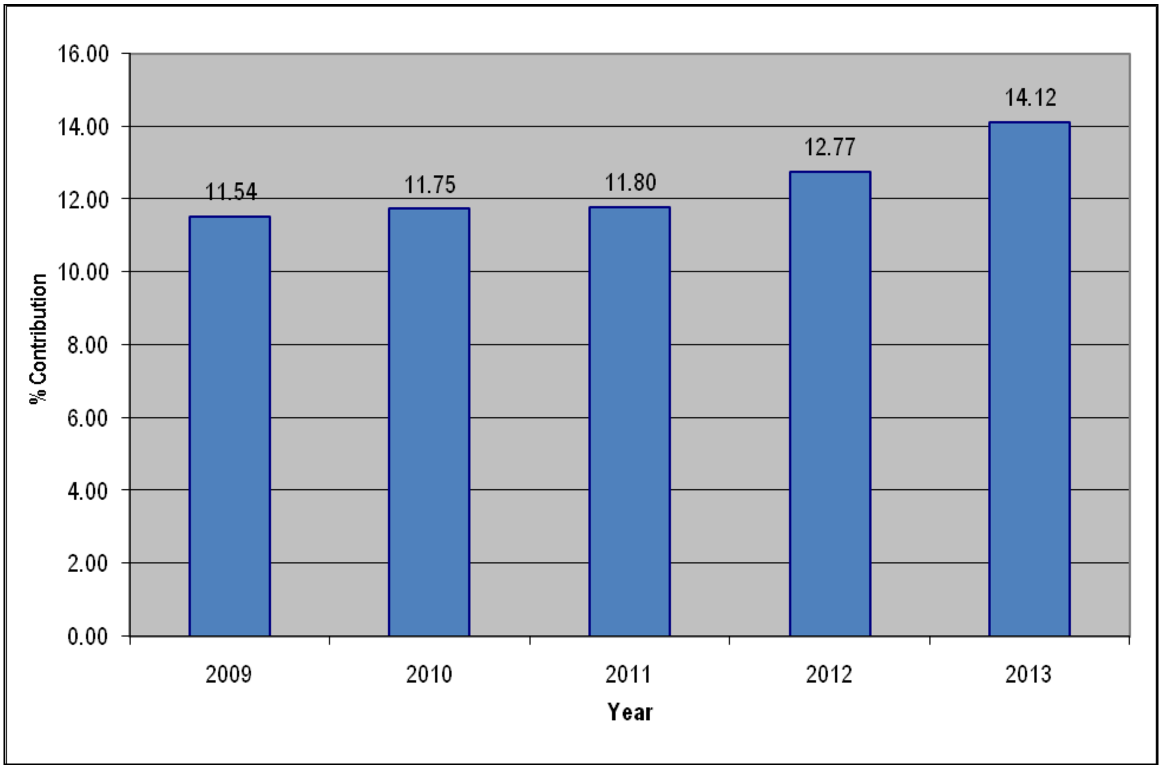


Chart 10: EPZ Contribution to manufacturing sector employment; 2009 – 2013



4.0 Regional Performance

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

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

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

Although Mombasa region had the second highest number of operating enterprises numbering 21, it generated total local employment of 14,686 compared to 47 firms in Athi river region creating 16,040 jobs.

Average performance for the regions with respect to the selected indicators were 43.2%, 32.3%, 18.1%, 3.2%, 2.5% and 0.7% for Athi River/ Mlolongo/Isinya, Mombasa, Nairobi, Kerio Valley/Nandi, Thika/Muranga and Laikipia for 2012 compared with 38.6%, 32.3%, 20.2%, 5.6%, 2.8% and 0.6% respectively in 2012.

Refer to tables 9 & 10 and chart 11 for more details.

