EXPORT PROCESSING ZONES PROGRAM
ANNUAL PERFORMANCE REPORT, 2016

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1.0 Executive Summary

The performance of the EPZ program in the year 2016 maintained an upward trend in major indicators.

EPZ program recorded growth in principal indicators like exports, total sales (turnover), expenditure on local goods & services and average monthly wage with respect to local employment among others. For instance, direct employment expanded by 5.3%, exports grew by 5.4%, total sales 5.7% while expenditure on local goods & services rose by 7.8% in the year 2016.These indicators rose by 8.8%, 18.5%, 13.5% and 13.8% respectively in the year 2015.

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

The implementation of Export Business Accelerator (EBA) – Incubator, has improved export business by small scale indigenous enterprises (SMEs). In addition, the number of EPZ firms with local ownership has risen from 25.6% in 2012 to 35.1% in 2016.

1.1 Introduction

The year 2016 was the fourth year in implementation of the Second Medium Term Plan (MTPII), 2013 – 2017 of the Vision 2030, under the Jubilee Government.

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

At the national level, there were ongoing stakeholders' consultations on preparation of Nation Investment Policy (NIP) that will provide requisite guide on investment promotion and facilitation.

NIP is aligned to Kenya's Vision 2030 which seeks to transform Kenya into a middle-income country and "*to build a prosperous Kenya with expanded economic opportunity*".

NIP is guided by a set of six core principles:

a. **Openness and transparency**

   The policy emphasizes the importance of ensuring transparency in the investment promotion and facilitation process in Kenya, including in identifying opportunities, designing and reviewing relevant legislation, and addressing pertinent issues related to investment entry, operations and exit.

b. **Community and county engagement**

The policy underscores the need to involve local communities and county authorities in the investment process to foster holistic and inclusive development.

c. **Sustainable development**

The policy recognizes the need to promote investment that protects the environment, encourages efficient resource allocation and enables the nation to achieve the objectives of Vision 2030, SDGs, and Agenda 2063.

d. **Diversified economic activities and export-led growth**

The policy takes into consideration the need to foster diversified economic activities and promote export-led growth through participation in higher value added regional and global value chains.

e. **Empowering domestic small and medium enterprises (SMEs)**

The policy acknowledges the critical role played by SMEs in country's development and underscores the need to build effective linkages with foreign investors for effective integration into regional and global value chains.

f. **Regional integration**

The policy recognizes the benefits for Kenya from effective integration with other economies in the region. These include enhanced participation in regional value chains, strategic regional hub role and better access to regional and international markets.

It is expected that NIP will provide necessary impetus to EPZ Program in order to accelerate achievement of its objectives.

Implementation of Kenya Industrial Transformation Programme (KITP), guided by Vision 2030 launched by the Ministry of Industry, Trade & Cooperatives in the course of year 2015 continued.

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

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

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 Embu and Kwale among others.

This report provides insight to the national and international economic environment borrowing highlights from *Economic Survey 2017*, EPZ performance analysis under various indicators, impact of African Growth Opportunity Act (AGOA), constraints/challenges, set & actual targets for the year 2014 to 2016 including projection/outlook for 2017, and finally the conclusion.

1.2 National and International Scene

According to *Economic Survey 2017*, Kenya's Gross Domestic Product (GDP) expanded by 5.8% in 2016 compared to a revised growth of 5.7% in 2015 (Chart 1).

Generally, the growth was well spread and robust in most sectors but subdued in a few. Accommodation and food services registered the most improved growth of 13.3% in 2016 from a contraction of 1.3% in 2015. However, persistent drought hampered growth in the fourth quarter of year 2016 impacting negatively on agriculture and electricity supply.

Other remarkable improvements in economic activities were realized in the information and communication sector; real estate; and transport & storage. On the other hand, construction; mining & quarrying; and financial & insurance activities registered the most notable slowdown in growths. From demand side of GDP, the growth was mainly driven by consumption in both private and public sectors. Addition to fixed assets (Gross Fixed Capital Formation) contracted significantly, mainly due to a considerable decline in investments in transport equipment in 2016.

Annual average inflation eased to 6.3% in 2016 compared to an average of 6.6% in 2015. This was mainly due to decline in prices of transportation; housing & utilities; and communication.

The Central Bank Rate (CBR) was revised downward twice to 10.50% in June and 10.00% in December 2016. Lending rates were capped to a maximum of 4.0% above the CBR rate following amendment of Banking Act in August 2016.

The Kenya shilling strengthened against the Sterling Pound, South African Rand, Ugandan Shilling, Tanzania Shilling and Rwanda Franc but weakened against US Dollar, Euro, and the Yen in 2016. Domestic credit slowed from growth of 20.8% in 2015 to 6.4% in 2016 mainly on account of a decline in credit to the private sector.

The Nairobi Securities Exchange (NSE) 20-Share Index increased to 3,982 points in the first quarter of 2016 but declined through to fourth quarter to 3,186 points in December 2016.

At the international scene, global economy expanded by 2.9% in 2016 compared to a revised growth of 3.1% in 2015. The slowed growth was occasioned by constrained global trade, subdued investment and heightened policy uncertainty associated with the United Kingdom (UK) decision to leave the European Union(EU); and elections in the United States of America (USA). Growth in advanced economies expanded by 2.1% in 2016 compared to 1.9% in 2015. USA economy recorded a growth of 1.5% in 2016 compared to 2.6% in 2015, mainly due to weak exports, subdued investments in the manufacturing sector and uncertainty surrounding the 2016 elections.

Global inflation was estimated at 2.9% compared to 2.8% recorded in 2015.

Growth of global trade slowed in 2016 to 1.9% from 2.6% in 2015. Imports from major economies such China continued to depress trade flows. Similarly, the sharp oil prices from mid-2014 to early 2016 resulted in income losses in oil exporting countries. The slowdown in global investment in 2015-16 also played an important role in slowing the pace of world trade as capital goods account for about one third of world goods trade.

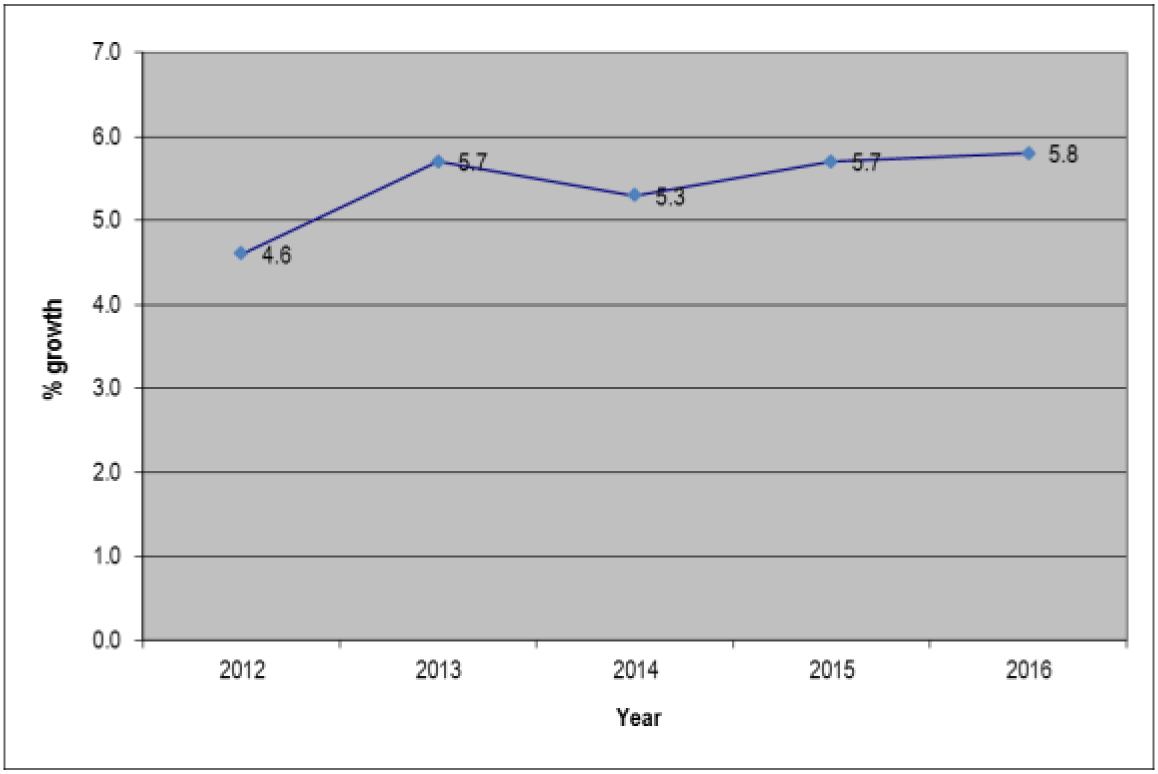
Global unemployment rate was estimated at 5.7% in 2016 compared to 5.8% in 2015.

In the Sub Saharan Africa (SSA), GDP is estimated to have expanded by 1.5% in 2016 compared to 3.8% in 2015. Lower commodity prices for metal exporting countries and domestic shocks from a generally less supportive global economic environment slowed the economic performance in SSA.

East African Community (EAC) countries saw real GDP expanding to 6.1% in 2016 compared to 5.8% in 2015. The growth was fueled by public infrastructure investment, buoyant private consumption and low oil prices.

The Southern African Development Community (SADC) recorded a slower growth of 1.6% during the year under review compared to a growth of 2.7% in 2015, mainly due to decelerating growth of South Africa's economy.

Chart 1: Real GDP growth rate (%), 2012 to 2016



Source: Economic survey, 2017

1.3 Performance by key sectors of the economy

1.3.1 Agriculture

Economic Survey 2017 reported that agricultural sector value added decelerated from a revised growth of 7.2% in 2015 to 4.4% in 2016 occasioned by insufficient rains during the short rains period.

Coffee production increased by 9.8% from 42.0 thousand tonnes in 2014/15 to 46.1 thousand tonnes in 2015/16. Area under coffee production increased by 500 hectares to 114.0 thousand hectares in 2015/16. Production by cooperatives and estates increased by 13.2% and 3.4% to 30.8 thousand tonnes and 15.3 thousand tonnes, respectively. This increase in production may be as a result of the Government's intervention of providing subsidized fertilizer and partly due to bi annual cyclic production, where a good year harvest is followed by reduced harvest in the following year. The average yield for cooperatives increased by 10.0% while that of estates decreased by 0.7% in the 2015/16 period.

Tea production increased by 18.5% to 473.0 thousand tonnes in 2016. Total area under tea production increased by 4.3% to 218.5 thousand hectares in 2016. Tea production by small holder growers increased by 11.8% from 237.6 thousand tonnes in 2015 to 265.6 thousand tonnes in 2016. Output within tea estates recorded an increase of 28.3% from 161.6 thousand tonnes in 2015 to 207.4 thousand tonnes recorded in 2016. The average yield increased from 2,459.7 kilogrammes per hectare in 2015 to 2,908.8 kilogrammes per hectare in 2016 for tea estates and from 1,900.8 kilogrammes per hectare in to 2,084.8 kilogrammes per hectare in for small holder tea producers.

