EXPORT PROCESSING ZONES PROGRAM
ANNUAL PERFORMANCE REPORT, 2018

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1.0 Executive Summary

The performance of the EPZ program in the year 2018 maintained an upward trend in several indicators.

Direct local employment expanded by 4.3 % from 54,794 persons recorded in 2017 to 57,099 persons in 2018.

Capital investment in form of equipment, machinery and other funds invested by the 136 operational enterprises increased by 2.4% to Kshs. 76,356 million in 2018 from Kshs.74,586 million recorded in the previous year. While the cumulative value of investment for enterprises and zones (developers/operators) stood at Kshs 105,066 million in 2018 from Kshs 95,278 million registered in year 2017.

Expenditure on local goods & services rose by 10.9% in the year 2018 to stand at Kshs 30,845 million compared to Kshs 27,805 million in 2017.

Total sales increased by 14.9% to stand at Kshs 77,270 million in 2018 from Kshs 67,270 million in 2016, while exports rose by 19.2% to stand at Kshs 72,390 million from Kshs 60,729 in 2017.

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

The impact as a result of the implementation of Export Business Accelerator (EBA) – Incubator, has encouraged indigenous enterprises (SMEs) to venture into the EPZ program. In addition, the number of EPZ firms with local ownership has risen from 33.7% in 2014 to 37.5% in 2018.

1.1 Introduction

During the year 2019 the Government continued its implementation of Economic Transformation Agenda (ETA) that commenced in the year 2014. The programs and policies under ETA have strengthened the resilience of the economy and laid a solid foundation for Kenya's industrialization as envisaged in the Vision 2030.

The government began implementation of the 'Big Four' Agenda that with focus on the follwing:

i. Support value addition & raise manufacturing sector's share of GDP to 15% by 2022;
ii. Focus on initiatives that guarantee food security & nutrition to all Kenyans by 2022;

iii. Provide Universal Health Coverage thereby guaranteeing quality & affordable healthcare to all Kenyans; and
iv. Provide housing to all Kenyans by targeting construction of at least five hundred thousand affordable houses by 2022.

The government has identified key drivers under the manufacturing sector as textiles & apparels; leather & leather products; agroprocessing and SME development. Research and innovation will catalyze the sector by providing top-notch cutting-edge technology, and conforming to the highest international standards.

EPZ program is expected to play a critical role in the manufacturing sector contribution to Gross Domestic Product (GDP) of 15% by 2022 from 9% in 2017.At the end of the plan period, it is expected that 1,000,000 job opportunities will have been created as well as a five fold increase in foreign direct investment. Hence therefore, EPZ program will be expected to be instrumental in achievement of the manufacturing sector objectives and targets, considering that key sectors driving the program are similar to those of the government.

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

This report provides insight to the national and international economic environment borrowing highlights from *Economic Survey 2019*, EPZ performance analysis under various indicators, impact of African Growth Opportunity Act (AGOA), constraints/challenges, set & actual targets for the year 2016 to 2019 including projection/outlook for 2020, and finally the conclusion.

1.2 National and International Scene

The real Gross Domestic Product (GDP) is estimated to have expanded by 5.4 per cent in 2019 compared to a growth of 6.3 per cent in 2018. The growth was spread across all sectors of the economy but was more pronounced in service-oriented sectors. Agriculture, Forestry and Fishing sector accounted for a sizeable proportion of the slowdown, from 6.0 per cent growth in 2018 to 3.6 per cent in 2019. The manufacturing sector grew by 3.2 per cent in 2019 compared to 4.3 per cent growth in 2018. Despite most sectors recording decelerated growths, the economy was supported by accelerated growths in Financial and Insurance (6.6 per cent) and Real Estate activities (5.3 per cent)

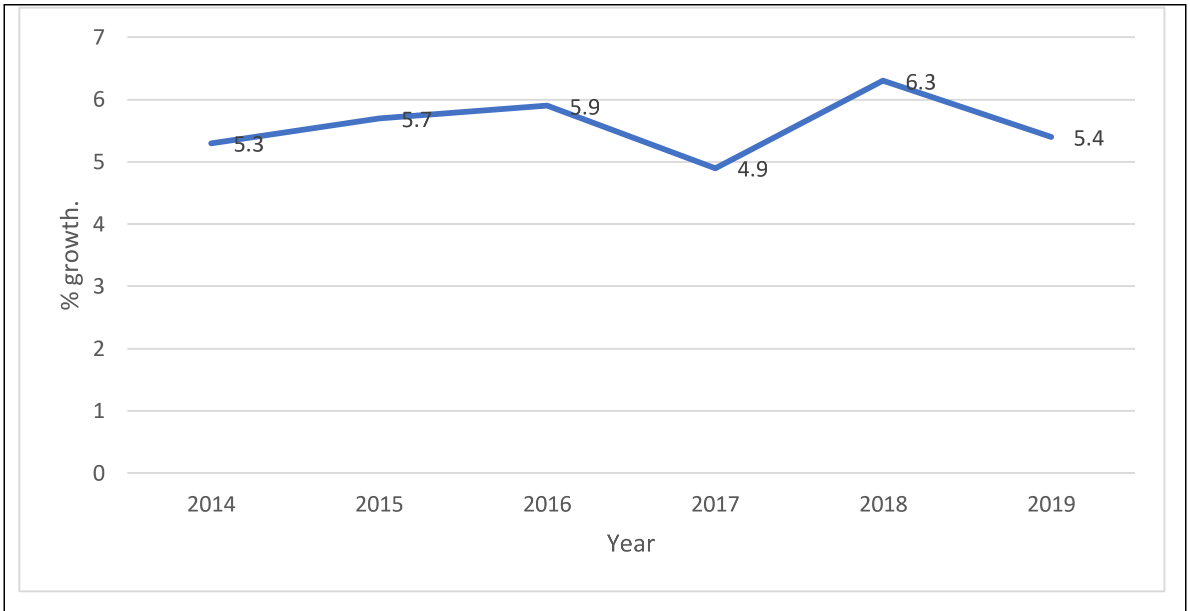
World real GDP recorded a decelerated growth of 2.9 per cent in 2019 compared to a growth of 3.5 per cent in 2018. Advanced economies are estimated to have expanded by 1.2 per cent in 2019 compared to a growth of 2.2 per cent in 2018. Sub-Saharan Africa's growth slightly slowed to 3.1 per cent in the review period from 3.3 per cent growth in 2018. The growth was mostly supported by favourable

weather conditions that led to increased agricultural production as well as high infrastructural investments.
Globally, the inflation rate eased from 2.3 per cent in 2018 to 2.0 percent in 2019, mainly attributable to decline in energy prices; reduction in world trade prices of food and agricultural raw materials; and modest wage levels in most countries.

The growth in global trade volume slowed from an expansion of 3.7 per cent in 2018 to 1.2 per cent in 2019. Decelerated growth was highly pronounced in the advanced economies and the EMDE's such as China and South Asia. The world's current account surplus as per cent of GDP remained at 0.4 per cent in 2019, similar to 2018. The overall fiscal balance as a percentage of GDP stood at a deficit of 3.2 per cent in 2019 compared to a deficit of 2.9 per cent in 2018.
In the same year, unemployment rate was estimated at 5.4 per cent compared to a 5.3 per cent growth in 2018. The slowdown in unemployment rate was mainly from the high-income countries

The real GDP in the East African Community (EAC) bloc grew by 5.9 per cent in 2019 compared to 6.6 per cent growth in 2018. The deceleration in growth was generally recorded in all the countries in the bloc. In 2019, Rwanda recorded the highest real GDP growth rate of 10.1 per cent in 2019 in the bloc, supported by strong growth in the private sector and infrastructure.
In Uganda, real GDP grew by 4.9 per cent in 2019 compared to a growth of 6.1 per cent in 2018.
Tanzania recorded a decelerated growth of real GDP of 6.3 per cent in 2019 compared to a 7.0 per cent growth in 2018
Burundi's real GDP growth improved from 1.6 per cent in 2018 to 1.8 per cent in 2019 while the current account deficit as a percentage of GDP widened to 16.4 per cent 2019compared to 15.0 per cent in 2018
The Southern African Development Community (SADC) recorded a real GDP growth of 1.1 per cent in 2019 compared to a 2.1 per cent in 2018.

Chart 1: Real GDP growth rate (%), 2014 to 2019



Source: Economic Survey , 2020.

1.3 Performance by key sectors of the economy

1.3.1 Agriculture

In 2019, the country experienced a mixed weather phenomenon. This was characterized by drought during the first half of the year, followed by high rainfall in the second half of the year. This culminated in reduced production of selected crops and pasture for livestock. Consequently, the agriculture sector performance decelerated from 6.1 per cent in 2018 to 3.6 per cent in 2019.

The total quantity of coffee produced increased by 8.7 per cent from 41.4 thousand tonnes in 2017/18 to 45.0 thousand tonnes in 2018/19.Area under coffee production increased by 0.5% from 115.6 thousand hectares in 2017/18 to 116.2 thousand hectares in 2018/19, mainly on account of new planting in the counties through the purchase and distribution of free coffee seedlings by Agriculture and Food Authority (AFA)-Coffee Directorate, in collaboration with the County Governments.Coffee production by estate increased from 11.0 thousand tonnes to 14.1 thousand tonnes.

Tea production decreased by 6.9 per cent to 458.5 thousand tonnes in 2019 from 493.0 thousand tonnes in 2018. Production by smallholders decreased by 5.3% to 258.1 thousand tonnes in 2019. While output estate recorded decrease of 9.0% to 200.7 thousand tonnes in 2019.

Earnings from exports of fresh horticultural produce decreased for the first time by 5.9 per cent from KSh 153.7 billion in 2018 to KSh 144.6 billion in 2019. The volume of export increased by 1.8% to 328.3 thousand tonnes in 2019. Export earnings from cut flowers declined by 8.0 %to Ksh 104.1 billion and accounted for 72.0% of total earnings from horticulture exports. Earnings from export of fruits increased by 3.1% to KSh 13.2 billion and accounted for 9.1% of total earnings from horticulture exports in 2019. During the period under review, the quantity of vegetable exported decreased by 15.2 per cent from 85.8 thousand tonnes in 2018 to 72.7 thousand tonnes in 2019.

The area under cane production decreased by 2.5 per cent from 202.4 thousand hectares in 2018 to 197.3 thousand hectares in 2019. The decrease was largely attributed to the closure of Mumias Sugar Factory in early 2018. Area harvested also decreased from 73.1 thousand hectares in 2018 to 71.9 thousand hectares in 2019 mainly due to the lengthy closure of Kwale Sugar Company, and Mumias Sugar Factory. Total cane production decreased by 12.5 per cent from 5.3 million tonnes in 2018 to 4.6 million tonnes in 2019, due to low cane supply. The average yield also decreased by 7.4 per cent from 55.1 tonnes per hectare in 2018 to 51.0 tonnes per hactare in 2019.