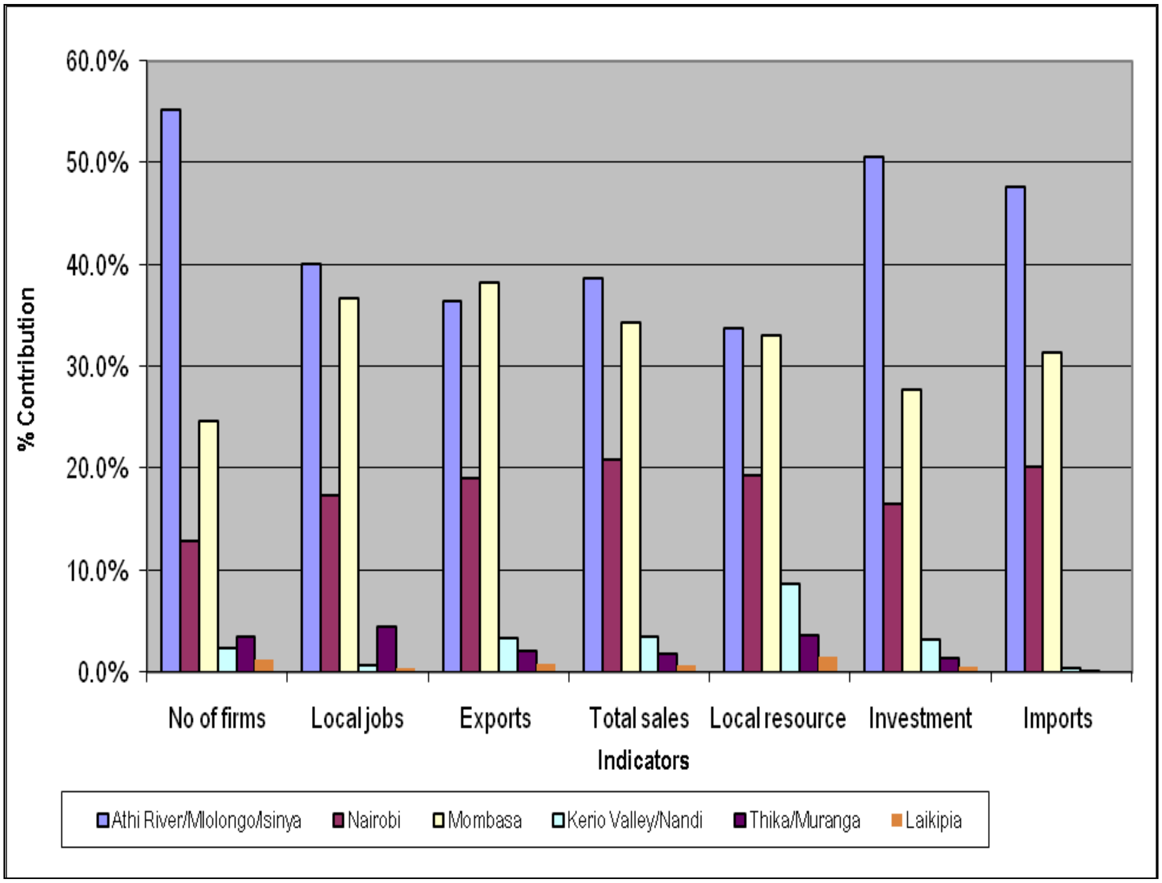
Table 9: Regional performances year 2013

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/Isinya	47.0	16,040.0	16,194.0	19,445.0	6,522.0	24,305.0	13,071.0
Nairobi	11.0	6,950.0	8,479.0	10,523.0	3,726.0	7,914.0	5,548.0
Mombasa	21.0	14,686.0	17,019.0	17,277.0	6,381.0	13,327.0	8,609.0
Kerio Valley/Nandi	2.0	305.0	1,471.0	1,768.0	1,670.0	1,546.0	121.0
Thika/Muranga	3.0	1,820.0	920.0	936.0	703.0	657.0	48.0
Laikipia	1.0	160.0	344.0	344.0	274.0	255.0	16.0
total	**85.0**	**39,961.0**	**44,427.0**	**50,293.0**	**19,276.0**	**48,004.0**	**27,413.0**

Table 10: Contribution by region, 2013 (%)