Volume of horticultural exports increased by 9.4% from 238.7 thousand tonnes in 2015 to 261.2 thousand tonnes in 2016. Exports of fresh vegetables went up by 13.1% from 69.7 thousand tonnes to 78.8 thousand tonnes. Exports of cutflowers and fresh fruits over the same period increased by 8.9% and 5.4% respectively. Value of fresh horticultural exports increased by 12.3% to Kshs 101.5 billion in 2016 on account of improved prices for horticultural produce in the international market. Earnings from exports of fresh fruits and vegetables increased by 10.6% and 12.0%, respectively.

Sugarcane production reduced from 7.2 million tonnes in 2015 to 7.1 million tonnes in 2016. Area under cane decreased by 2,607 hectares from 223,605 hectares in 2015 to 220,998 hectares in 2016. Similarly, maize production declined from 42.5 million bags in 2015 to 37.1 million bags in 2016.

Quantity of marketed and processed milk increased by 5.6% and 3.2% to 650.3 million litres and 451.7 million litres respectively, in 2016.

Number of cattle slaughtered increased by 8.2% to 2,460.2 thousand heads. Number of goats and sheep slaughtered increased by 25.3% to 8,220.2 thousand heads.

1.3.2 Manufacturing.

The manufacturing sector recorded a decelerated growth of 3.5% in 2016 from a revised growth of 3.6% in 2015 (chart 2). The sector's growth was stifled in the period under review mainly attributable to underperformance of other sectors such as agriculture and electricity that provide inputs for manufacturing activities. The near stagnation of the growth in manufacturing was also manifest in the slow uptake of credit from Kshs 290.1 billion in 2015 to Kshs 276.7 billion in 2016.

The sector's growth was mainly driven by processing of food products that recorded improved performance in 2016 though with evidently low magnitudes. The bulk of the growth was primarily accounted for by value of output of processing and preservation of meat, and processing of dairy products.

Production of pharmaceutical products increased by 14.7% in 2016 attributed to the increase in production of capsules, tablets and syrups, which went up by 15.3%, 14.9%, and 11.8%, respectively.

Manufacture of textiles expanded marginally by 0.3% in 2016. Production of woven fabrics and knitting wool dropped by 7.4% and 10.2%, respectively. Manufacture of wearing apparel grew by 17.2% in 2016 as a result of increased production of shirts and T shirts by 17.4% and 20.9% respectively.

Leather and leather products grew by 7.5% in 2016. Finished leather recorded a 17.2% growth during the year under review. On the other hand, manufacture of wood & products of wood, mainly consisting of plywood and block boards declined by 12.0% in 2016.

Production of tobacco and cigarettes products dropped by 16.2% and 16.4% respectively in 2016 while production of other manufactured tobacco products went down by 2.2%.

Production of electrical equipment registered a 3.5% growth in 2016 mainly due to a 4.7% rise in production of copper and aluminium cables. Manufacture of primary car batteries recorded an increase of 1.7% in the period under review.

Manufacture of furniture grew marginally by 0.5% in 2016 with production of mattress increasing by 0.9%.
Manufacture of food products recorded a growth of 6.5% in the year under review. Production of meat and meat products rose by 10.9% on account of increased production of processed chicken. Processing and preserving of fish contracted in 2016.

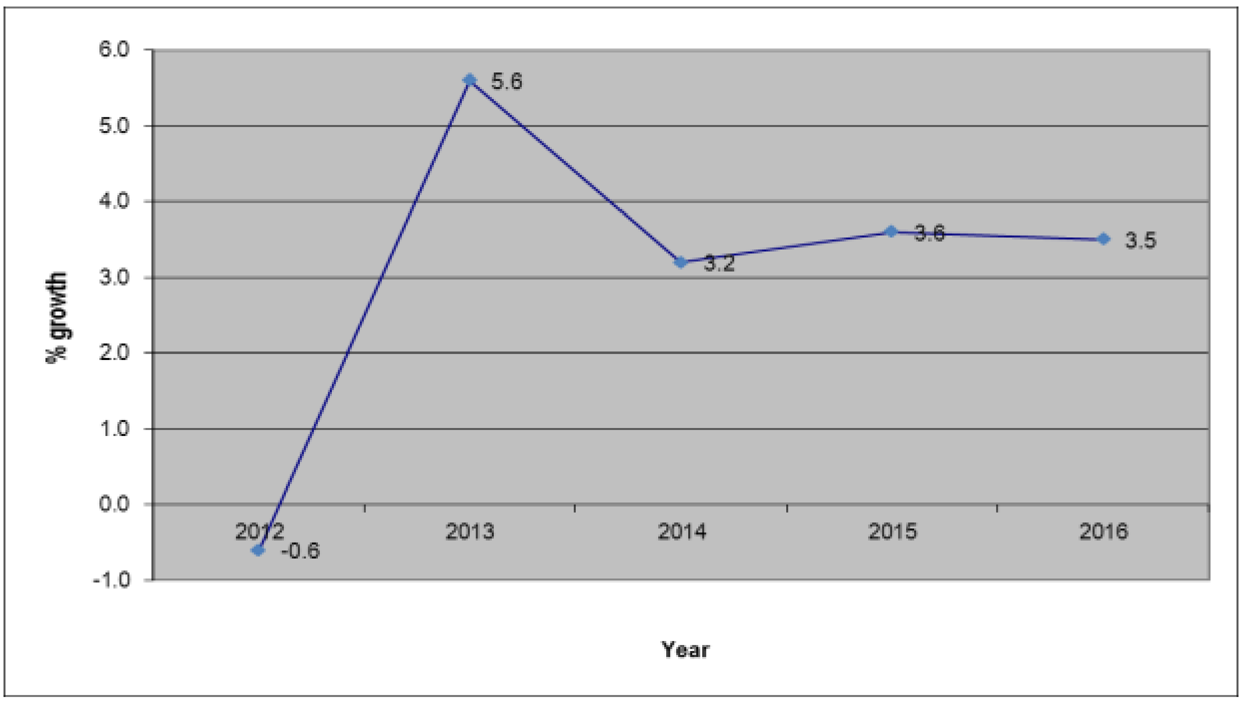
Basic metals sub sector recorded a growth of 12.5% in 2016. The quantity of iron sheets produced in 2016 went up marginally by 1.6%, to 261.5 thousand metric tonnes, while its imports increased slightly by

0.7%. This slow growth is an indication that the construction industry is adopting the use of alternative roofing materials to meet the increased demand in the construction sector. Production of iron and angles grew by 29.2% during the same period. Manufacture of fabricated metal products dropped by 9.8% in 2016 mainly attributed to a decline in production of metal structures.

Grain mill products registered a growth of 3.6% in 2016 due to increased production of maize and wheat flour, which grew by 6.8% and 2.5%, respectively. Quantity of maize flour milled in the formal sector increased from 570.7 thousand tonnes in 2015 to 609.7 thousand tonnes in 2016 while production of wheat flour increased from 1,103.8 thousand tonnes to 1,131.0 thousand tonnes in the same period.

Overall Producer Price Index (PPI) which measures inflation from the side of producers; increased marginally 0.2% from 113.44 in 2015 to 113.67 in 2016. The change in PPI was influenced by manufacture of beverages, manufacture of wood and products of wood & cork. In addition, the marginal increase was partly due to stability of the prices of imported materials and lower cost of electricity.

Chart 2: Manufacturing sector growth rate (%), 2012 to 2016.



Source: Economic Survey 2017

1.3.3 Other sectors

Total electricity generation increased from 9,514.9 Gigawatt hours (GWh) in 2015 to 10,057.7 GWh in 2016. The number of customers connected under the Rural Electrification Programme (REP) rose by 38.2% to stand at 972,018 as at end of June 2016, up from 703,190 during similar period of 2016.

High global crude oil production and inventories levels led to a reduction in international oil prices in 2016. Consequently, crude oil prices for Murban decreased to an average of US$ 44.18 per barrel in 2016 from an average of US$52.53 per barrel in 2015. The volume of petroleum products imports expanded by 9.5% from 4,431.7 thousand tonnes in 2015 to 4,852.4 thousand tonnes in 2016. Total import bill of petroleum products declined by 12.6% to Kshs 197.5 billion from Kshs 226.1 billion in 2015. Total demand for petroleum products increased by 6.5% to 5,046.9 thousand tonnes.

Total cargo throughput handled at the Mombasa Port rose by 2.4% to 27,364 thousand tonnes in 2016 while container traffic increased by 1.4% to 1.1 million Twenty-foot Equivalent Units (TEUs) in the review period. Total pipeline throughput of white petroleum products expanded by 2.8% to 5,872.9 thousand cubic metres in 2016. On the other hand, the volume of white petroleum products transported through the pipeline for domestic consumption expanded by 9.0% to 4,018.6 thousand cubic metres in the review period.

Transport & storage sector output increase by 7.2% from Kshs.928.3 billion in 2015 to Kshs.994.7 billion in 2016. The road sub sector posted a growth of 6.1% in output to Kshs.667.1 billion in 2016 while that of the railway transport subsector declined by 9.9% to Kshs 5.7 billion in 2016.

Tourism sector had a remarkable recovery because of improved security and successful conference tourism in 2016. Earnings accruing from tourism sector improved to Kshs 99.7 billion in 2016 compared to Kshs 84.6 billion in 2015, translating to an increase of 17.8%. The number of international visitor arrivals rose by 13.5% to 1,339.7 thousand in 2016.

Building & Construction sector grew by 9.2% in 2016 from an expansion of 13.9% registered in 2015. Increased activity in the construction of roads and development of housing also translated to an increase in employment in the sector from 148.6 thousand jobs in 2015 to 163.0 thousand jobs in 2016. Consumption of cement, a major input in construction of buildings and civil works, rose by 10.5% from 5,708.8 thousand tonnes in 2015 to 6,302.0 thousand tonnes in 2016. Credit to the construction industry went down marginally from Kshs106.3 billion in 2015 to Kshs 104.8 billion in 2016. The index of government expenditure on roads increased from 350.3 in 2015 to 461.0 in 2016.

Financial sector saw growth decelerating from 9.4% in 2015 to 6.9% in 2016. Banking sector including other monetary intermediation declined from a growth of 10.1% in 2015 to 7.1% in 2016. The insurance sector recorded a growth of 5.3% in 2016 compared to 5.0% in 2015.

International trade & balance of payment (BoP) sector saw total exports decline marginally from Kshs 581.0 billion in 2015 to Kshs 578.1 billion in 2016 while total imports contracted by 9.2% from Kshs 1,577.6 billion to Kshs 1,431.7 billion. This resulted in the balance of trade improving from Kshs 996.5 billion in 2015 to Kshs 853.7 billion in 2016. Similarly, export – import ratio improved from 36.8% to 40.4% over the same period. Tea, horticulture, articles of apparels & clothing accessories and coffee were the leading export earners accounting for 56.7% of total domestic exports during the review period. The overall BoP position improved from a deficit of Kshs 24.9 billion in 2015 to a surplus of Kshs 13.1billion in 2016.

1.4 Outlook

According to *Economic Survey 2017,* Kenya's economic growth in 2017 is likely to be influenced more by the domestic factors than external ones. The long rains are projected to delay and be depressed in 2017, which is likely to have a direct negative impact on growing of crops, production of livestock & its products, electricity generation and water supply. Due to the share of agricultural contribution to the GDP, there will be lower rural demand for goods and services. The impacts could further be experienced in sectors that have strong interlinkages with these industries.