The quantities of milk deliveries made to dairy processors increased by 5.3 per cent from 634.3 million litres in 2018 to 668.2 million litres in 2019

The number of cattle and calves slaughtered rose by 10.8 per cent from 2,781.7 thousand in 2018 to 3,080.8 thousand in 2019 Similarly, the total number of goats and sheep delivered to slaughterhouses increased by 10.3 per cent from 10,247.6 thousand in 2018 to 11,302.7 thousand in 2019. The number of pigs slaughtered increased by 6.5 per cent from 388.2 thousand heads in 2018 to 413.5 thousand heads in 2019

1.3.2 Manufacturing.

In 2019, the manufacturing sector's real value added grew by 3.2 per cent compared to a revised growth of 4.3 per cent in 2018. The sector's volume of output expanded by 2.0 per cent in 2019 from a revised growth of 5.6 per cent in 2018. The growth was on account of increase in production of motor vehicles, trailers and semi-trailers; plastics; animal and vegetables fats and oils; and pharmaceuticals sub-sectors.

Manufacturing sector formal employment increased by 1.6 per cent from 347.9 thousand in 2018 to 353.3 thousand in 2019 accounting for 12.1% of the total

formal employment. The number of local employees in EPZ enterprises rose by 4.6 per cent to 60,383 in 2019.
Production of leather and related products contracted by 2.2 per cent in 2019 compared to a 2.7 per cent growth in 2018.
The beverages and tobacco sub-sector grew by 7.8 per cent growth in 2019. Production of beverages went up by 8.2 per cent in 2019 as a result of increased production of spirits, bottled waters not sweetened or flavoured and beer by 12.8, 7.3 and 6.0 per cent, respectively.
Production of wood and products of wood contracted by 4.8 per cent in 2019 which was attributed to a reduction in the production of plywood by 20.3 per cent.

There was a growth of 5.9% in the chemical and chemical products sub sector in 2019. Production of ethyl alcohol and other spirits contracted by 8.5 per cent, while that of varnishes declined by 17.8 per cent during the review period. Production of pharmaceutical products increased by 6.0 per cent in 2019 after recording a 10.5 per cent growth in the previous year.
The rubber and plastic products subsector registered a 5.7 per cent growth in 2019 as a result of increased production of plastic tanks, other articles for the conveyance or packing of goods and plastic pipes by 15.8, 5.9 and 7.9 per cent, respectively.
The production of basic metals grew by 3.9% in 2019 due to 1.5% increase in production of corrugated ironsheet. During the same period, production of iron bars and rods increased by 5.7% while fabrigated metal products sub sector declined by 4.1 % in 2019.
Cement production decreased for the third year in a row by 1.0% to 5,967.2 thousand tonnes in 2019. Cement consumption and stock dropped by 2.5% to 5,933.3 thousand tonnes. Export of cements to other countries decreased 58.3% to 42.0 thousand tonnes in 2019.The quantity of cement exported to Uganda and Tanzania dipped further by 58.2 per cent to 18.2 thousand tonnes in 2019. On the other hand, cement import increased by 14.6 per cent from 23.0 thousand tonnes in 2018 to 26.4 thousand tonnes in 2019.

Credit approved by Industrial and Commercial Development Corporation (ICDC) in the manufacturing sector more than doubled from KSh 315.0 million in 2018 to KSh 640.0 million in 2019.

1.3.3 Other sectors

Total installed electricity capacity increased from 2,711.7 MW in 2018 to 2,818.9 MW in 2019. The addition of the Olkaria V geothermal power plant to the national grid in 2019 expanded the country's geothermal capacity by 25.0 per cent to 828.4 MW. Total electricity demand increased by 3.9 per cent to 11,620.7 GWh in 2019 compared to 11,182.0 GWh in 2018. Domestic demand for electricity increased from 8,702.3 GWh in 2018 to 8,854.0 GWh in 2019. Transmission and distributive losses stood at 2,750.5 GWh and accounted for 24.1 per cent of total local generation in 2019.

Total pipeline throughput increased by 11.1 per cent to 7,025.9 thousand cubic metres in 2019.
The value of output from the transport and storage sector increased by 12.1 per cent from KSh 1,248.6 billion in 2018 to KSh1, 399.4 billion in 2019.

The total cargo throughput at the Mombasa Port increased by 11.3 per cent from 30.9 million tonnes in 2018 to 34.4 million tonnes in 2019.

During the review period, the volume of freight transported through the Standard Gauge Railway (SGR) increased by 43.5 per cent to 4,159 tonnes. Revenue earned from SGR freight transport increased almost three-fold from KSh 4,091 million in 2018 to KSh 11,864 million in 2019.
The number of international visitor arrivals increased by 0.4 per cent to 2,035.4 thousand in 2019, which was a slower growth compared to a 14.0 per cent rise in 2018. Tourism earnings grew by 3.9 per cent from KSh 157.4 billion in 2018 to KSh 163.6 billion in 2019. Hotel bed-night occupancy expanded by 6.3 per cent to 9,160.8 thousand during the same period. The number of international and local conferences held rose by 6.9 per cent and 14.4 per cent to 218 and 4,743 respectively, in 2019.

Construction sector registered a growth of 6.4 per cent in 2019 compared to a growth of 6.9 per cent in 2018.

During the review period, the total exports declined by 2.9 per cent in the value of exports to KSh 596.7 billion, while total imports increased by 2.4 per cent to KSh 1,806.3 billion, over the same period. As a result, the balance of trade deteriorated by 5.2 per cent to a deficit of KSh 1,209.7 billion. The total value of trade transactions increased from KSh 2,378.8 billion in 2018 to KSh 2,403.0 billion in 2019. Horticulture; tea; articles of apparel and clothing accessories; coffee; and iron and steel, remained the leading export earners, collectively accounting for 59.0 per cent of the total value of domestic exports. On the other hand, major imports included: petroleum products; industrial machineries; iron and steel; road motor vehicles; plastics in primary and non-primary form; and pharmaceutical products, which collectively accounted for 49.5 per cent of the total import bill.

The overall Balance of Payments position improved from a surplus of KSh 103.4 billion in 2018 to a surplus of KSh 106.4 billion in 2019, on account of a build-up in official reserves. The current account balance worsened to a deficit of KSh 567.0 billion in 2019 from a deficit of KSh 511.3 billion in 2018. The financial account net inflows declined by 3.9 per cent from a surplus of KSh 662.0 billion in 2018 to a surplus of KSh 636.3 billion in 2019. This was mainly occasioned by declines in net inflows of direct investment and other investment liabilities.

1.4 Outlook

Performance of Kenya's economy in 2020, like most economies all over the world, will largely be determined by how long life and economic activities are going to be disrupted by the Coronavirus disease (Covid-19). Most of the economic activities have so far been slowed down by restrictions resulting from containment and cessation of sections of the population, the nationwide curfew and stoppage of international passenger travel. The first case of Covid-19 in the country was confirmed on the 12th March 2020 and a raft of precautionary and preventives measures have increasingly been implemented to counter the impact of pandemic on the population as well as socioeconomic aspects.

Weak global economy is also likely to negatively impact on Kenya's exports, more so horticultural products and the tourism sector. The global economy was projected to remain suppressed in 2020 due to slowdown in industrial output, weak business confidence and increased trade tensions, even before the rapid spread of the Coronavirus disease into a worldwide pandemic.
The onset of the long rains was timely during the first quarter of 2020 while the rains were well spread across the country. Weather forecast points to a possibility of near normal long rains in most parts of the country while most of key agricultural zones are expected to receive slightly above normal rainfall in 2020. However, growth of the horticulture sub-sector is expected to be constrained by impacts of the covid-19; primarily suppressed external demand and increased costs of production arising from operational challenges. Earlier in the year, the country experienced invasion of the desert locusts, mostly in the arid and semi-arid areas, but the government has so far managed to mitigate their negative impact on the economy particularly in the agriculture sector.

During the first quarter of 2020, inflation was significantly higher compared to a similar quarter of 2019 on account of higher food and beverage prices. The scenario is likely to be replicated for some of the remaining months, leading to edging upwards of inflation in 2020 but remain well within the central bank's target.

Fall in oil prices and a reduction in Value Added Tax (VAT) rate are likely to be supportive of low inflation as well as cushion the consumers from rising cost of living to a certain extent.
However, the weakening of Kenya Shilling against the US Dollar is likely to result to rise in prices of imports and somehow contribute to the rise in inflation.

In the short term, the government's fiscal policies in national budget are likely to focus on re-orientation of expenditure to initiatives aimed at control and eventual elimination of the Covid-19 in the country. Overall, factors against accelerated growth are likely to outweigh pro-growth aspects by far in 2020.

2.0 EPZ Performance for the year 2018

2.1 Overview of the program

During the year 2018, most of the performance indicators for EPZ program exhibited an upward trend compared to the year 2017.
The number of gazetted zones rose to 72 in year under review from 71 in 2017.

Direct local employment expanded by 4.3 % from 55,764 persons recorded in 2017 to 57,099 persons in 2018.

Capital investment in form of equipment, machinery and other funds invested by the 136 operational enterprises increased by 2.4% to Kshs.76,356 million in 2018 from Kshs.74,586 million recorded in the previous year. While the cumulative value of investment for enterprises and zones (developers/operators) stood at Kshs 105,066 million in 2018 from Kshs 95,278 million registered in year 2017.

Total sales increased by 14.9% to stand at Kshs 77,390 million in 2018 from Kshs 67,270 million in 2017, while exports rose by 19.2% to stand at Kshs 72,390 million from Kshs 60,729 in 2017.

Domestic sales decreased from Kshs 4,357 million in 2017 to Kshs 2,217 million in 2018. This was probably as a result of end of stay of application of duty on apparel products within the East Africa Community (EAC) which had encouraged sales to principal customs territory.

Imports increased by 12.9% to stand at Ksh.34,229 million in the year under review from Kshs 30,305 million. Out of the total value of imports, inputs amounted to Kshs. 33,423 million while capital goods were valued at Kshs.806 million in year 2017 while in the year 2017 it amounted to Kshs.29,140 million and Kshs.1,165 million respectively.