Zone/region	No of firms	Local jobs	Exports	Total sales	Local resource	Investment	Imports	Average
Athi River/Mlolongo/Isinya	55.3%	40.1%	36.5%	38.7%	33.8%	50.6%	47.7%	43.2%
Nairobi	12.9%	17.4%	19.1%	20.9%	19.3%	16.5%	20.2%	18.1%
Mombasa	24.7%	36.8%	38.3%	34.4%	33.1%	27.8%	31.4%	32.3%
Kerio Valley/Nandi	2.4%	0.8%	3.3%	3.5%	8.7%	3.2%	0.4%	3.2%
Thika/Muranga	3.5%	4.6%	2.1%	1.9%	3.6%	1.4%	0.2%	2.5%
Laikipia	1.2%	0.4%	0.8%	0.7%	1.4%	0.5%	0.1%	0.7%
total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Chart 11: Contribution by region (%) year 2013

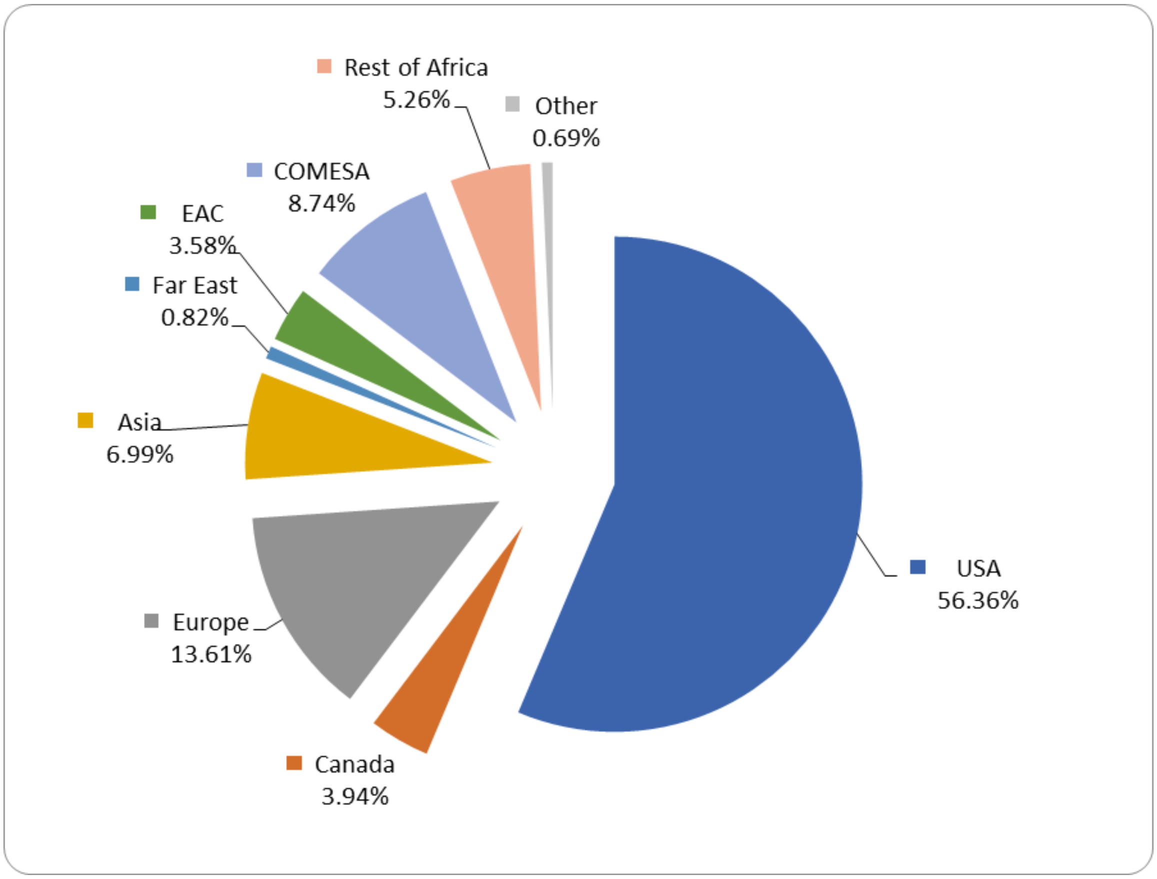


5.0 Destination of Exports

During the year under review, 56.4 % (Kshs 25 ,041million) of all exports were consigned to USA market out of which 96.8% (Kshs 24,246 million) constituted exports of garment products. In the year 2012, 56.4% (Kshs 25,041 million) were exported to US out of which 96.6% accounted for garment exports.