If the deceleration in growth of credit that started in 2016 continues, it is likely to constrain growth in 2017 especially in activities that are reliant on borrowing from commercial banks. Furthermore, sectors such as manufacturing are encountering more intensified competition in their traditional markets which could delay the recovery in the sector. However, the expected commencement of railways services on the Standard Gauge Railways (SGR) is likely to increase efficiency while other modes of transport are expected to continue in the current growth trajectory. The overall performance is therefore likely to be determined by the extent of these factors.

International oil prices are projected to rise in 2017 albeit gradually. If this occurs, growth in the road transport is likely to be suppressed due to rise in cost of intermediate inputs.

The exchange rate is expected to remain stable due to significant level of reserves, the continued growth in emigrant remittances and sustainability of the current account deficit.

On demand side, growth is likely to be driven by both public and private final consumption. On external front, world trade is projected to improve while the expansion of global economy is expected to be strong in 2017. Similarly, majority of Kenya's main European trading partner are likely to sustain strong growths and therefore support the domestic economy.

2.0 EPZ Performance for the year 2016

2.1 Overview of the program

In the year 2016, most of the performance indicators for EPZ program exhibited an upward trend compared to the year 2015.
The number of gazetted zones rose to 65 in year under review from 56 in 2015.

Exports and total sales value increased by 5.4% and 5.7% to stand at Kshs.64,151 million and Kshs.68,569 million respectively. Sales to the domestic market also rose from Kshs.1,793 million in 2015 to Kshs.2,541 million in 2016.

Direct local employment expanded by 5.3 % from 50,302 persons recorded in 2015 to 52,947 persons in 2016.

Cumulative capital investment in form of equipment, machinery and other funds invested by the 111 operational enterprises increased by 41.7% to Kshs.71,242 million in 2016 from Kshs.48,128 million recorded in the previous year. The increase has been attributed to rationalization of value of investment for enterprises and zones/developers.

Imports decreased by 3.9% to stand at Ksh.30,160 million in the year under review from Kshs 31,370. Out of the total value of imports, inputs amounted to Kshs. 29,573 million while capital goods were valued at Kshs.587million in year 2016 while in the year 2015 it amounted to Kshs.26,764 million and Kshs.4,606 million respectively.

Expenditure on local goods and services increased by 7.8%, in 2016 to stand at Kshs.25,735 million from Kshs.23,870 million recorded in the year 2015. This translates to an average of Kshs.2,145 million being injected into the economy by EPZ firms monthly in the year 2016 compared to Kshs.1,989 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: 2012 - 2016

Indicator	**2012**	**2013**	**2014**	**2015**	**2016**	**Growth % (2015 v/s 2016)**
Gazetted zones (no.)	47	50	52	56	65	16.1
Projects approved (no)	20	21	32	28	30	7.1
Enterprises Operating (no.)	82	85	86	89	111	24.7
Employment – (Kenyans) [a]	35,501	39,961	46,221	50,302	52,947	5.3
Employment - (Expatriates) [b]	428	472	517	597	618	3.5
Total Employment (No)=a+b	***35,929***	***40,433***	***46,738***	***50,899***	***53,565***	***5.2***
Total sales (Kshs. million)**	44,273	50,294	57,192	64,897	68,569	5.7
Exports (Kshs. million)	39,962	44,427	51,377	60,879	64,151	5.4
Domestic Sales (Kshs. million)	3,322	4,601	4,211	1,793	2,541	41.7
Imports (Kshs. million)	24,973	27,413	29,461	31,370	30,160	-3.9
Investment Kshs. Million***	38,535	48,004	44,218	48,128	71,242	48.0
Expenditure on local Purchases (Kshs million)[1]	8,027	7,721	8,170	8,815	10,742	21.9
Expenditure on local Salaries (Kshs million)[2]	4,509	6,043	7,511	8,377	9,212	10.0
Expenditure on power (Kshs million)3	757	870	1,004	878	741	-15.6
Expenditure on Telecommunication (Kshs million)4	66	63	67	84	77	-8.3
Expenditure on water (Kshs million)5	117	117	173	194	184	-5.2
Other domestic expenditure (Kshs million)[6]	4,619	4,461	4,045	5,522	4,779	-13.5
Total Domestic Expenditure (Kshs million) = 1+2+3+4+5+6*	***18,097***	***19,275***	***20,970***	***23,870***	***25,735***	***7.8***

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

2.2 Project Approvals

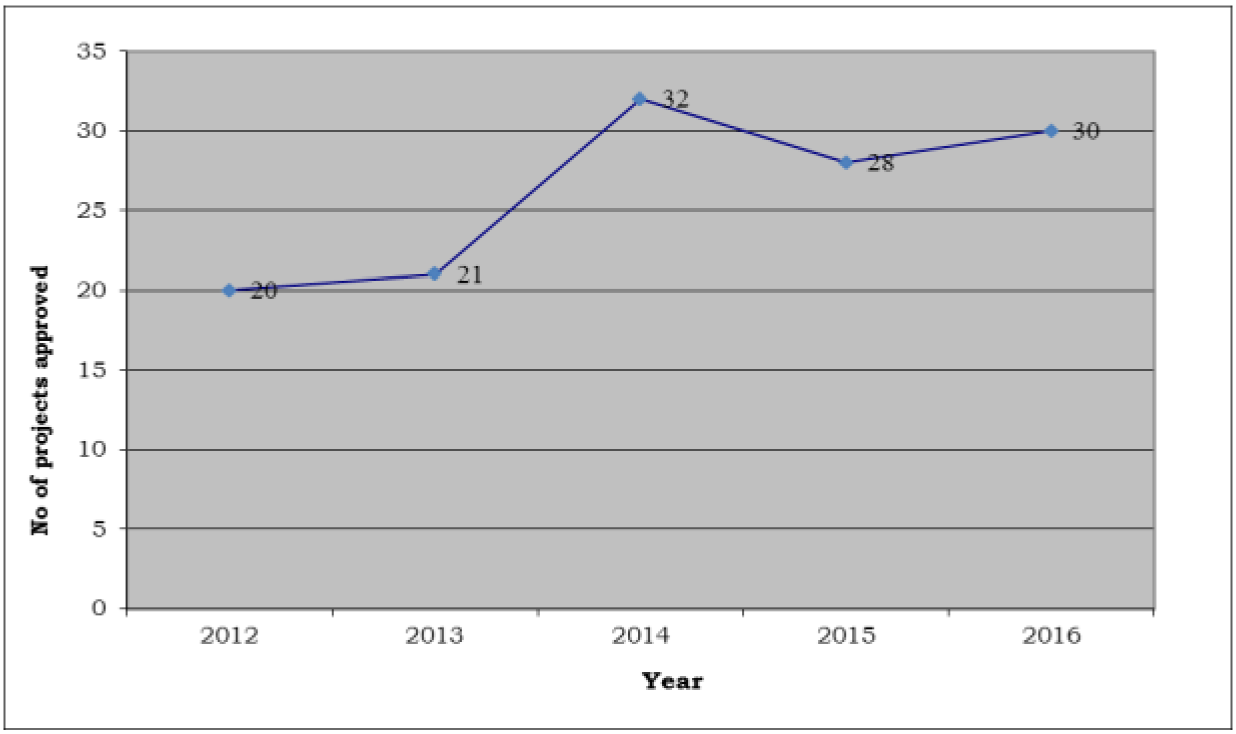
There were 30 approvals with a potential investment of Kshs.3.8 billion, 1,570 jobs and year one sales valued at Kshs.7.1 billion in the year 2016 compared with 28 approvals with a potential investment of Kshs. 9.2 billion, 11,075 jobs and year one sales valued at Kshs.12.4 billion in the previous year.

Table 2 and chart 3 has more details.

Table 2: Projects Approved, Expected jobs, Investment & Sales from 2012 - 2016

Year	Number of projects approved	Jobs (number)	Investment (Kshs. million)	Year One Sales (Kshs. million)
2012	20	5,026	3,798	7,311
2013	21	3,818	5,089	7,584
2014	32	7,607	8,300	10,098
2015	28	11,075	9,225	12,416
2016	30	1,570	3,822	7,092

Chart 3: Trend of number of projects approved from 2012 - 2016



2.3 Status on gazetted zones

The number of gazetted zones as at the end at end of December 2016 stood at 65 compared to 56 in December 2015, out of which 62 are privately owned and operated while 3 are public zones (Athi River, Kipevu and Samburu) in Machakos, Mombasa and Kwale Counties respectively.

Seven zones are located in the County of Nairobi, 23 in Mombasa, 10 in Kilifi, 5 in Machakos, 3 each in Bomet, Nakuru & Kwale, 2 in Kiambu, one each in Muranga, Kajiado, Taita Taveta, Elgeyo Marakwet, Nandi, Uasin Gishu, Laikipia, Embu and Meru. Table 3 details distribution of gazetted zones.

Table 3: Geographical distribution of zones per County, December 2016

County	Former Province	Number of zones
Nairobi	Nairobi	7
Mackakos	Eastern	5
Kajiado	Rift Valley	1
Mombasa	Coast	23
Kilifi	Coast	10
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	3
Nakuru	Rift Valley	3
Kwale	Coast	3
Embu	Eastern	1
Total: 17	**5**	**65**

Gazetted zones are dispersed across 17 out of 47 Counties. 37 out of 65 zones were concentrated in larger coast region constituting 56.9% of the total zones in 2016 compared to 31 out of 56 which translated to 55.4% in 2015.

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.3,045 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.3,297 million. Additional ongoing infrastructural projects are estimated at Kshs.1,700 million bringing cumulative zone investment to Kshs 4,997 million. The zone is managed by the Authority on behalf of the Government.

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

Industrial Park EPZ Ltd, Rupa Cotton Mills EPZ Ltd, Property Vision EPZ Ltd and Growth Point EPZ Ltd 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 18 industrial units with total built up area of about 290,628 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 putting up additional godowns to meet investors' demand.

Capital Industrial Park EPZ Ltd put up a total area of 220,000 square feet; although it has remained largely unoccupied for some time, it now hosts three firms namely; Reltex Tarpaulin Africa EPZ Ltd, Fairoils EPZ Ltd and Ethical Fashions Artisan EPZ Ltd occupied cumulative built up space of 167,768 square feet; representing occupancy of 76.3%. However, there is likelihood of contraction of occupancy as a result of one main tenant being put under administration in the course of the year owing to adverse business environment.

Property Vision EPZ Ltd has constructed seven units totaling 49,700 square feet; Growth Point EPZ Ltd is developing 15 units with cumulative area of 105,000 square feet while Rupa Cotton Mills EPZ Ltd has an estimated 160,000 square feet to cater for investors' needs.

The zone had 54 operating enterprises in the year 2016 compared to 42 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 Hela Intimates EPZ Ltd, Meru Greens Horticulture EPZ Ltd, Eureka Nuts EPZ Ltd, Precious Dynagold EPZ Ltd and African Coffee Roasters EPZ Ltd.