Expenditure on local goods and services increased by 10.9% in 2018 to stand at Kshs.30,845 million from Kshs.27,805 million recorded in the year 2017. This translates to an average of Kshs.2,571 million being injected into the economy by EPZ firms monthly in the year 2018 compared to Kshs.2,317 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: 2014 - 2018

Indicator	2014	2015	2016	2017	2018	Growth % (2017 v/s 2018)
Gazetted zones (no.)	52	56	65	71	72	1.4
Projects approved (no)	32	28	30	42	45	7.1
Enterprises Operating (no.)	86	89	111	131	136	3.8
Employment – (Kenyans) [a]	46,221	50,302	52,947	54,764	57,099	4.3
Employment - (Expatriates) [b]	517	597	618	722	644	-10.8
Total Employment (No)=a+b	***46,738***	***50,899***	***53,565***	***55,486***	***57,743***	***4.1***
Total sales (Kshs. million)**	57,192	64,897	68,569	67,270	77,270	14.9
Exports (Kshs. million)	51,377	60,879	64,151	60,729	72,390	19.2
Domestic Sales (Kshs. million)	4,211	1,793	2,541	4,357	2,217	-49.1
Imports (Kshs. million)	29,461	31,370	30,160	30,305	34,229	12.9
Investment Kshs. Million***	44,218	48,128	88,977	95,278	105,066 [1]	10.3
Expenditure on local Purchases (Kshs million)[1]	8,170	8,815	10,742	11,089	10,385	-6.3
Expenditure on local Salaries (Kshs million)[2]	7,511	8,377	9,212	10,069	11,728	16.5
Expenditure on power (Kshs million)3	1,004	878	741	772	947	22.7
Expenditure on Telecommunication (Kshs million)4	67	84	77	85	90	5.9
Expenditure on water (Kshs million)5	173	194	184	139	163	17.3
Other domestic expenditure (Kshs million)[6]	4,045	5,522	4,779	5,651	7,532	33.3

[1] Value of enterprises' investment = **Kshs 76,356 million** while zones' (developers/operators) investment = **Kshs 28,709**. During year 2017, enterprises' investment = **Kshs 74,586** while zone investment = **Kshs 20,692.**

Indicator	2014	2015	2016	2017	2018	Growth % (2017 v/s 2018)
Total Domestic Expenditure (Kshs million) = 1+2+3+4+5+6*	***20,970***	***23,870***	***25,735***	***27,805***	***30,845***	***10.9***

** 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

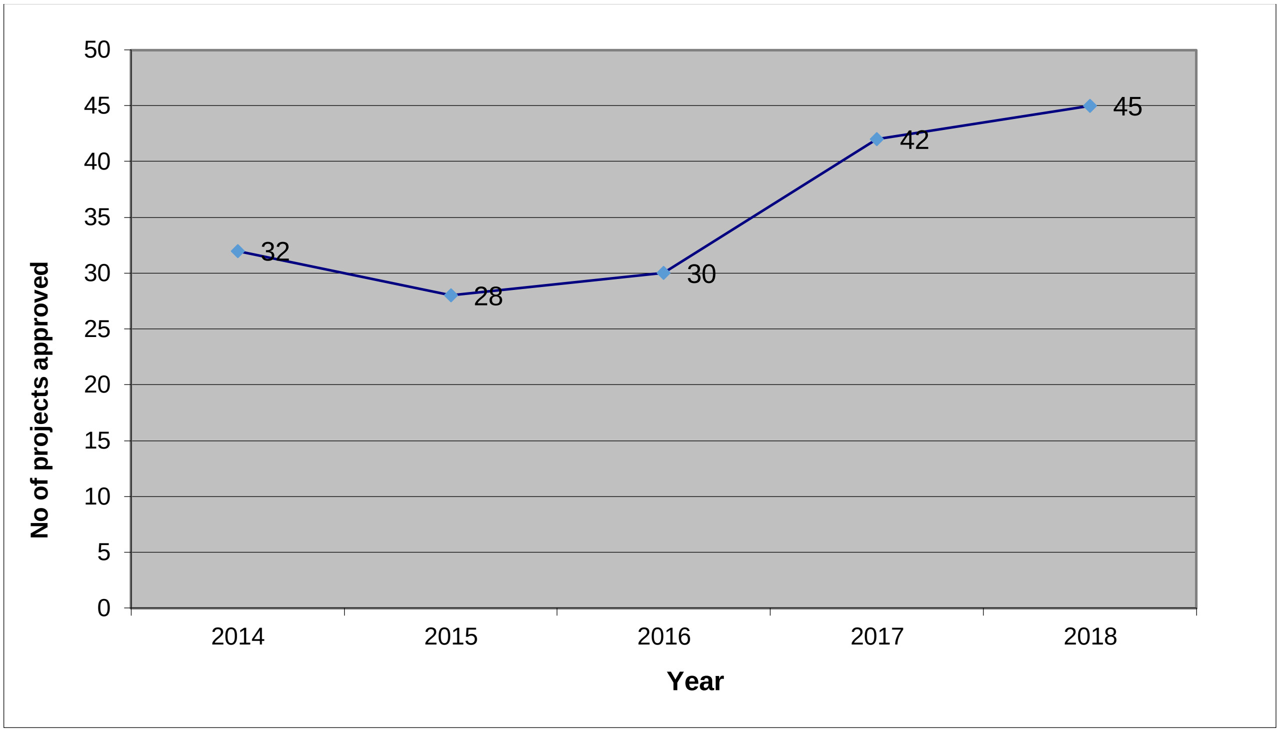
There were 45 approvals with a potential investment of Kshs.20.9 billion,12,087 jobs and year one sales valued at Kshs 32.1 billion in the year 2018 compared with 42 approvals with a potential investment of Kshs 21.9 billion 6,112 jobs and year one sales valued at Kshs.11.8 billion in the previous year.

Table 2 and chart 2 has more details.

Table 2: Projects Approved, Expected jobs, Investment & Sales from 2014 - 2018

Year	Number of projects approved	Jobs (number)	Investment (Kshs. million)	Year One Sales (Kshs. million)
2014	32	7,607	8,300	10,098
2015	28	11,075	9,225	12,416
2016	30	1,570	3,822	7,092
2017	42	6,112	21,933	11,784
2018	45	12,087	20,894	32,084

Chart 2: Trend of number of projects approved from 2014 - 2018



2.3 Status on gazetted zones

The number of gazetted zones end of December 2018 stood at 72 compared from 71 in December 2017, out of which 67 are privately owned and operated while 5 are public zones (Athi River & Kinanie in Machakos; Kipevu in Mombasa, Samburu in Kwale and Homabay Counties respectively).
Seven zones are located in the County of Nairobi, 24 in Mombasa, 9 in Kilifi, 6 in Machakos, 4 each in Bomet & Kwale, 3 each in Nakuru & Kiambu, 2 in Embu, one each in Muranga, Kajiado, Taita Taveta, Elgeyo Marakwet, Nandi, Uasin Gishu, Laikipia, Meru, Narok and Homa bay. During the course of the year one zone was degazetted due to unfavourable business environment.
Table 3 details distribution of gazetted zones.

Table 3: Geographical distribution of zones per County, year 2018

County	Former Province	Number of zones
Nairobi	Nairobi	7
Mackakos	Eastern	6
Kajiado	Rift Valley	1
Mombasa	Coast	24
Kilifi	Coast	9
Taita Taveta	Coast	1
Kiambu	Central	3
Muranga	Central	1
Elgeyo Marakwet	Rift Valley	1
Uasin Gishu	Rift Valley	1
Laikipia	Rift Valley	1
Nandi	Rift Valley	1
Meru	Eastern	1
Bomet	Rift Valley	4
Nakuru	Rift Valley	3
Kwale	Coast	4
Embu	Eastern	2
Narok	Rift Valley	1
Homabay	Nyanza	1
Total: 19	**6**	**72**

Gazetted zones are dispersed across 19 out of 47 Counties constituting presence in 6 out of the 8 former provinces.

Efforts are being made through various promotional activities to ensure presence of EPZ zones in all counties in the country.

2.4 Performance of some selected 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.3,037 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.3,289 million. Additional ongoing infrastructural projects are estimated at Kshs.6.7 billion bringing cumulative zone investment to Kshs 9,989 million. The zone is managed by the Authority on behalf of the Government/public.

The zone has two categories of industrial buildings, one put up by the public and the other by licensed private zone developers. The public put up initial industrial buildings of an area of 160,000 square feet. There after, Export Business Accelerator (EBA) phases I & II were put up with a total built up space of 79,000 square feet. EBA unit 3 with a space of 64,500 square feet is under construction. Additional industrial space of 258,300 square feet is under construction.

The private zone developers which include (Trans fleet EPZ Ltd, Capital Industrial Park EPZ Ltd, Cranfield EPZ Ltd, Property Vision EPZ Ltd, Growth Point Warehousing EPZ Ltd, Nexus Holdings EPZ Ltd, China International Investment EPZ Ltd, Ceytun EPZ Ltd, Tracejack Industries EPZ Ltd and Newland EPZ Co. Ltd among others) have constructed industrial buildings to gather for increased demand from EPZ firms, considering that the investors prefer ready buildings.

Transfleet EPZ Ltd has constructed industrial units with total built up area of about 308,160 square feet. All the godowns have been leased to four garments enterprises; New Wide Garments K. EPZ Ltd, Global Apparels K. EPZ Ltd and Royal Garments Industries EPZ Ltd, hence registering 100% occupancy. Transfleet EPZ Ltd has been considering construction of phase two of with similar space to meet investors' demand.

Capital Industrial Park EPZ Ltd put up a total area of 220,000 square feet; although it has remained largely unoccupied for some time, it now hosts two firms namely; Fairoils EPZ Ltd and Ethical Fashions Artisan EPZ Ltd occupied cumulative built up space of 167,768 square feet; representing occupancy of 76.3%. One of the other tenant (Reltex Tarpaulins Africa EPZ Ltd) that was occupying the godown wound up its operations in the course of the year due to adverse business environment and management related constraints.

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

Other developers of industrial buildings include Nexus Holdings Holdings EPZ Ltd with 63,400 square feet (in which 80% was occupied); China International Investment EPZ Ltd 107,000 square feet and Ceytun EPZ Ltd with 16,560 square feet among others to cater for increased industrial demand for space within the zone.

The zone had 72 operating enterprises in the year 2018 compared to 67 in the previous year. The number of firms within the zone include those operating under Business Service Permit (BSP).

Some of the new enterprises included Shona EPZ Ltd, Dala Textiles K EPZ Ltd, Soft trace EPZ Ltd; Tensenses Africa EPZ Ltd; Kentegra Biotechnology EPZ Ltd; Agrofirst EPZ Ltd; Acacia EPZ Ltd; Kenkor Joinery EPZ Ltd and Navios Services

EPZ Ltd. However, some of the enterprises within the zone remained dormant due to various constraints. These included; Mohazo EPZ Ltd, Redington Kenya EPZ Ltd, Precious Dynagold EPZ Ltd, Manda Bay SEZ EPZ Ltd and Belat 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.

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

2.4.2 Balaji EPZ Ltd

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

2.4.3 Sameer Industrial Park EPZ Ltd

This is the first private EPZ to be gazetted in November 1990. The zone down scaled its operations as a result of prolonged unfavourable business environment. It forced the zone to reduce the total built up area eligible for EPZ activity from 316,542 square feet a while ago to 120,423 square feet. Total area occupied was 90,707 square feet representing occupancy of 75.3%. It housed seven enterprises that dealt with activities which included garments/apparels, agro processing, call centre, relief supplies, gemstones and macadamia.