Europe accounted for 13.6 % (Kshs 6,046 million) of the export market, EAC 3.6% (Kshs 1,590 million), Asia 7.0 % (Kshs 3,103 million), COMESA 8.7 %(Kshs 3,884 million), Rest of Africa 5.3 %(Kshs 2,337 million), Far East 0.8 %(Kshs 365 million) and 0.7% (Kshs 308 million) was destined to the rest of the world. During the previous year, Europe accounted for 18.9% (Kshs 7,548 million), EAC 7.7% (Kshs 3,057 million), Asia 5.9% (Kshs 2,352 million), COMESA 5.1% (Kshs 2,029 million),Rest of Africa 7.3% (Kshs 2,899 million), Far East 0.6% (Kshs 243million) and 0.1 % (Kshs 34 million) to the rest of the world (chart 12).

Chart 12: Market destination for all exports, 2013



6.0 Employment and wages

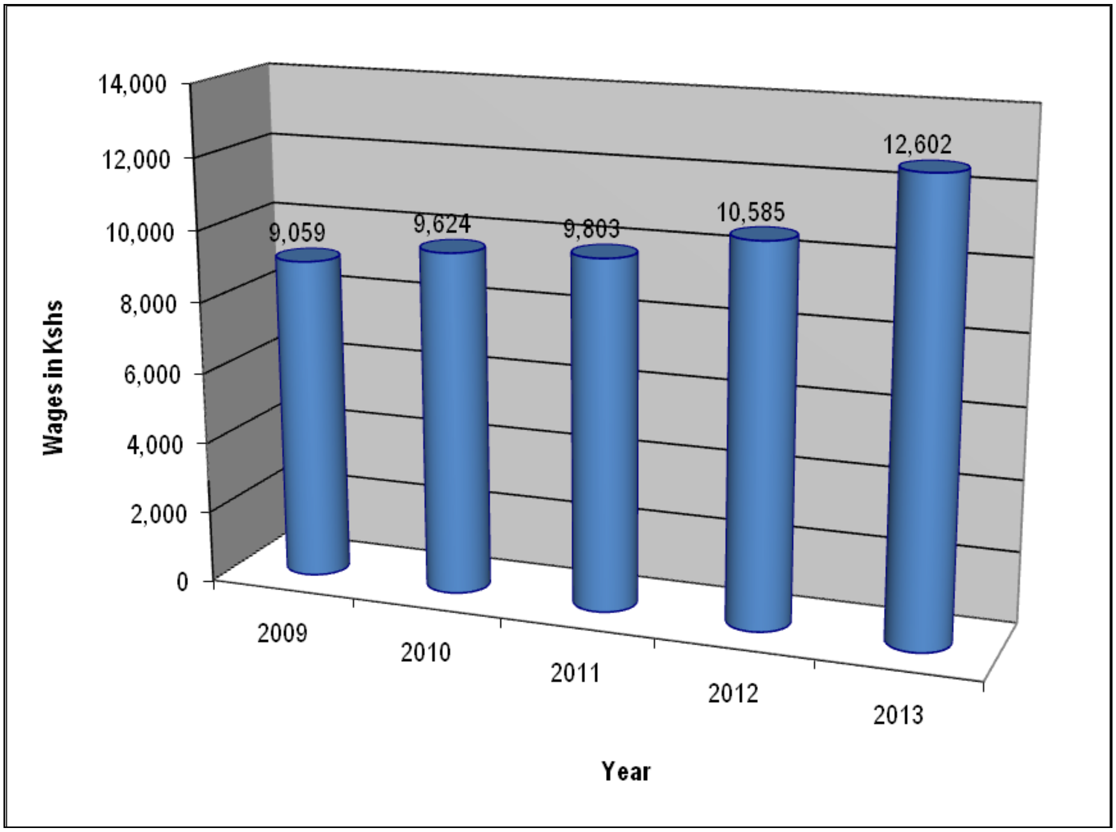
The monthly average wage for local employment within the EPZ has been on steady increase over the years as shown by table 11 and Chart 13). The average monthly wages has increased from Kshs 9,059 in the year 2009 to Kshs 12,602 in the year 2013, representing 39.1% increase.