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

Export Business Accelerator (EBA) phases I & II have a cumulative space of 79,000 square feet, which had an average occupancy of 84%. 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 to 122,232 square feet. Total area occupied was 111,367 square feet representing occupancy of 91.1%. It housed eight 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 Mvita Industrial Park EPZ Ltd, Changamwe

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

2.4.6 Ayman Industrial Park EPZ Ltd, Changamwe

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

2.4.7 Talab EPZ Ltd (Mtwapa)

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

2.4.8 General information on zone Occupancy

Cumulative built up area put up by the public zone/Athi River was 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. Five private zone developers (Transfleet EPZ Ltd, Capital Industrial Park EPZ Ltd, Property Vision EPZ Ltd, Growth Point EPZ Ltd and Rupa Cotton Mills EPZ Ltd) have made available industrial space of 825,328 square feet.

2.4.9 Other information on zones

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

2.4.10 Zones gazetted in the course of the year.

Eight zones were gazetted in the year 2016; namely; Privamnuts EPZ Kenya Ltd (Embu county), Sotit 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. During the year 2015, five zones were gazetted, namely; Vipingo Business Park EPZ Ltd & Mtwapa EPZ Ltd (Kilifi County), Goodison 218 EPZ Ltd & Rainforest Farmland EPZ Ltd (Nakuru County) and Kenya Supply Platform EPZ Ltd in Machakos County.

2.4.11 Zones in the process of setting up.

These include Goodison 218 EPZ Ltd located in Naivasha & Bedi Investments EPZ Ltd in Nakuru (Nakuru County), Sotit Tea Factory EPZ Ltd (Bomet County), Ravco Kenya EPZ Ltd (Mombasa County), Talab EPZ Ltd, Vipingo Business Park EPZ Ltd, Mtwapa EPZ Ltd, Revital Healthcare EPZ Ltd and Swati Investment Co. EPZ Ltd in Kilifi County respectively. Talab EPZ Ltd is the zone opposite the one that is being occupied by Brilliant Garments EPZ Ltd and Mombasa Apparel EPZ Ltd (Unit 3). 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 2017. 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; Privamnuts EPZ Kenya EPZ Ltd located in Embu County which deals with macadamia processing. On the other hand, Hopetoun EPZ Ltd that hosts Olivado EPZ Ltd, which is located in Mirira, Muranga County, was in the process of expanding production.

2.4.13 Zones hosting a branch of an enterprise.

These include Pwani Industrial Park EPZ Ltd, Miritini, (formerly Birch Investment EPZ Ltd) Ltd, host branch of Simba Apparel EPZ Ltd while Kingorani EPZ Ltd EPZ Ltd (host Hui Commercial EPZ K. Ltd & Hantex Garments EPZ Ltd), Halai Brothers EPZ Ltd, Changamwe (host a branch of Mombasa Apparel EPZ Ltd, unit 2), and Talab EPZ Ltd, Mtwapa (Mombasa Apparel EPZ Ltd; unit 3) respectively.

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

2.5 Sector performance

In the year under review sixteen industrial sub sectors were operational, 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 4 & 5 show sector contribution to investment and exports.

The garment sector still remains the most dominant sector within the program as shown by selected performance indicators. It constituted 18.9% of enterprises, 80.3% of total local jobs, 57.5% of exports, 55.3% of total sales, 38.2% of expenditure on local goods & services and 21.5% of private investment compared to 23.6%, 82.7%, 61.4%, 59.6%, 39.4% and 32.6% respectively in the year 2015.
However, agro processing sector which is the second dominant sector within the program was the highest performer in number of enterprises at 27.9% and utilization of local resources at 42.1% compared to garment sector in which it recorded 18.9% and 27.9% respectively in year 2016. During the year 2015, agro processing contributed 27.0% in number of firms and 36.2% in local resource while garments sector recorded 23.6% and 39.4% respectively.

On average, garment sector contributed 50.0%, followed by agro processing at 23.8%, services at 8.6% and electricals/electronics at 3.7% on all of the above indicators compared to 44.4%, 17.8%, 5.7% and 0.48% respectively in the previous year.
More details are shown by tables 4 & 5, and Charts 4&5.

Table 4: Sectoral Performance year 2016 (Kshs)

Sector	no of firms	local jobs	exports	total sales	local resource	investment
Agro processing	31	5,943	12,339,002,844	12,507,141,557	10,836,113,898	10,475,565,662
Business Service Permit (BSP)	5	352	0	0	210,125,382	16,252,416,053
chemicals	2	153	140,697,279	146,878,479	128,224,319	3,675,054,343
commercial & commercial craft	3	107	170,165,435	170,165,435	63,947,353	137,574,628
Dartboard	1	412	890,380,407	894,249,782	402,712,627	1,072,062,769
Electricals/electronics	2	42	5,558,290,220	5,558,290,220	18,598,896	706,300
Food processing	2	119	1,141,415,572	1,522,061,346	278,868,289	2,047,079,163
Garments	21	42,496	36,881,868,792	37,895,633,644	9,835,395,422	15,300,488,140
Garments support services	4	71	9,973,103	170,981,031	51,009,182	218,775,520
minerals/metals/gemstones	3	174	259,706,669	259,706,669	668,086,997	950,236,000
Pharmaceuticals & medical supplies	4	512	500,593,154	868,500,466	325,467,791	4,552,220,800
plastics	1	81	13,780,000	13,780,000	26,352,714	200,000,000
printing	1	290	2,008,421,525	3,982,872,305	735,022,077	2,891,458,310
Relief supplies	3	182	1,000,327,184	1,209,173,563	434,649,198	1,441,122,395
services	25	1,961	3,224,191,753	3,357,751,889	1,710,099,239	12,003,761,955
other	3	52	12,218,407	12,218,407	10,909,334	23,367,905
Total	**111**	**52,947**	**64,151,032,344**	**68,569,404,793**	**25,735,582,718**	**71,241,889,943**

Table 5: Proportion of sector contribution year 2016 (%)

Sector	no of firms	local jobs	exports	total sales	local resource	investment	average
Agro processing	27.93%	11.22%	19.23%	18.24%	42.11%	14.70%	23.75%
Business Service Permit (BSP)	4.50%	0.66%	0.00%	0.00%	0.82%	22.81%	1.20%
chemicals	1.80%	0.29%	0.22%	0.21%	0.50%	5.16%	0.60%
commercial craft	2.70%	0.20%	0.27%	0.25%	0.25%	0.19%	0.73%
Dartboard	0.90%	0.78%	1.39%	1.30%	1.56%	1.50%	1.19%
Electricals	1.80%	0.08%	8.66%	8.11%	0.07%	0.00%	3.74%
Food processing	1.80%	0.22%	1.78%	2.22%	1.08%	2.87%	1.42%
Garments	18.92%	80.26%	57.49%	55.27%	38.22%	21.48%	50.03%
Garments support services	3.60%	0.13%	0.02%	0.25%	0.20%	0.31%	0.84%
minerals/metals/gemstones	2.70%	0.33%	0.40%	0.38%	2.60%	1.33%	1.28%
Pharmaceuticals & medical supplies	3.60%	0.97%	0.78%	1.27%	1.26%	6.39%	1.58%
plastics	0.90%	0.15%	0.02%	0.02%	0.10%	0.28%	0.24%
printing	0.90%	0.55%	3.13%	5.81%	2.86%	4.06%	2.65%
Relief supplies	2.70%	0.34%	1.56%	1.76%	1.69%	2.02%	1.61%
services	22.52%	3.70%	5.03%	4.90%	6.64%	16.85%	8.56%
other	2.70%	0.10%	0.02%	0.02%	0.04%	0.03%	0.58%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Chart 4: Sector contribution to local employment 2016

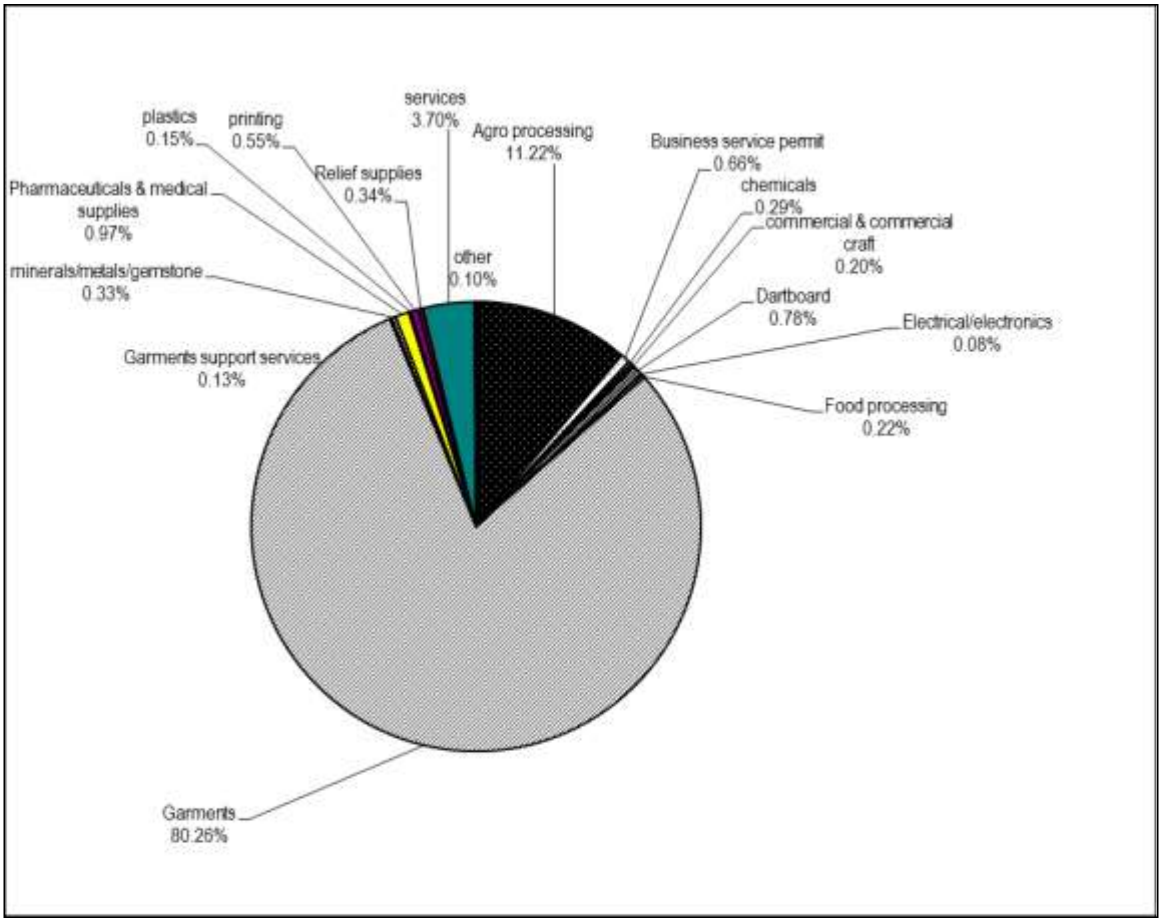
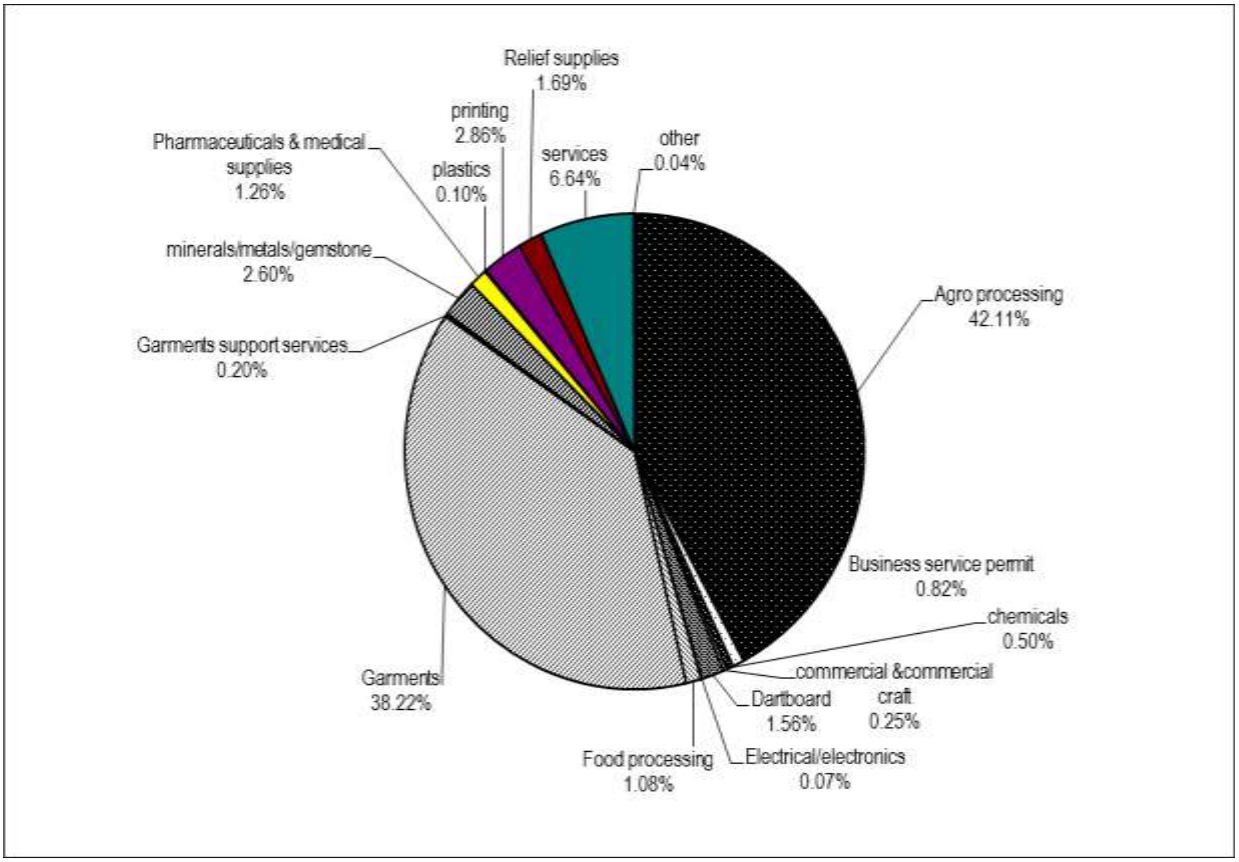