2.4.4 Mazeras Kenya EPZ Ltd

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

2.4.5 Milstar Investments EPZ Ltd, Changamwe

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

2.4.6 Ayman Industrial Park EPZ Ltd, Changamwe

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

2.4.7 Talab EPZ Ltd (Mtwapa)

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

2.4.8 summary of gazette zones

Notes

* Zones hosting branches of an enterprise as follows; Laburnum Investments EPZ Ltd – Miritini (Simba Apparel EPZ Ltd; unit 2),Kingorani EPZ Ltd (Hui Commercial EPZ Ltd; unit 2 & Hantex Garments EPZ Ltd; unit 2), Talab EPZ Ltd, Mtwapa (Mombasa Apparel EPZ Ltd; unit 3) and Milstar Investments EPZ Ltd (Mega Garments Industries EPZ Ltd, Unit 2).

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

2.5 Other zones

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

2.5.1 Zones gazetted in the course of the year.

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

2.5.2 Zones in the process of setting up/commenced operations.

These include Evergreen Tea Factory EPZ Ltd (in Bomet County); Huawen Foods Kenya EPZ Ltd (Kwale County) and Tropical Macs EPZ Ltd (Embu County). While Mara Tea Factory EPZ Ltd (in Narok County) commenced operations.

It is expected that upon completion and operation of these zones, they will contribute incremental benefits especially in employment creation in their geographical areas but also increase overall performance of EPZ program.

2.5.3 Zones hosting a branch of an enterprise.

These include Laburnum Investment EPZ Ltd, Miritini, (formerly Birch Investment EPZ Ltd) Ltd, host branch of Simba Apparel EPZ Ltd while Kingorani EPZ Ltd has branch of Hantex Garments EPZ Ltd), while Talab EPZ Ltd, Mtwapa and Milstar Investments EPZ Ltd hosts branches of Mombasa Apparel EPZ Ltd and Mega Garments Industries Kenya EPZ Ltd respectively.

2.6 Zones contribution to EPZ objectives

Athi River zone continued to host the highest concentration number of enterprises at 52.94% compared to 51.15% recorded in the year 2017. Sameer Industrial Park EPZ Ltd followed with 5.88% compared to 5.34% respectively in the previous year.

In terms of local employment, Athi River accounted for 38.15%, Balaji EPZ Ltd at 15.84% and Ammar EPZ Ltd (Jomvu) at 7.93% compared to 34.47%, 14.02% and 9.07%, respectively in the year 2017. With respect to exports, Athi River zone contributed 36.00%, Ammar EPZ Ltd (Jomvu) 11.20%, Balaji EPZ Ltd 9.66%, Halai Brothers EPZ Ltd 4.50% and Gold Crown Foods EPZ Ltd 3.85% compared to 39.03%, 7.03%, 8.73%, 3.79% and 5.41% in the year 2017.

As regards investment by the enterprises, Athi River zone attracted 44.65%; Balaji EPZ Ltd 9.37%, Comarco Properties EPZ Ltd 6.71%, De La Rue 5.24% and Gold

Crown Foods EPZ Ltd 3.50% respectively compared to 44.61%, 8.95%, 6.08%, 5.37% and 5.30% in the previous year. Pertaining to local resource utilization, Athi River contributed 32.24%, Balaji EPZ Ltd 10.45%, Kingorani Investments EPZ Ltd 5.27%, GoldCrown Foods EPZ Ltd 4.50%, and Ammar EPZ Ltd (Jomvu) 3.84% and compared with 29.86%, 7.98%, 5.63%, 7.14 and 4.08% in 2017.

Regarding zone investment, Athi River zone constituted 34.79%, De La Rue 7.51%, Taurus 7.12% and Balaji EPZ Ltd at 4.82% compared to 30.71%, 10.41%, 2.26% and 0.18% respectively in the year 2017.

On average, Athi River zone emerged as the highest performer with respect to the selected indicators outlined above. It scored an average of 39.79%, Balaji EPZ Ltd 8.60%, Ammar EPZ Ltd (Jomvu) 4.55%, De La Rue 3.24% and Gold Crown Foods EPZ Ltd 2.33% respectively compared with 38.30%, 6.90%, 4.02%, 3.69% and 3.37% in the year 2017.

Kingorani zone has branch of Hantex Garments EPZ Ltd, Laburnum Investments EPZ Ltd (Miritini) hosts a branch of Simba Apparel EPZ Ltd, Talab zone (Mtwapa) hosts branch of Mombasa Apparel EPZ Ltd unit 3 while Milstar Investments EPZ Ltd hosts Mega Garments Industries EPZ Ltd, unit 2. The main branch of Hantex Garments EPZ Ltd is in Mazeras Industrial Park EPZ Ltd. Laburnum Investments EPZ Ltd (Changamwe) has the main branch of Simba Apparel EPZ Ltd, Ammar EPZ Ltd (Jomvu) host main branch of Mombasa Apparel EPZ Ltd while Mistry Javda Parbat EPZ Ltd (MJP) has the main branch of Mega Garments Industries EPZ Ltd respectively.

2.7 Sector performance

In the year 2018 seventeen industrial sub sectors were operational, namely, agro processing, beverages/spirits, Business Service Permit (BSP),chemicals, commercial & commercial craft and leather, dartboard, electrical/electronics, food processing, garments, garment support services, minerals/gemstones, pharmaceuticals & medical supplies, plastics,printing, relief supplies, services and other (joinery works, leather and silicone products).

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

The sector performance is outlined in table 6 and their proportion contribution in table 7. The table shows the number of enterprises in each sector, exports, total sales, direct local employment, investment and local resource utilization. Charts 3 & 4 show sector contribution to employment and investment.

The garment sector still remains the most dominant sector within the program as shown by selected performance indicators. It constituted 16.2% of enterprises, 81.0% of total local jobs, 65.3% of exports, 62.9% of total sales, 42.3% of expenditure on local goods & services and 21.2% of private investment compared to 16.0%, 80.3%, 61.2%, 56.7%, 37.8% and 21.3% respectively in the year 2017.

However, agro processing sector which is the second dominant sector within the program was the highest performer in number of enterprises at 32.4% and investment at 22.0% compared to garment sector in which it recorded 16.2% and 21.2% respectively in year 2018. During the year 2017, agro processing contributed 30.5% in number of firms and 18.5% in investment while garments sector recorded 16.0% and 21.3% respectively.

On average, garment sector contributed 48.15%, followed by agro processing at 24.47%, services at 8.93%, food processing at 2.96% and printing at 2.73% on all of the above indicators compared to 50.40%, 27.10%, 7.84%, 2.97% and 2.61% respectively in the previous year.

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

Table 4: Sectoral Performance year 2018 (Kshs)

sector	no of firms	local jobs	exports	total sales	local resource	investment
Agro processing	44	7,098	14,759,205,685	14,896,020,705	12,458,015,846	16,782,104,488
Beverages/spirits	2	4	0	0	2,082,410	20,000,000
BSP	6	362	0	0	183,949,103	16,253,867,893
chemicals	2	187	60,230,858	62,624,728	229,118,676	2,766,885,422
commercial & commercial	3	75	66,097,822	66,129,546	48,803,488	236,697,120
Dartboard	1	510	1,124,010,340	1,126,217,928	458,387,837	1,072,062,769
Electricals/electronics	2	3	0	0	4,599,116	50,200,000
Food processing	4	289	2,887,892,169	3,652,109,659	731,195,316	2,480,709,950
Garments	22	46,248	47,294,804,361	48,608,487,716	13,054,074,756	16,146,512,864
Garments support services	4	68	22,488,100	189,837,886	55,267,845	232,491,635
minerals/metals/gemstones	2	8	0	0	4,099,603	31,090,000
Pharmaceuticals & medical supplies	5	568	412,438,297	788,594,431	476,536,698	4,814,039,422
Plastics	1	54	71,963,754	71,963,754	62,560,704	200,000,000
printing	1	303	1,975,402,245	3,451,490,370	833,715,402	4,001,601,500
Relief supplies	2	62	743,994,574	1,004,497,332	400,527,717	381,468,480
services	32	1,188	2,955,962,135	3,336,875,187	1,748,512,211	10,627,261,401
other	3	72	15,863,466	15,863,466	93,735,756	259,361,813
Total	**136**	**57,099**	**72,390,353,806**	**77,270,712,708**	**30,845,182,484**	**76,356,354,757**

Table 5: Proportion of sector contribution year 2018 (%)

Sector	no of firms	local jobs	exports	total sales	local resource	investment	average
Agro processing	32.35%	12.43%	20.39%	19.28%	40.39%	21.98%	24.47%
Beverage/spirits	1.47%	0.01%	0.00%	0.00%	0.01%	0.03%	0.25%
BSP	4.41%	0.63%	0.00%	0.00%	0.60%	21.29%	4.49%
chemicals	1.47%	0.33%	0.08%	0.08%	0.74%	3.62%	1.05%
commercial craft	2.21%	0.13%	0.09%	0.09%	0.16%	0.31%	0.50%
Dartboard	0.74%	0.89%	1.55%	1.46%	1.49%	1.40%	1.25%
Electricals	1.47%	0.01%	0.00%	0.00%	0.01%	0.07%	0.26%
Food processing	2.94%	0.51%	3.99%	4.73%	2.37%	3.25%	2.96%
Garments	16.18%	81.00%	65.33%	62.91%	42.32%	21.15%	48.15%
Garments support services	2.94%	0.12%	0.03%	0.25%	0.18%	0.30%	0.64%
minerals/metals/gemstones	1.47%	0.01%	0.00%	0.00%	0.01%	0.04%	0.26%
Pharmaceuticals & medical supplies	3.68%	0.99%	0.57%	1.02%	1.54%	6.30%	2.35%
plastics	0.74%	0.09%	0.10%	0.09%	0.20%	0.26%	0.25%
printing	0.74%	0.53%	2.73%	4.47%	2.70%	5.24%	2.73%
Relief supplies	1.47%	0.11%	1.03%	1.30%	1.30%	0.50%	0.95%
services	23.53%	2.08%	4.08%	4.32%	5.67%	13.92%	8.93%
other	2.21%	0.13%	0.02%	0.02%	0.30%	0.34%	0.50%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Chart 3: Sector contribution to local employment 2018