Table 11: Employment and Wages: 2009 – 2013

Indicator	2009	2010	2011	2012	2013
Local employees (Number)	30,115	31,026	32,043	35,501	39,961
Expatriates (Number)	508	476	421	428	472
Total employment (Number)	30,623	31,502	32,464	35,929	40,433
Local wages (Kshs)	3,273,937,485	3,583,029,487	3,769,215,481	4,509,251,454	6,042,912,860
Expatriate wages (Kshs)	383,863,882	662,296,354	368,560,214	400,803,713	467,535,058
Total wages (Kshs)	3,657,801,367	4,245,325,841	4,137,775,695	4,910,055,167	6,510,447,918
Average Annual wages locals (Kshs)	108,715	115,485	117,630	127,018	151,220
Average Annual wages expatriates (Kshs)	755,638	1,391,379	875,440	936,457	990,540
Average monthly wage locals (Kshs)	9,059	9,624	9,803	10,585	12,602
Average monthly wage expatriates (Kshs)	62,970	115,948	72,953	78,038	82,545
Average monthly wage locals (US$)	117	122	111	125	147
Average monthly wage expatriates (US$)	814	1,464	821	924	959
Average annual exchange rate(Kshs/US$)	77.4	79.2	88.9	84.5	86.1

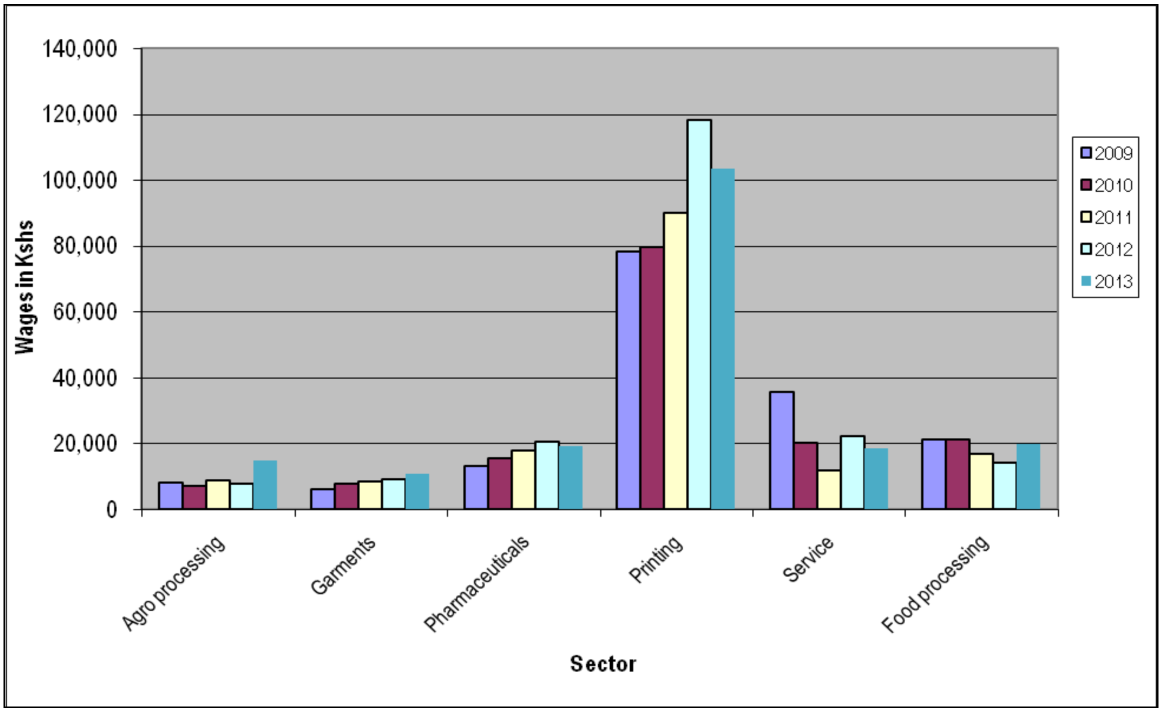
Source: EPZA records

Chart 13: Average monthly wages for local employees, 2009 to 2013(Kshs)