Chart 5: Sector contribution to local resource utilization, 2016



2.6 Ownership of EPZ enterprises

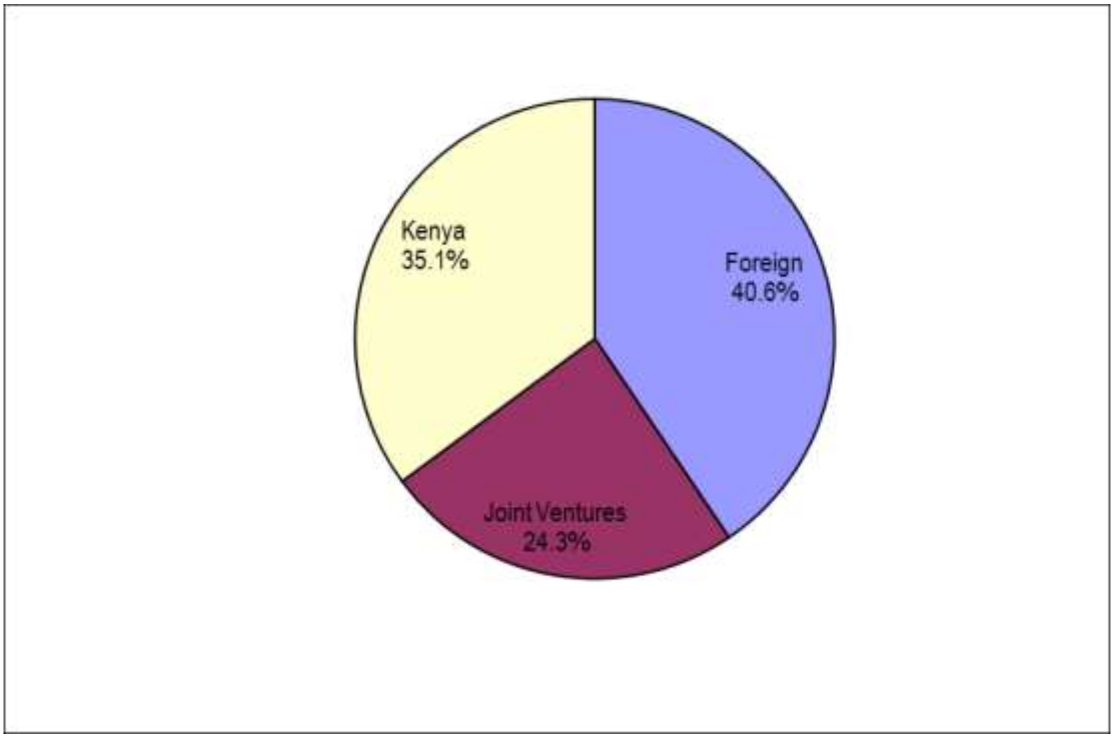
During the year 2016, 35.1% of total EPZ enterprises were wholly Kenyan, Joint ventures were 24.3% while foreign investments constituted 40.6%. In 2015, 33.7% were wholly Kenyan owned, 22.5% were joint ventures and 43.8% were foreign owned.

One of the reason contributing to 35.1% 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 6 shows the ownership structure of EPZ enterprises in the year 2016.

Chart 6: Ownership of EPZ enterprises, 2016



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. 71,242 million in 2016 from Kshs.48,128 million in the year 2015.

When infrastructure investment of Kshs.17,735 million undertaken by EPZ developers included, the figure becomes Kshs. 88,977 million compared with Kshs.56,190 million in the year 2015. 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, 68.0% (Kshs.48,459 million) were foreign owned while Kenyan accounted for 32.0% (Kshs.22,783 million) in 2016 compared to 73.4% (Kshs.35,340 million) foreign owned and 26.6% (Kshs.12,788 million) Kenyan respectively in the year 2015 (table 6).

Table 6: Value of EPZ enterprises' investments: 2012 – 2016

Indicator	2012	2013	2014	2015	2016
Value of Kenya/Local investments (Kshs million)	11,513	13,057	10,758	12,788	22,783
Value of Foreign investment (Kshs million)	27,021	34,947	33,460	35,340	48,459
Total Investment (Kshs million)	**38,534**	**48,004**	**44,218**	**48,128**	**71,242**
Ratio of value of Kenya/Local investment to Total (%)	29.9	27.2	24.3	26.6	32.0
Ratio of value of Foreign investment to Total (%)	70.1	72.8	75.7	73.4	68.0

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 2.3% to stand at Kshs.34,410 million in 2016 from Kshs.35,224 million recorded in the year 2015. Quantity of apparels exported to US also declined from 84.6 million pieces in 2015 to 74.0 million pieces in 2016. This could be attributed to market uncertainty in US towards the general election in the course of year 2016.

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 2016, these alternative markets were a destination of Kshs.2.4 billion (4.3 million pieces) worth of apparel compared to Kshs. 2.2 billion (4.3 million pieces) of apparel consigned to these markets during the year 2015. It is evident that the alternative market is evolving in significance as indicated by trend on table (7b).

Direct employment expanded by 2.2% to stand at 42,496 from 41,597 recorded in the previous year. During the year 2016, garment sector contributed 81.0% of total local employment compared with 82.7% in 2015.

Investment on the other hand registered a marginal decline of 2.6% to stand at Kshs.15,300 million from Kshs.15,708 million in year 2015 as result of rationalization of firms and zone investment.

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

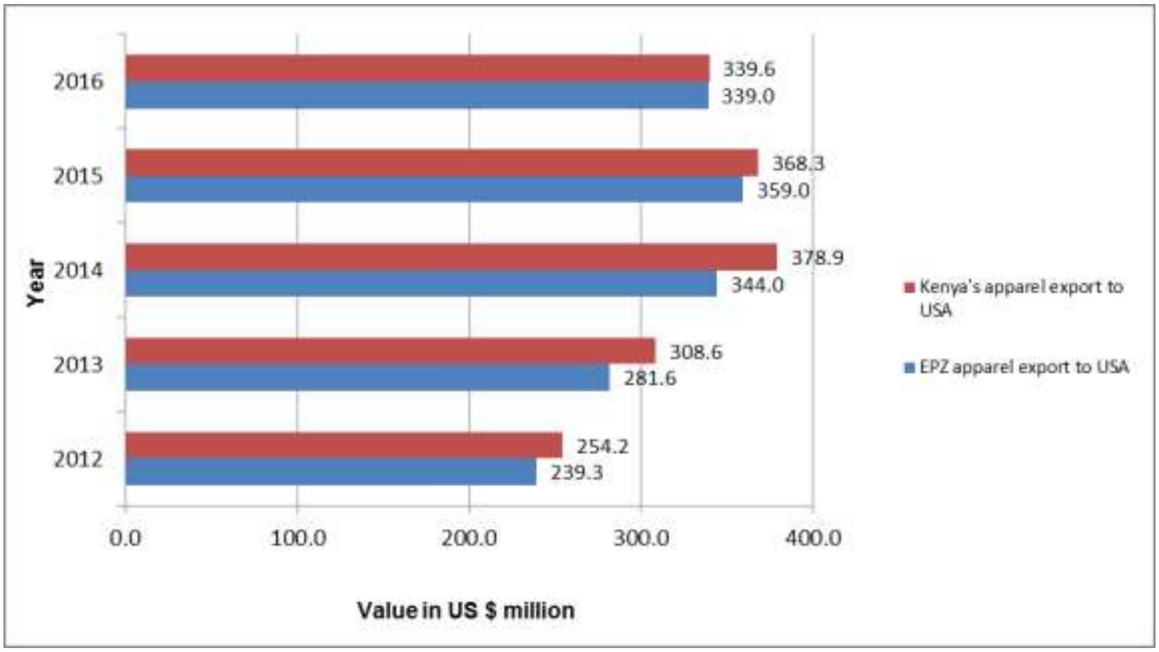
Table 7a: Impact of AGOA on EPZ Garment Sector: 2012 - 2016

Indicator	**2012**	**2013**	**2014**	**2015**	**2016**	**% growth (2015 v/s 2016**
Number of Enterprises	22	22	21	21	21	0.0
Employment (No.)	28,298	32,932	37,785	41,597	42,496	2.2
Investment (Kshs million)	10,732	13,465	15,051	15,708	15,300	-2.6
Exports (Kshs million)	20,217	24,246	30,244	35,224	34,410	-2.3
Quantity of exports (million pieces)	81.3	79.3	81.9	84.6	74.0	-12.5
Imports (Kshs million)	14,699	18,750	20,452	19,028	17,468	-8.2
Exports (US$ million)	239.3	281.6	344.0	359.0	339.0	-5.6
Annual average exchange rate (Kshs/US$)	84.5	86.1	87.9	98.1	101.5	3.5

Table 7 b: Value & quantity of apparel export to USA and to rest of the world: 2012 - 2016

Indicator	**2012**	**2013**	**2014**	**2015**	**2016**
Value of apparel exports to USA (Kshs m)	20,217	24,246	30,244	35,225	34,410
Value of apparel export rest of world (Kshs m)	991	2,144	2,600	2,165	2,472
Total value	**21,208**	**26,391**	**32,844**	**37,390**	**36,882**
Quantity apparel of exports to USA (million pieces)	81.3	79.3	81.9	84.6	74.0
Quantity of apparel export to rest of the world (million pieces)	2.6	5.4	6.2	4.3	4.3
Total quantity	**83.9**	**84.7**	**88.1**	**88.9**	**78.3**

Chart 7: Trend of EPZ Garment Exports v/s Overall Kenya Garment/ apparel Exports to US under AGOA: 2011 - 2015 (US $ million)



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

The overview of the performance of selected SSA countries indicated that the growth was mixed in the year 2016.