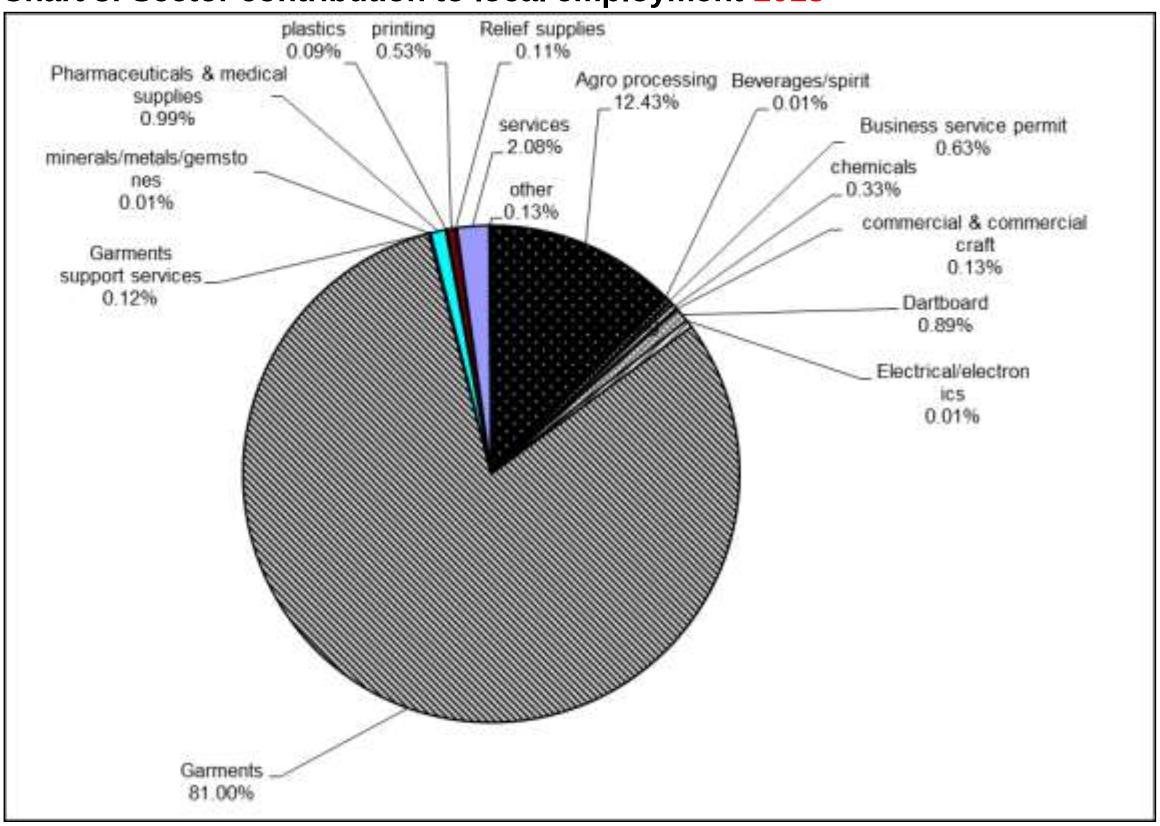
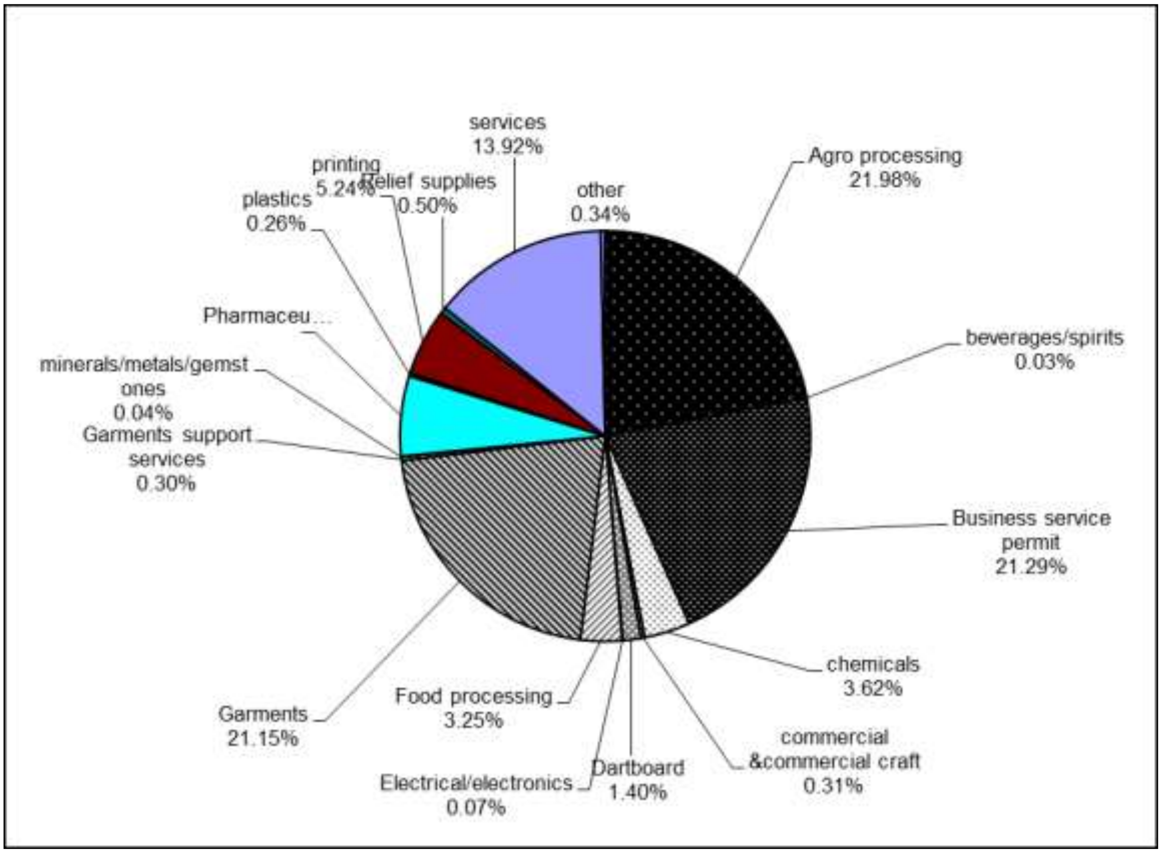


Chart 4: Sector contribution to investments, 2018



2.8 Ownership of EPZ enterprises

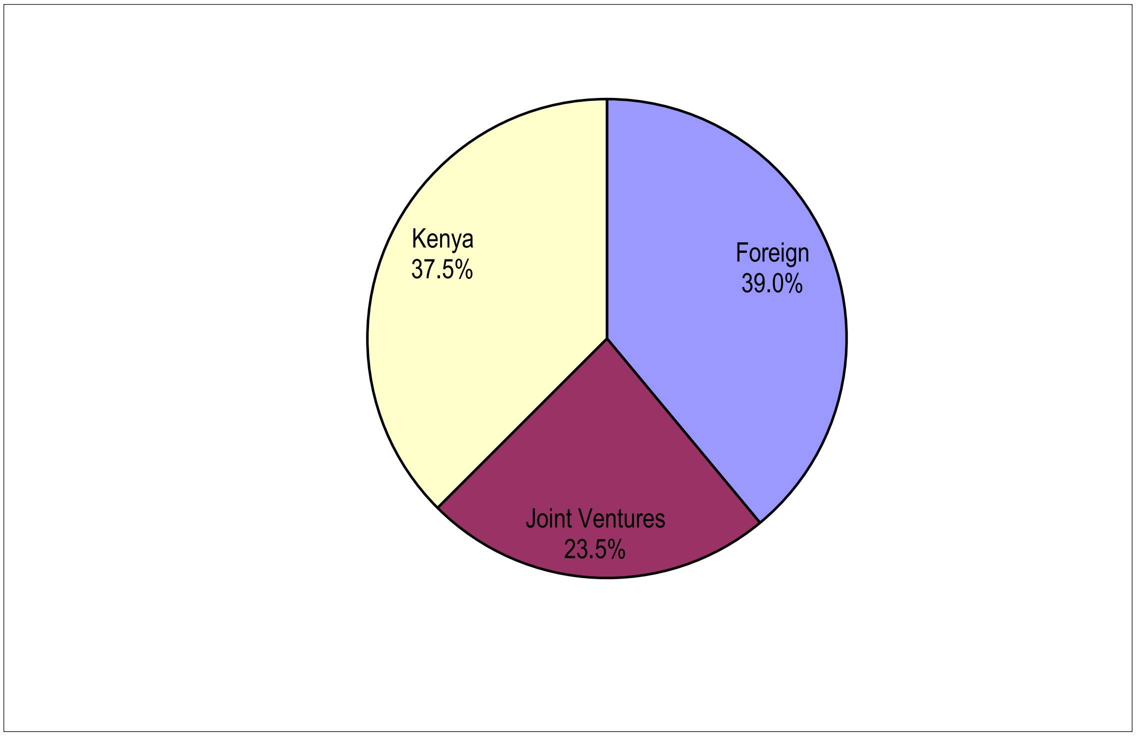
During the year 2018, 37.5% of total EPZ enterprises were wholly Kenyan, Joint ventures were 23.5% while foreign investments constituted 39.0%. In 2017, 36.6% were wholly Kenyan owned, 24.4% were joint ventures and 38.9% were foreign owned.

One of the reason contributing to 36.6% of wholly owned Kenya EPZ enterprises is the implementation of export business accelerator/incubator.

The program has attracted investors from Sri Lanka, India, Taiwan, Dubai, China, Qatar, Singapore, USA, UK, Belgium, Netherlands, Denmark, Australia, Mauritius, and Tanzania among others.

Chart 5 shows the ownership structure of EPZ enterprises in the year 2018.

Chart 5: Ownership of EPZ enterprises, 2018



2.9 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. 76,356 million in 2018 from Kshs.74,586 million in the year 2017.

When infrastructure investment of Kshs.28,709 million undertaken by EPZ developers included, the figure becomes Kshs. 105,066 million compared with Kshs.95,278 million in the year 2017. 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, 60.1% (Kshs.45,856 million) were foreign owned while Kenyan accounted for 39.9% (Kshs.30,500 million) in 2018 compared to 63.7% (Kshs.47,534 million) foreign owned and 36.3% (Kshs.27,052 million) Kenyan respectively in the year 2017 (table 8).

Table 6: Value of EPZ enterprises' investments: 2014 – 2018

Indicator	2014	2015	2016	2017	2018
Value of Kenya/Local investments (Kshs million)	10,758	12,788	22,783	27,052	30,500
Value of Foreign investment (Kshs million)	33,460	35,340	48,459	47,534	45,856
Total Investment (Kshs million)	**44,218**	**48,128**	**71,242**	**74,586**	**76,356**
Ratio of value of Kenya/Local investment to Total (%)	24.3	26.6	32.0	36.3	39.9
Ratio of value of Foreign investment to Total (%)	75.7	73.4	68.0	63.7	60.1

Source: EPZA records.

3.0 Impact of African Growth Opportunity Act (AGOA)

The EPZ program benefits from AGOA especially in the garment/apparel sector. This is a critical sector which is characterized by its labour intensiveness and hence suitable industry for a country like Kenya with high unemployment rate. It is a subsector which employs over 80% of total work force within the zones and account for over 60% of exports.

Exports of articles of apparels to USA increased in value by 25.8% to stand at Kshs.41,578 million in 2018 from Kshs.33,051 million recorded in the year 2017. Quantity of apparels exported to US increased from 76.2 million pieces in 2017 to 94.0 million pieces in 2018.

During the year under review, there were some market diversification on apparel other than to the USA; which included Europe, Canada, Mexico and Panama among others. During the year 2018, these alternative markets were a destination of Kshs.5.7 billion (9.8million pieces) worth of apparel compared to Kshs. 4.1 billion (8.5 million pieces) of apparel consigned to these markets during the year 2017. It is evident that the alternative market is evolving in significance as indicated by trend on table 9 b.