With respect to selected sectoral wages, the printing sector continued to offer high remuneration to its employees in 2013 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, 2009- 2013



6.1 Training of local workers and transfer of technology

In the year 2013, 37 enterprises trained local employees in various industrial disciplines compared to 39 in the previous year.

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

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

7.0 Constraints reported by EPZ enterprises

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

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

Summary of constraints reported by enterprises during the year 2013 are tabulated on table 12.

Table 12: Constraints/ impediments reported by EPZ enterprises, 2013.

Constraint/impediment	Number of firms which reported/ affected (2013)	% of enterprises affected to total no. of operating firms in 2013	Number of firms which reported /affected (2012)	% of firms affected to total no. of operating firms in 2012	Number of firms which reported /affected (2011)	% of firms affected to total no. of operating firms in 2011
Labour productivity/turn over/efficiency, labour unrest	9	10.6	4	4.9	5	6.3
Unfavourable economic condition/ inflation etc	7	8.2	11	13.4	11	13.9
High Cost of production	11	12.9	10	12.2	7	8.9
Customs regulations/KRA	4	4.7	8	9.8	10	1.7
High cost of power/electricity	14	16.5	11	13.4	13	16.5
Lack of locally sourced inputs	9	10.6	6	7.3	8	10.1
Issues pertaining to inefficiency of port/railway transport	10	11.8	8	9.8	11	13.9
Competition from other countries	11	12.9	9	11.0	4	5.1
High cost of water/ unreliable water supply	3	3.5	4	4.9	6	7.6
Local currency fluctuation	3	3.5	3	3.7	6	7.6
Poor infrastructure	4	4.7	3	3.7	5	6.3
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).	33	38.8	29	35.4	31	39.2

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

8.0 Challenges facing the program

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

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

i) Customs facilitation in tea processing companies.

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

ii) Market.

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

iii) High Interest rates.

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

iv) High cost of production/ operation

Costs of production in Kenya are high compared with its close competitors. The cost of electricity in Kenya is between US Cents 15 to 20 per kilo watt hour (kwh) compared with US Cents 4 per kwh for South Africa, US cents 5 for Ethiopia & India and US Cents 10 per kwh for China. This shows that the cost of electricity in Kenya is four times the cost in South Africa and more than thrice the power tariffs in China.
The high cost is further made worse by power outages and fluctuations which lead to reduced output and damage to equipment.

High cost of production is also seen in the context of increased wages for local employees. For instance, between 2009 and 2013, average monthly wage has risen by 39.1% from Kshs 9,059 to Kshs 12,602 this is in comparison with other competitors particularly in Asia where average monthly wage is about Kshs 4,000 (US$ 50). Average monthly wage in Kenya is about US$ 147 compared to about US$ 75 in Egypt, which is Kenya's close competitor in the region (though the country has been rocked by unrest in the recent past).

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

Some EPZ enterprises made their investment decisions based on the East Africa market where Tanzania, Uganda, Rwanda and Burundi were external markets. Under Article 11 of the protocol the Customs Union fully comes into effect after five (5) years when the EAC partner states will have removed all internal tariffs from Kenya, hence become domestic market. EAC region is a destination of close to 5% of EPZ exports. EPZ firms are allowed to sell 20% of their annual production into the domestic market. During the course of 2013, some EPZ enterprises affected adversely/closed down due to the impact of restrictive EAC market.