Total apparel exports from Kenya to US decreased marginally by 7.8% in year 2016 to stand at US$ 339.6 million from US$ 368.3 million recorded in 2015. This could be attributed to the uncertainty in the runners up to US General elections in the course of year 2016.

EPZ garment/apparel exports were US$ 339.0 million; constituting 99.8% of the national apparel exports while during the previous year it accounted for 97.4%.

Apparel exports from Lesotho saw a marginal increase of 1.7% to stand at US$294.5 million while those from Mauritius declined by 8.5% to US$197.0 million. Madagascar was removed from AGOA in year 2010 due to ineligibility requirements. It was not after year 2013 that the country was reinstated.

Overall, Kenya maintained her SSA top apparel exporter to US for the last three consecutive years in 2016.

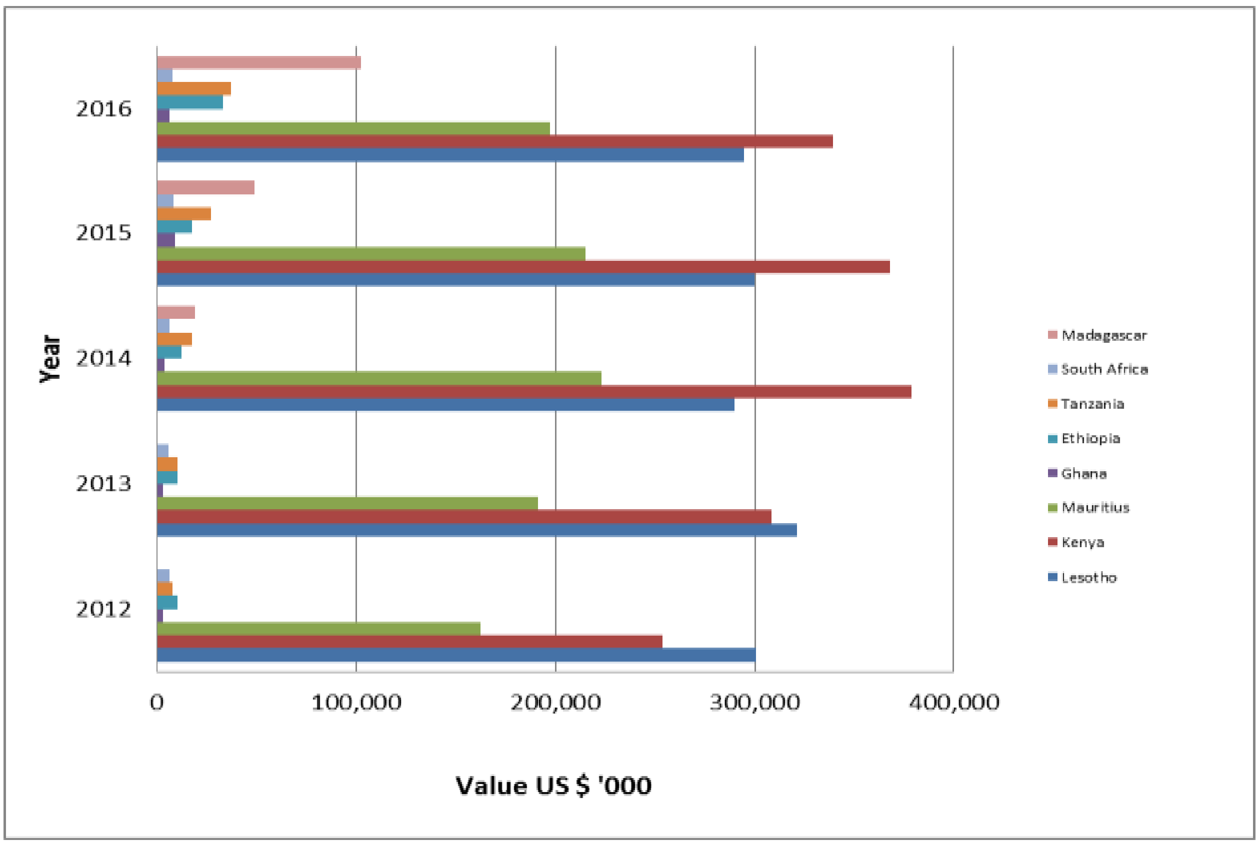
Table 8 and chart 8 has trend on performance of selected SSA countries which are non-oil producers and heavily rely on apparel/garment exports to US under AGOA program.

Table 8: Exports to US under AGOA provisions for selected Africa AGOA eligible countries 2012 – 2016 (US $ '000)

Country	2012	2013	2014	2015	2016	% change 2015 -2016
Kenya	254,232	308,563	378,911	368,273	339,630	-7.8
Lesotho	300,930	321,276	290,309	299,690	294,531	-1.7
Madagascar	0	0	18,668	48,978	102,527	109.3
Mauritius	162,788	191,188	223,060	215,255	197,020	-8.5
Ghana	2,799	2,729	3,831	9,204	6,255	-32.0
Ethiopia	10,199	10,348	12,030	17,647	32,668	85.1
Tanzania	7,531	10,389	17,480	27,316	36,955	35.3
South Africa	6,132	5,837	6,092	8,370	7,584	-9.4

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

Chart 8: Trend of apparel exports to US from selected AGOA Africa countries under AGOA, 2012 – 2016 (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, including review of extension of third country fabric. The 2016 Forum was held in USA while the one for 2017 is scheduled to take place in Togo.

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/Muranga/Embu, Laikipia/Naivasha and Nandi/Bomet. Most of these firms are concentrated around Athi River, Nairobi and Mombasa region.

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

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

Although Mombasa region had the second highest number of operating enterprises numbering 30, it generated total local employment of 20,124 compared to 55 firms in Athi river region creating 18,033 jobs. During the year 2015, Mombasa region created 21,070 while Athi River region managed 14,899 jobs respectively

Average performance for the regions with respect to the selected indicators were 35.5%, 32.4%, 25.2%, 3.1% and 1.6% for Athi River, Mombasa, Nairobi, Thika/Muranga/Embu and Laikipia/Naivasha for 2016 compared with 32.2%, 37.6%, 22.1%, 2.7% and 1.6% respectively in 2015.

Refer to tables 9 & 11 and Chart 9 for more details.

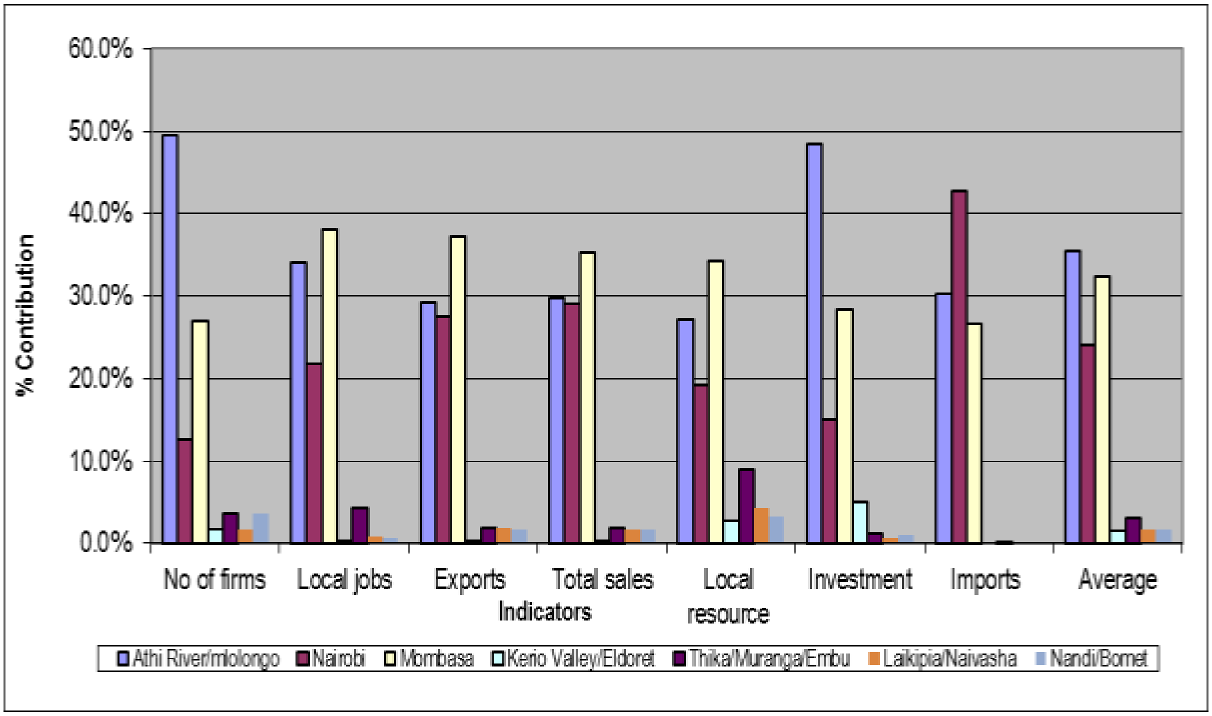
Table 9: Regional performances year 2016

Region/ Zone	Firms (no)	Local jobs (no)	Exports (Kshs m)	Total sales (Kshs m)	Local resource (Kshs m)	Firms' Investment (Kshs m)	Imports (Kshs m)
Athi River/mlolongo	55.0	18,033.0	18,736.0	20,430.0	7,006.0	34,567.0	9,149.0
Nairobi	14.0	11,518.0	17,700.0	19,953.0	4,961.0	10,680.0	12,891.0
Mombasa	30.0	20,124.0	23,820.0	24,191.0	8,812.0	20,239.0	8,062.0
Kerio Valley/Eldoret	2.0	212.0	258.0	258.0	699.0	3,614.0	0.0
Thika/Muranga/Embu	4.0	2,269.0	1,262.0	1,290.0	2,326.0	816.0	26.0
Laikipia /Naivasha	2.0	446.0	1,228.0	1,228.0	1,105.0	547.0	18.0
Nandi/Bomet	4.0	345.0	1,146.0	1,219.0	826.0	778.0	14.0
Total	**111**	**52,947**	**64,150**	**68,569**	**25,735**	**71,241**	**30,160**