Direct employment expanded by 5.1% to stand at 46,248 from 43,987 recorded in the previous year. During the year 2018, garment sector contributed 81.0% of total local employment compared with 80.3% in 2017.

Investment on the other hand registered an increase of 1.7% to stand at Kshs.16,146 million from Kshs.15,880 million in year 2017 as result of continued investment by firms on machinery.

The trend is as shown in table 7a and 7b

Table 7a: Impact of AGOA on EPZ Garment Sector: 2014 - 2018

Indicator	2014	2015	2016	2017	2018	% growth (2017 v/s 2018
Number of Enterprises	21	21	21	21	22	4.8
Employment (No.)	37,785	41,597	42,496	43,987	46,248	5.1
Investment (Kshs million)	15,051	15,708	15,300	15,880	16,146	1.7
Exports (Kshs million)	30,244	35,224	34,410	33,051	41,578	25.8
Quantity of exports (million pieces)	81.9	84.6	74.0	76.2	94.0	23.4
Imports (Kshs million)	20,452	19,028	17,468	22,656	25,323	11.8

Table 7 b: Value & quantity of apparel export to USA and to rest of the world: 2014 - 2018

Indicator	2014	2015	2016	2017	2018
Value of apparel exports to USA (Kshs m)	30,244	35,225	34,410	33,051	41,578
Value of apparel export rest of world (Kshs m)	2,600	2,165	2,472	4,115	5,674
Total value	**32,844**	**37,390**	**36,882**	**37,166**	**47,252**
Quantity apparel of exports to USA (million pieces)	81.9	84.6	74.0	76.2	94.0
Quantity of apparel export to rest of the world (million pieces)	6.2	4.3	4.3	8.5	9.8
Total quantity	**88.1**	**88.9**	**78.3**	**84.7**	**103.8**

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 on an upwarp trend during the year 2018.

Total apparel exports from Kenya to US increased by 15.4% in year 2018 to stand at US$ 392.2 million from US$ 339.7 million recorded in 2017.

Apparel exports from Lesotho saw an increase of 10.4% to stand at US$320.6 million while those from Mauritius rose marginally by 0.3% to US$147.0 million. Madagascar apparel exports rose by 23.4% to stand at US$196.2million in 2018 from US$ 159.0 million recorded in 2017.

Overall, Kenya maintained her SSA top apparel exporter to US for the last five consecutive years in 2018.

Table 10 indicate the 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 2014 – 2018 (US $ '000)

Country	2014	2015	2016	2017	2018	% change 2017 - 2018
Kenya	378,911	368,273	339,630	339,745	392,219	15.4
Lesotho	290,309	299,690	294,531	290,435	320,613	10.4
Madagascar	18,668	48,978	102,527	158,994	196,181	23.4
Mauritius	223,060	215,255	197,037	146,574	146,988	0.3
Ghana	3,831	9,204	6,255	7,899	13,840	75.2
Ethiopia	12,030	17,647	32,668	52,901	112,047	111.8
Tanzania	17,480	27,316	36,955	40,643	41,868	3.0
South Africa	6,092	8,370	7,584	6,164	7,872	27.7

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

Annual AGOA Forums which are hosted alternately by SSA and US provide a platform to address some of the challenges which affect full realization of AGOA benefits by SSA. The 17th AGOA Forum was held in USA in July 2018 with the next Forum expected to be hosted by Ivory Coast in Africa in August 2019.

4.0 Regional Performance

Regional performance constitutes analysis of EPZ enterprises performance as per their geographical locations which are Athi River/Mlolongo, Nairobi, Mombasa,Eldoret/Nandi,Thika/Kiambu/Muranga/Embu, Laikipia/Naivasha/Nakuru and Bomet/Narok. Although most of these firms are concentrated around Athi River, Nairobi and Mombasa other areas are coming up such as Bomet, Kiambu and Embu.

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

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

Athi River region generated the highest number of employments of 21,894 in the year 2018 thus overtaking Mombasa region which had 19,708 persons. During the year 2017, Athi River region employed 18,914 while Mombasa had 20,573 persons.

Average performance for the regions with respect to the selected indicators were 41.3%, 33.0%, 16.9%, 2.4% and 2.2% for Athi River/Mlolongo, Mombasa, Nairobi, Thika/Kiambu/Muranga/Embu and Laikipia/Naivasha/Nakuru for 2018 compared with 40.6%, 33.9%, 16.9%, 3.0% and 2.1% respectively in 2017.

Refer to tables 9 & 10and chart 6 for more details.

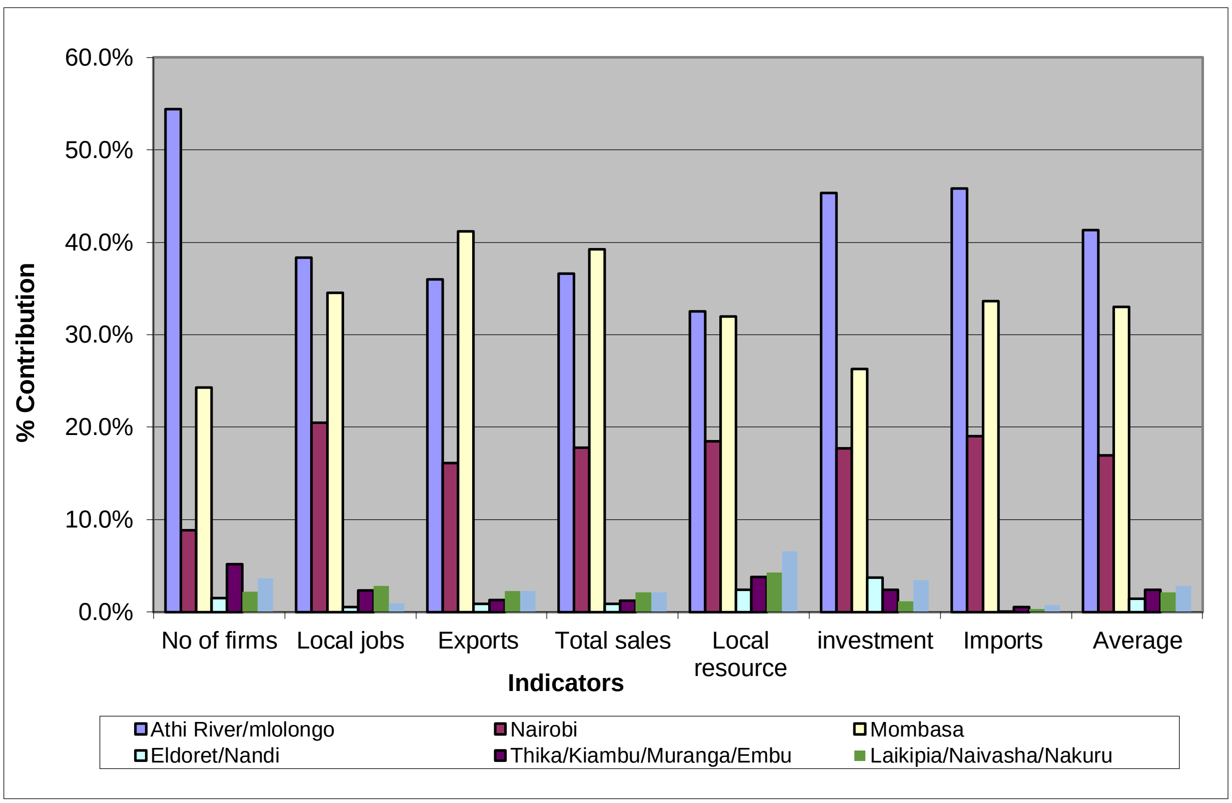
Table 9: Regional performances year 2018

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	74.0	21,894.0	26,059.0	28,290.0	10,035.0	34,617.0	15,686.0
Nairobi	12.0	11,674.0	11,662.0	13,758.0	5,704.0	13,542.0	6,505.0
Mombasa	33.0	19,708.0	29,836.0	30,316.0	9,866.0	20,065.0	11,501.0
Eldoret/Nandi	2.0	304.0	633.0	696.0	748.0	2,835.0	2.8
Thika/Kiambu/Muranga/Embu	7.0	1,338.0	946.0	954.0	1,159.0	1,828.0	171.0
Laikipia/Naivasha/Nakuru	3.0	1,623.0	1,634.0	1,634.0	1,308.0	857.0	105.0
Bomet/Narok	5.0	558.0	1,620.0	1,622.0	2,025.0	2,612.0	258.0
total	**136**	**57,099**	**72,390**	**77,270**	**30,845**	**76,356**	**34,229**

Table 10: Contribution by region, 2018 (%)

Zone/region	No of firms	Local jobs	Exports	Total sales	Local resource	investment	Imports	Average
Athi River/mlolongo	54.4%	38.3%	36.0%	36.6%	32.5%	45.3%	45.8%	41.3%
Nairobi	8.8%	20.4%	16.1%	17.8%	18.5%	17.7%	19.0%	16.9%
Mombasa	24.3%	34.5%	41.2%	39.2%	32.0%	26.3%	33.6%	33.0%
Eldoret/Nandi	1.5%	0.5%	0.9%	0.9%	2.4%	3.7%	0.0%	1.4%
Thika/Kiambu/Muranga/Embu	5.1%	2.3%	1.3%	1.2%	3.8%	2.4%	0.5%	2.4%
Laikipia/Naivasha/Nakuru	2.2%	2.8%	2.3%	2.1%	4.2%	1.1%	0.3%	2.2%
Bomet/Narok	3.7%	1.0%	2.2%	2.1%	6.6%	3.4%	0.8%	2.8%
total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Chart 6: Contribution by region (%) year 2018