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

Transformation of export processing zones program to Special Economic zones (SEZs) program in line with Vision 2030 was approved by the Cabinet in March 2009. Implementation of SEZs would encompass a wider range of activities than the present EPZ. The proposed SEZ will incorporate ICT parks, technology parks, industrial parks, free trade zones, free ports, EPZs and tourism/ recreational centres.
Delay in implementation of the required legal and policy framework to actualize the SEZ has caused anxiety among both existing and potential investors.

vii) Expiry of third country fabric provision

There has been slow implementation of reforms to restructure and revive the cotton industry to take full advantage of the opportunities and benefits provided for by the AGOA initiative. The Third Country Fabric requirement which was to expire in September 2012 was extended to September 2015. After this date it would be a requirement for SSA country to either utilize fabric from AGOA eligible country or import from USA in order to continue benefiting from AGOA program. As of now development of local cotton capacity still remains a challenge.
Currently apparel sector contribute more than 50% of export and generates close to 80% of employment within the zone.

viii) Delay in clearing of goods at the port.

Delay in clearing/releasing imported raw materials, particularly fabrics and accessories at the port of entry in a number of occasions has had a negative impact on production and competitiveness for the investor since it is operating on a timed delivery schedule. This delay has forced some enterprises to airlift exports instead of shipping in order to meet delivery time and avert order cancellation. This mode of transport is more expensive and has the adverse impact of eating into the individual enterprise profit margin, as it is a direct cost to the investor compared to shipping in which the buyer foots the freight bill.
Performance of the EPZ program (export/import business) greatly depends upon the efficiency of the port. This is an area which has been cited by EPZ firms as a constraint to towards their production.

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

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

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

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

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

vi) Fast track Transformation of EPZ program into the Special Economic Zones (SEZs) program

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

vii) Improve Operations at the port so as to be more efficient.

There is need to address any issue that causes or has a potential to cause delay at the port of entry. If the port operators anticipate any delay, then there is need to communicate this to the port users and stakeholders in time so as to make them aware and prepare accordingly. A better run port, one that has adequate capacity to meet growing import and export requirements of the region, needs to be an essential part of Kenya's economic growth strategy. The 24hr port operation recently introduced is highly welcome

viii) Government urged to lobby for appropriate global trade policies including lobbying for making AGOA permanent.

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

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

10.0 Set targets and Actual performance.

The projections for the year 2013 took into account the challenges and opportunities facing the EPZ program.

Forecast for the number of operating enterprises is based on the operationalization of 12 new firms as per the Strategic Plan for 2009/10 to 2012/13 which in principle being reviewed in the plan for 2014 - 2018. Employment is expected to expand by about 5,000 on the basis of an average of upto 300 jobs per new firm and the rest of the jobs to be created by expansions from existing enterprises.

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

A summary of set and actual targets for years 2011 to 2013 and projections for year 2014 are outlined on table 13.

Table 13: Set and Actual Targets for 2011 to 2013 and Projections for 2014

Indicator	Target			Actual			% attained			Target
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2014
Operating enterprises (Number)	87	91	94	79	82	85	90.8	90.1	90.4	97
Employment (Kenyans) Number.	36,026	37,043	38,501	32,043	35,501	39,961	88.9	95.8	100.0	45,000
Investment (Kshs million)	25,563	28,468	40,468	26,468	38,585	48,004	100.0	100.0	100.0	52,014
Total sales (Kshs million)	35,815	45,442	46,442	42,442	44,273	50,294	100.0	97.4	100.0	53,763
Exports (Kshs million)	32,234	41,067	41,798	39,067	39,962	44,427	100.0	97.3	100.0	48,287
Ratio of domestic sales to total sales (%)	9	9	9	6.0	7.5	9.1	100.0	100.0	100.0	9
Domestic expenditure (Kshs million)	15,335	17,335	20,335	14,918	18,097	19,275	97.3	100.0	94.8	21,505

Average attainment of set targets for the year 2013 was 97.9% compared to 97.3% in the previous year.

Some of the targets set for the year 2013 which were not attained like the number of operating enterprises & utilization of local resources among others was as a result of the constraints reported by the enterprises in the course of the year and the challenges facing the program outlined in point 7 and 8 respectively.

11.0 Conclusion

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

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

Although the performance momentum recorded in 2013 is expected to be maintained in 2014, high cost of production and external shocks are some of the factors which are likely to play key role in the performance of the program going forward in 2014.

Research Policy & Planning Department.
May 2014