Table 10: Contribution by region, 2016 (%)

Zone	No of firms	Local jobs	Exports	Total sales	Local resource	Firms' investment	Imports	Average
Athi River/mlolongo	49.5%	34.1%	29.2%	29.8%	27.2%	48.5%	30.3%	35.5%
Nairobi	12.6%	21.8%	27.6%	29.1%	19.3%	15.0%	42.7%	24.0%
Mombasa	27.0%	38.0%	37.1%	35.3%	34.2%	28.4%	26.7%	32.4%
Kerio Valley/Eldoret	1.8%	0.4%	0.4%	0.4%	2.7%	5.1%	0.0%	1.5%
Thika/Muranga/Embu	3.6%	4.3%	2.0%	1.9%	9.0%	1.1%	0.1%	3.1%
Laikipia/Naivasha	1.8%	0.8%	1.9%	1.8%	4.3%	0.8%	0.1%	1.6%
Nandi/Bomet	3.6%	0.7%	1.8%	1.8%	3.2%	1.1%	0.0%	1.7%
total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Chart 9: Contribution by region (%) year 2016

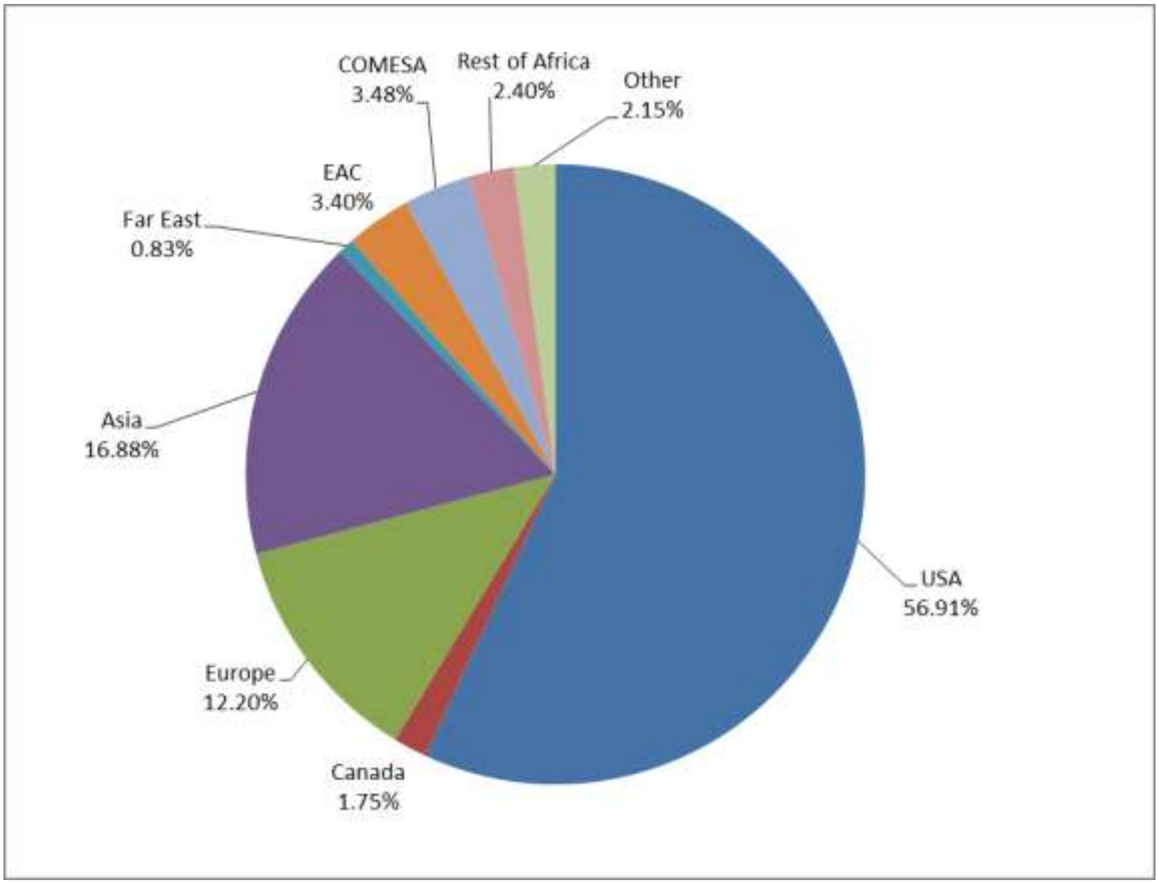


5.0 Destination of Exports

During the year under review, 57.0 % (Kshs.36,510 million) of all exports were consigned to USA market out of which 94.2% (Kshs.34,409 million) constituted exports of garment products. In the year 2015, 62.7% (Kshs. 38,179 million) were exported to US out of which 92.3% (Kshs.35,224 million) accounted for garment exports.

Europe accounted for 12.2 % (Kshs.7,825 million) of the export market, 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) was destined to the rest of the world. During the previous year, Europe accounted for 15.9% (Kshs.9,671 million), EAC 1.2% (Kshs.725 million), Asia 5.50% (Kshs.3,349 million), COMESA 4.9% (Kshs.2,970 million),Rest of Africa 3.40% (Kshs.2,071 million), Far East 0.44% (Kshs.269 million) and 3.5 % (Kshs.2,136 million) to the rest of the world (chart 10).

Chart 10: Market destination for all exports, 2016



6.0 Employment and wages

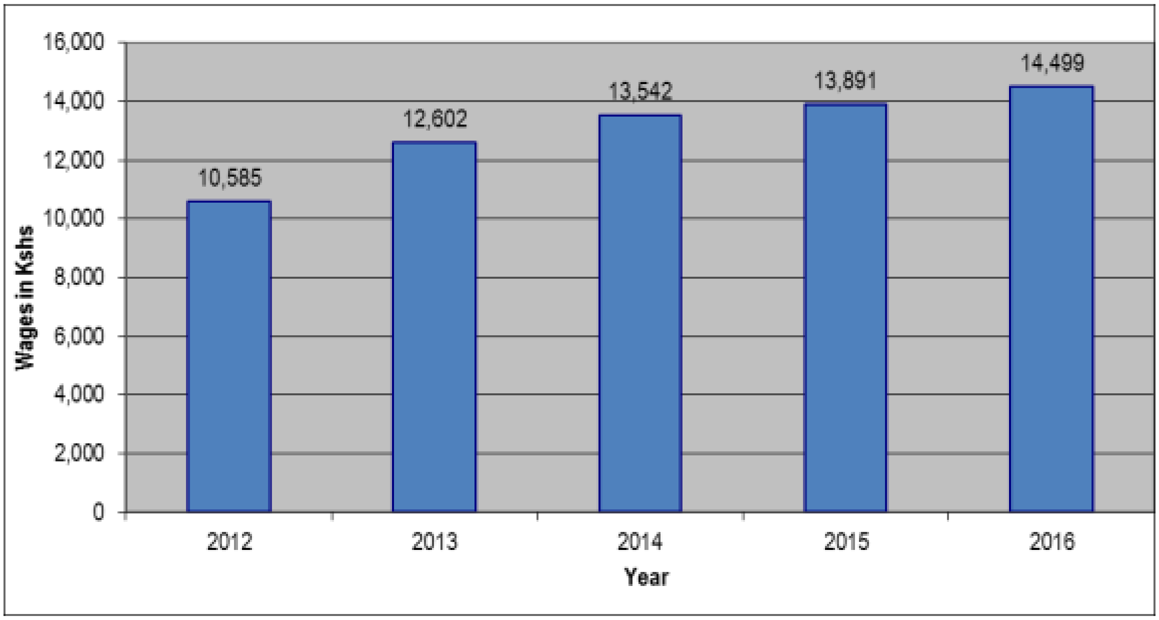
The monthly average wage for local employment within the EPZ has been on steady increase over the years as shown by table 11 and Chart 11. The average monthly wages has increased from Kshs 10,585 in the year 2012 to Kshs 14,499 in the year 2016, representing 37.0% increase. This meant that there has been an average of over 7 % increase in local wages per annum in the last five years.

Table 11: Employment and Wages: 2012 – 2016

Indicator	2012	2013	2014	2015	2016
Local employees (Number)	35,501	39,961	46,221	50,302	52,947
Expatriates (Number)	428	472	517	597	618
Total employment (Number)	35,929	40,433	46,738	50,899	53,565
Local wages (Kshs)	4,509,251,454	6,042,912,860	7,511,228,508	8,376,738,910	9,212,279,985
Expatriate wages (Kshs)	400,803,713	467,535,058	537,187,843	683,747,557	768,274,397
Total wages (Kshs)	4,910,055,167	6,510,447,918	8,048,416,351	9,060,486,467	9,980,554,382
Average Annual wages locals (Kshs)	127,018	151,220	162,507	166,691	173,991
Average Annual wages expatriates (Kshs)	936,457	990,540	1,039,048	1,145,306	1,243,162
Average monthly wage locals (Kshs)	10,585	12,602	13,542	13,891	14,499
Average monthly wage expatriates (Kshs)	78,038	82,545	86,587	95,442	103,597
Average monthly wage locals (US$)	125	147	154	142	143
Average monthly wage expatriates (US$)	924	959	985	973	1,021
Average annual exchange rate(Kshs/US$)	84.5	86.1	87.9	98.1	101.5