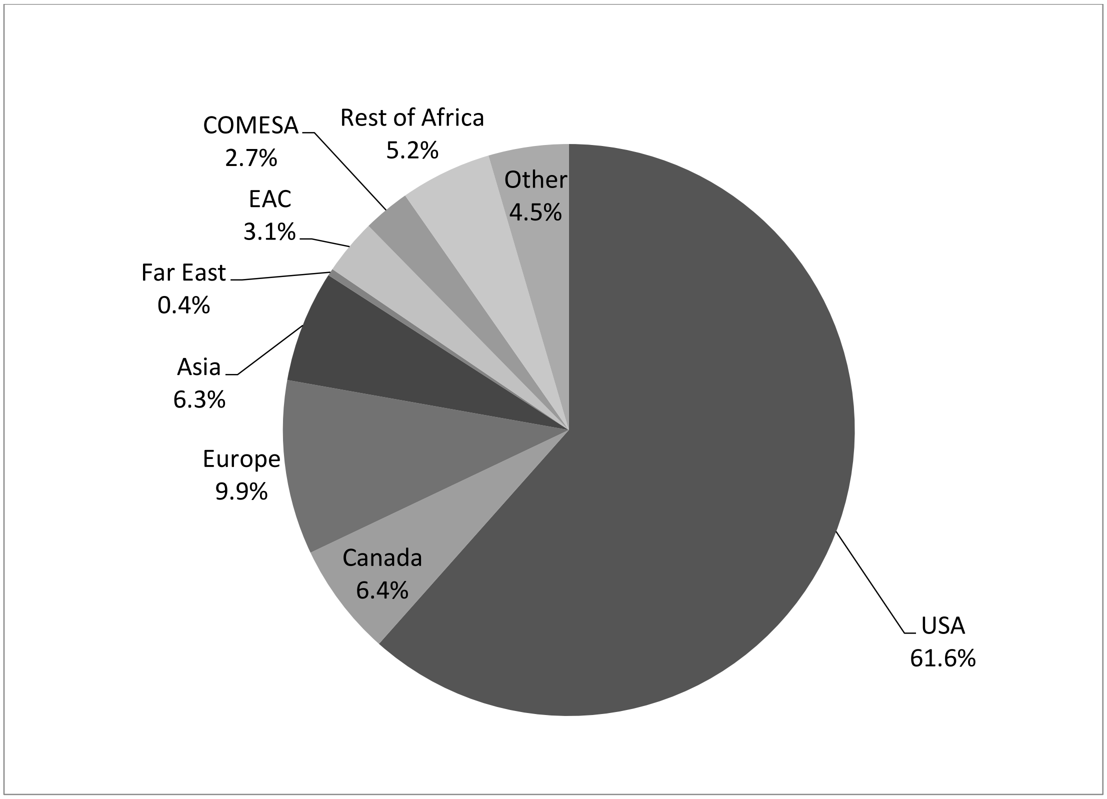


5.0 Destination of Exports

During the year 2018, 61.6% (Kshs.44,561 million) of all exports were consigned to USA market out of which 93.3% (Kshs.41,578 million) constituted exports of garment products. In the year 2017, 59.1% (Kshs. 35,920 million) were exported to US out of which 92.0% (Kshs.33,501 million) were accounted for by garment exports.

Europe accounted for 9.9% (Kshs.7,134 million) of the export market, EAC 3.1% (Kshs.2,274 million), Asia 6.3% (Kshs.4,565 million), COMESA 2.7%(Kshs.1,920 million), Rest of Africa 5.2 %(Kshs.3,739 million), Far East 0.4 %(Kshs.291 million) and 4.5% (Kshs.3,280 million) was destined to the rest of the world. During the previous year, Europe accounted for 12.0% (Kshs.7,272 million), EAC 5.4% (Kshs.3,286 million), Asia 6.8% (Kshs.4,113 million), COMESA 2.2% (Kshs.1,311 million), Rest of Africa 5.6% (Kshs.3,410 million), Far East 0.7% (Kshs.411 million) and 3.2 % (Kshs.1,924 million) to the rest of the world (chart 7).

Chart 7: Market destination for all exports, 2018



6.0 Employment and wages

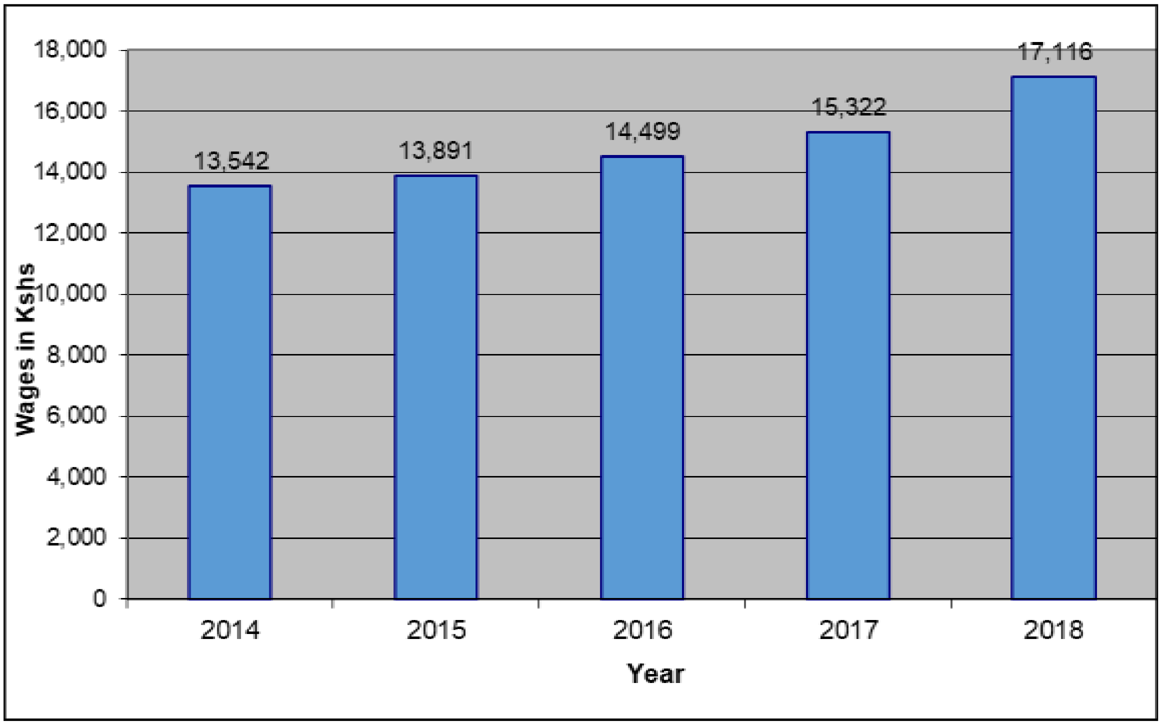
The monthly average wage for local employment within the EPZ has been on steady increase over the years as shown by table 13 and Chart 8. The average monthly wages have increased from Kshs 13,542 in the year 2014 to Kshs 17,116 in the year 2018, representing 26.4% increase. This meant that there has been an average of over 5.3 % increase in local wages per annum in the last five years.

Table 11: Employment and Wages: 2014 – 2018

Indicator	2014	2015	2016	2017	2018
Local employees (Number)	46,221	50,302	52,947	54,764	57,099
Expatriates (Number)	517	597	618	722	644
Total employment (Number)	46,738	50,899	53,565	55,486	57,743
Local wages (Kshs)	7,511,228,508	8,376,738,910	9,212,279,985	10,069,320,267	11,727,644,428
Expatriate wages (Kshs)	537,187,843	683,747,557	768,274,397	893,338,136	994,682,828
Total wages (Kshs)	8,048,416,351	9,060,486,467	9,980,554,382	10,962,658,403	12,722,327,256
Average Annual wages locals (Kshs)	162,507	166,691	173,991	183,867	205,391
Average Annual wages expatriates (Kshs)	1,039,048	1,145,306	1,243,162	1,237,310	1,549,350
Average monthly wage locals (Kshs)	13,542	13,891	14,499	15,322	17,116
Average monthly wage expatriates (Kshs)	86,587	95,442	103,597	103,109	129,112
Average monthly wage locals (US$)	154	142	143	148	169
Average monthly wage expatriates (US$)	985	973	1,021	997	1,276
Average annual exchange rate(Kshs/US$)	87.9	98.1	101.5	103.4	101.2

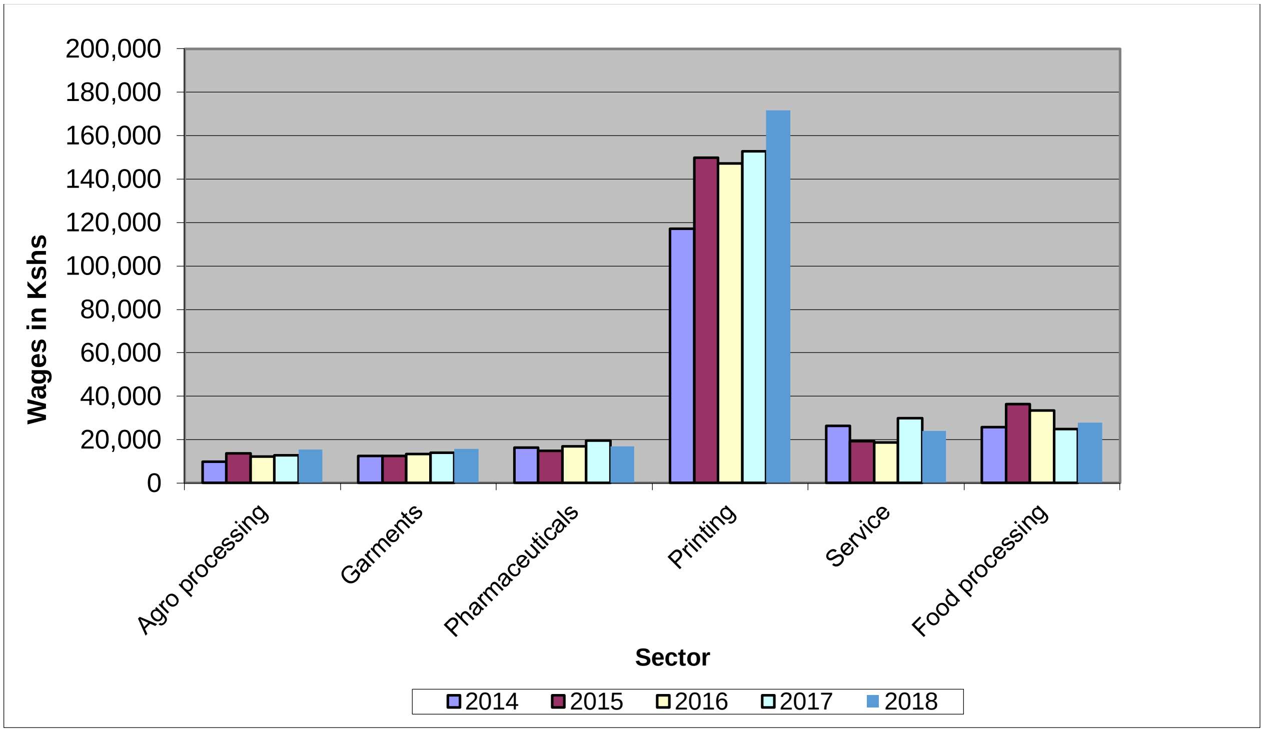
Source: EPZA records

Chart 8: Average monthly wages for local employees, 2014 to 2018 (Kshs)



With respect to selected sectoral wages, the printing sector continued to offer high remuneration to its employees in 2018 compared to other sectors; a similar position was exhibited in the previous year. More details are outlined on chart 9.

Chart 9: Average sectoral monthly wages, 2014 - 2018



6.1 Training of local workers and transfer of technology

In the year 2018, 65 enterprises (47.8%) trained local employees in various industrial disciplines compared to 55 (42.0%) 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 2018, the export processing zones contribution to the total manufacturing sector employment accounted for 18.56% from 18.07% posted in the year 2017.

In the year under review, EPZ contribution to manufacturing sector output rose to 3.21% from 3.00% registered in the previous year.

EPZ exports to total Kenya exports stood at 11.81% in 2018 from 10.22% in the year 2017.