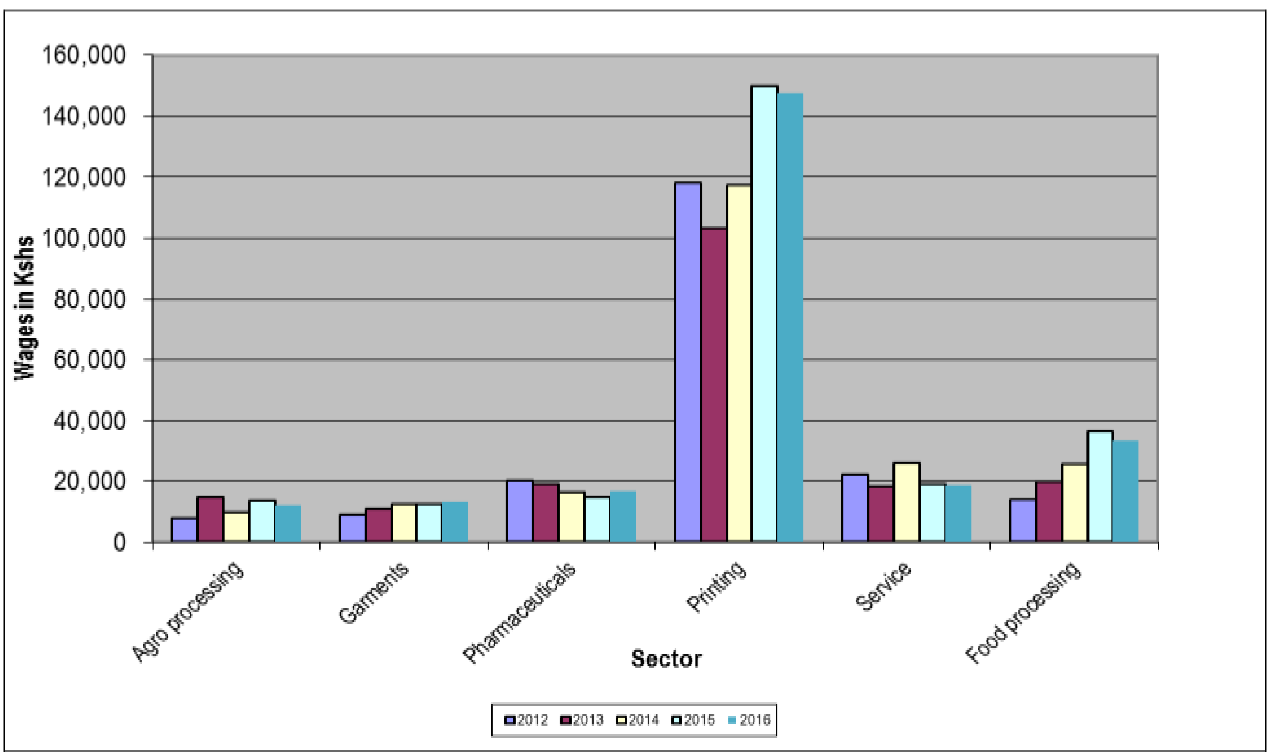
Source: EPZA records

Chart 11: Average monthly wages for local employees, 2012 to 2016 (Kshs)



With respect to selected sectoral wages, the printing sector continued to offer high remuneration to its employees in 2016 compared to other sectors; a similar position was exhibited in the previous year. More details are outlined on chart 12.

Chart 12: Average sectoral monthly wages, 2012 - 2016



6.1 Training of local workers and transfer of technology

In the year 2016, 45 enterprises (40.5%) trained local employees in various industrial disciplines compared to 48 (53.9%) 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 2016, the export processing zones contribution to the total manufacturing sector employment accounted for 17.60% from 17.02% posted in the year 2015.

In the year under review, EPZ contribution to manufacturing sector output declined marginally to 3.22% from 3.27% registered in the previous year. Manufacturing sector contribution is based on revised rebased national accounts that came into being in September 2014.

EPZ exports to total Kenya exports showed that it increased from 10.48% in 2015 to 11.10% in the year 2016.

Contribution to Gross Domestic Product (GDP) at market price of the economy declined marginally from 1.04% in 2015 to 0.96% in 2016 as a result of GDP rebasing.

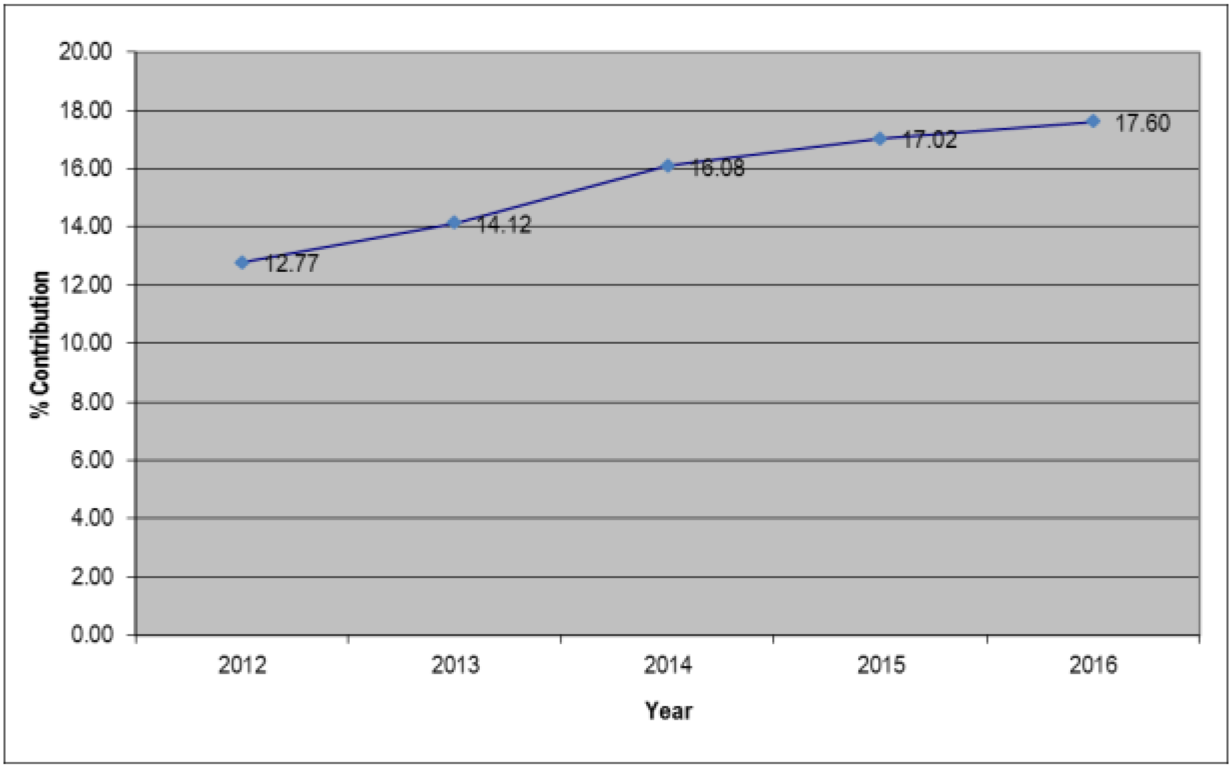
A summary on table 12 and Chart 13 shows EPZs contribution to the national economy.

Table 12: EPZ contribution to the national economy: 2012 – 2016

Indicator	Units	2012	2013	2014	2015	2016
Total Kenya Exports	Kshs Million	517,847	502,287	537,236	581,045	578,067
Manufacturing sector Value of Output	Kshs Million	1,619,622	1,732,412	1,831,071	1,976,800	2,132,300
GDP at market prices	Kshs Million	4,261,151	4,730,801	5,398,020	6,260,646	7,158,695
Total national employment	number	12,782,000	13,517,000	14,319,200	15,163,600	15,996,500
Manufacturing sector employment	Number	277,900	283,000	287,456	295,500	300,900
Total output EPZ	Kshs Million	44,273	50,294	57,192	64,897	68,569
Exports EPZ	Kshs Million	39,962	44,427	51,377	*60,879*	*64,151*
Total Employment EPZ (local)	*Number*	*35,501*	*39,961*	*46,221*	*50,302*	*52,947*
EPZ contribution to total Kenya Exports	Percent	7.72	8.84	9.56	10.48	11.10
EPZ contribution to manufacturing sector value of output	Percent	2.73	2.90	3.12	3.27	3.22
EPZ contribution to total national employment	Percent	0.28	0.30	0.32	0.33	0.33
EPZ contribution to manufacturing sector employment	Percent	12.77	14.12	16.08	17.02	17.60
EPZ contribution to GDP (constant prices)	Percent	1.04	1.06	1.06	1.04	0.96

Source: Economic Survey 2017 and EPZA various reports.

Chart 13: EPZ Contribution to manufacturing sector employment; 2012 – 2016



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 general elections, 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 2016 are tabulated on table 13.

Table 13: Constraints/ impediments reported by EPZ enterprises, 2016.

Constraint/impediment	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	Number of firms which reported /affected (2014)	% of enterprises affected to total no. of operating firms in 2014
Labour productivity/turn over/efficiency, labour unrest	7	7.6	10	11.2	9	10.5
Unfavourable economic condition/ inflation etc	3	3.3	4	4.5	6	7.0
High Cost of production	12	13.0	15	16.9	7	8.1
Customs regulations/KRA	7	7.6	8	9.0	9	10.5
High cost of power/electricity	12	13.0	10	11.2	16	16.6
Lack of locally sourced inputs	2	2.2	1	1.1	8	9.3
Issues pertaining to inefficiency of port/railway transport	2	2.2	3	3.4	5	5.8
Competition from other countries	10	10.9	7	7.9	11	12.8
High cost of water/ unreliable water supply	3	3.3	4	4.5	5	5.8
Local currency fluctuation	1	1.1	7	7.9	4	4.7
Poor infrastructure	10	10.9	5	5.6	6	7.0
Shortage of raw materials	16	17.4	14	15.7	13	15.1
Market access/market barriers	6	6.5	9	10.1	7	8.1
Diminishing demand	9	9.8	3	3.4	2	2.3
Adverse weather conditions	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 appropriate machines/technology by subcontract EPZ garment firms, marketing, political instability, security concern, congestion among others).	32	34.8	40	44.9	35	40.7

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 industrial space.

Limited availability of industrial space continued to be experienced in 2016.

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

ii) Global Competition.

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

iii) Global inward looking policy trend.

Great Britain (UK) has opted out of the Europen Union and 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 processing firms were mostly affected.

v) 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.

vi) 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. EPZ companies export tarpaulins, pharmaceuticals, relief supplies and fortified food among others.

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

vii) 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.

10.0 Way forward/required support

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

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

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

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

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

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

vii) Identify new export markets;

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

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

11.0 Set targets and Actual performance.

The projections for the year 2017 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 120 based on facilitation of new enterprises to commence operation by end of year 2017, 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 9.5% while total sales to expand by 9%. Capital investment which constitutes value of plant, machinery, equipment and other funds invested by EPZ firms is likely to grow by an average of 3%, while domestic expenditure is expected to increase by an estimated 8%.

A summary of set and actual targets for years 2014 to 2016 and projections for year 2017 are outlined on table 14.

Table 14: Set and Actual Targets for 2014 to 2016 and Projections for 2017

Indicator	Target			Actual			% attained			Target
	2014	**2015**	**2016**	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**	**2017**
Operating enterprises (Number)	97	100	100	86	89	111	88.7	89.0	100	120
Employment (Kenyans) Number.	45,000	55,465	56,539	46,221	50,302	52,947	100.0	90.7	93.6	56,672
Investment (Kshs million)	52,014	48,640	52,171	44,218	48,128	71,242	85.0	98.9	100.0	73,242
Total sales (Kshs million)	53,763	68,630	69,310	57,192	64,897	68,569	100.0	94.6	98.9	74,740
Exports (Kshs million)	48,287	61,767	65,749	51,377	60,879	64,151	100.0	98.6	97.6	68,989
Ratio of domestic sales to total sales (%)	9	9	9	7.4	2.8	3.7	100.0	100.0	100.0	20
Domestic expenditure (Kshs million)	21,505	22,970	26,185	20,970	23,870	25,735	97.5	100.0	98.3	28,234

Average attainment of set targets for the year 2016 was 98.3% compared to 96.0% in the previous year.

Some of the targets set for the year 2016 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 2016 is expected to be maintained in 2017, high cost of production and internal shocks like the forthcoming general elections are some of the factors which are likely to play key role in the performance of the program going forward in 2017. 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
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