Contribution to Gross Domestic Product (GDP) at market price of the economy increased from 0.83% in 2017 to 0.87% in 2018.

A summary on table 12 and Chart 10 shows EPZs contribution to the national economy.

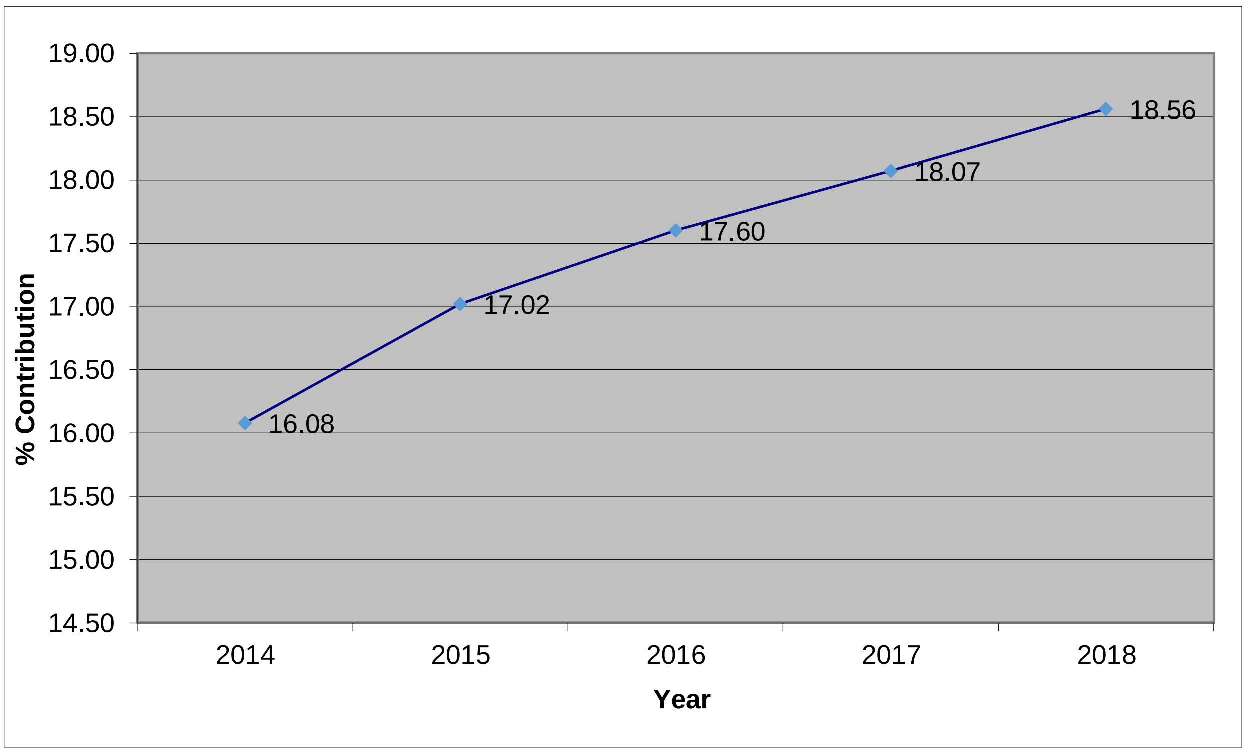
Table 12: EPZ contribution to the national economy: 2014 – 2018

Indicator	Units	2014	2015	2016	2017	2018
Total Kenya Exports	Kshs Million	537,236	581,045	578,067	594,128	612,929
Manufacturing sector Value of Output	Kshs Million	1,820,369	1,977,169	2,131,907	2,245,376	2,407,188
GDP at market prices	Kshs Million	5,402,648	6,284,181	7,022,963	8,144,373	8,904,984
Total national employment	number	14,355,800	15,203,100	16,032,800	16,942,700	17,783,200
Manufacturing sector employment	Number	287,456	295,500	300,900	303,000	307,592
Total output EPZ	Kshs Million	57,192	64,897	68,569	67,270	77,271
Exports EPZ	Kshs Million	51,377	*60,879*	*64,151*	*60,729*	*72,390*
Total Employment EPZ (local)	*Number*	*46,221*	*50,302*	*52,947*	*54,764*	*57,099*

Indicator	Units	2014	2015	2016	2017	2018
EPZ contribution to total Kenya Exports	Percent	9.56	10.48	11.10	10.22	11.81
EPZ contribution to manufacturing sector value of output	Percent	3.14	3.28	3.22	3.00	3.21
EPZ contribution to total national employment	Percent	0.32	0.33	0.33	0.32	0.32
EPZ contribution to manufacturing sector employment	Percent	16.08	17.02	17.60	18.07	18.56
EPZ contribution to GDP market prices)	Percent	1.06	1.03	0.98	0.83	0.87

Source: Economic Survey 2019 and EPZA various reports

Chart 10: EPZ Contribution to manufacturing sector employment; 2014 – 2018



8.0 Constraints reported by EPZ enterprises

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

Other constraints included shortage of raw material supply which affected mainly the agro based enterprises as a result of prolonged drought, unfavourable weather conditions, unfavourable customs regulations especially on movement of agro produced products like tea, instability in target markets, adverse impact as a result of restriction of exports to EAC/domestic market , unpredictable market factors, global economic uncertainty especially in the face of Brexit and US inward looking policies, lack of orders as a result of intense competition, increased overhead costs, slow learning by production trainees, high freight & transportation cost, high interest/inflation rate regime, lack of appropriate support from authorities for local manufacturers and general reduction in business volumes among others.

Summary of constraints reported by enterprises during the year 2018 are tabulated on table 13.

Table 13: Constraints/ impediments reported by EPZ enterprises, 2018.

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 (2017)	% of enterprises affected to total no. of operating firms in 2017	Number of firms which reported/affected (2018)	% of enterprises affected to total no. of operating firms in 2018
Labour productivity/turn over/efficiency, labour unrest	7	7.6	8	6.1	8	5.9
Unfavourable economic condition/ inflation etc	3	3.3	6	4.6	5	3.7
High Cost of production	12	13.0	12	9.2	12	8.8
Customs regulations/KRA	7	7.6	13	9.9	1	0.7

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 (2017)	% of enterprises affected to total no. of operating firms in 2017	Number of firms which reported/affected (2018)	% of enterprises affected to total no. of operating firms in 2018
High cost of power/electricity	12	13.0	20	15.3	10	7.4
Competition from other countries	10	10.9	10	7.6	10	7.4
High cost of water/ unreliable water supply	3	3.3	4	3.1	5	3.7
Local currency fluctuation	1	1.1	1	0.8	2	1.5
Poor infrastructure	10	10.9	9	6.9	5	3.7
Shortage of raw materials	16	17.4	14	10.7	13	9.6
Market access/market barriers	6	6.5	10	7.6	7	5.1
Diminishing demand	9	9.8	11	8.4	10	7.4
Adverse weather conditions	8	8.7	13	9.9	5	3.7
Others (lack of locally sourced inputs, 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	41	31.3	52	38.2

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

9.0 Challenges facing the program

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

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

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

ii) Global Competition.

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

iii) Global inward-looking policy trend.

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

iv) Inadequate supply of raw materials.

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

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

vi) **Pharmaceuticals firms operating within the EPZ program** encounter lengthy product registration/approval process by relevant agencies. This has been compounded by lack of harmonized standards within the region and in Africa. In addition, firms which sell to the local market face numerous taxes and levies which make their product uncompetitive as their peers operating within the Customs territory have an edge as they enjoy zero rate preference. Total duty and levies that the firm is expected to pay is 6.75% (ie IDF = 2%; Poison Board = 0.75%; Railway Development Levy = 1.5% & surcharge = 2.5%). This has the impact of making its product expensive while those firms dealing with similar pharmaceutical/medical products in domestic market pay no duty;

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

This continued to affect EPZ operations adversely. The EAC partner states have been expanded to include South Sudan. The other members being Burundi, Kenya, Rwanda, Tanzania and Uganda.

As per the Customs Union Protocol, the EAC is considered as a domestic market. Thus, sales by any export promotion scheme enterprise such as an EPZ firm to any of the partner states is a domestic sale.

A population of 157.9 million which includes 11.9 million of South Sudan is a lucrative market size for EPZ firms. Expansion of EAC to include South Sudan is diminishing their market as they are allowed to sell upto 20% of their total production to domestic market. South Sudan no longer qualifies to be an export market. Some of the products exported to South Sudan by EPZ firms include, pharmaceuticals, relief supplies and fortified food among others.

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

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

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

10.0 Way forward/required support

i) **Diversification of products eligible under AGOA**. Extension of AGOA with effect from October 2015 to September 2025 provided an opportunity to promote other products for export to the US market. Implementation of the diversification strategy will enable realization of benefits that contributes towards socio economic development as outlined in both Kenya Industrial Transformation Programme (KITP) and Vision 2030;

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

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

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

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

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

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

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

ix) **Provide additional incentives** to reduce cost of doing business.

Lower corporate tax to 15% for EPZ companies after the tax holiday and allow duty for a limited number of vehicles especially for transporting cargo and vessels for EPZ companies.

11.0 Set targets and Actual performance.

The projections for the year 2019 took into account the challenges and opportunities facing the EPZ program.

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

Operating firms are expected to rise to 160 based on facilitation of new enterprises to commence operation by end of year 2019, while local employment is estimated to expand by 10% based on coming into operation of the new firms and expansion of the existing ones.

Exports are expected to grow by about 8.5% while total sales to expand by 8%. Capital investment which constitutes value of plant, machinery, equipment and other funds invested by EPZ firms is likely to grow by an average of 5%, while domestic expenditure is expected to average 40% of total sales.
A summary of set and actual targets for years 2016 to 2018 and projections for year 2019 are outlined on table 14.

Table 14: Set and Actual Targets for 2016 to 2018 and Projections for 2019

			Target			**Actual**			**% attained**	**Target**
	2016	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2019**
Operating enterprises (Number)	100	120	160	111	131	136	100	100	85.0	160
Employment (Kenyans) Number.	56,539	56,672	60,000	52,947	54,764	57,099	93.6	96.6	95.2	63,000
Investment (Kshs million)	52,171	73,242	76,486	71,242	74,586	76,356	100.0	100	99.8	80,234
Total sales (Kshs million)	69,310	74,740	73,147	68,569	67,270	77,270	98.9	90.0	100	83,451
Exports (Kshs million)	65,749	68,989	66,729	64,151	60,729	72,390	97.6	88.0	100	78,443
Ratio of domestic sales to total sales (%)	9	20	10	3.7	6.5	2.9	100.0	100	100	5%
Domestic expenditure (Kshs million)	26,185	28,234	30,000	25,735	27,805	30,845	98.3	98.5	100	33,380

Average attainment of set targets for the year 2018 was 97.1% compared to 96.2% in the previous year.

Some of the targets set for the year 2018 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 2018 is expected to be maintained in 2019, measures aimed at mitigating high cost of production are some of the factors which are likely to play key role in the performance of the program going forward in 2019. 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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