EXPORT PROCESSING ZONES PROGRAM
ANNUAL PERFORMANCE REPORT, 2019

Table of Contents

1.0 Executive Summary

The performance of the EPZ program in the year 2019 maintained an upward trend in several indicators.

Direct local employment expanded by 5.8 % from 57,099 persons recorded in 2018 to 60,390 persons in 2019.

Capital investment in form of equipment, machinery and other funds invested by the 137 operational enterprises increased by 1.8% to Kshs. 77,691 million in 2019 from Kshs.76,356 million recorded in the previous year. While the cumulative value of investment for enterprises and zones (developers/operators) stood at Kshs 107,877 million in 2019 from Kshs 105,066 million registered in year 2018.

Expenditure on local goods & services rose by 3.3% in the year 2019 to stand at Kshs 31,858 million compared to Kshs 30,845 million in 2018.

Total sales decreased marginally by 0.1% to stand at Kshs 77,189 million in 2019 from Kshs 77,270 million in 2018, while exports declined by 5.3% to stand at Kshs 68,572 million from Kshs 72,390 million in 2018. The decrease in exports and total sales is attributed to a large extend on inadequate raw material supply for agro processing EPZ firms. Other sectors like apparels saw increase in exports

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 2015 to 37.2% in 2019.

1.1 Introduction

During the year 2019, the Government began implementation of the 'Big Four' Agenda that with focus on the following:

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; agro processing 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 fivefold 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, development and finalization of strategic plan 2019 – 2023 to succeed the one for 2014 – 2019 that lapsed. The document is expected to guide the institution in delivering its mandate.

This report provides insight to the national and international economic environment borrowing highlights from *Economic Survey 2020*, EPZ performance analysis under various indicators, impact of African Growth Opportunity Act (AGOA), constraints/challenges, set & actual targets for the year 2017 to 2019 including projection/outlook for 2020, and finally the conclusion.

1.2 National and International Scene

According to *Economic Survey 2020*, real Gross Domestic Product (GDP) is estimated to have expanded by 5.4% in 2019 compared to a growth of 6.3% 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% growth in 2018 to 3.6% in 2019. The manufacturing sector grew by 3.2% in 2019 compared to 4.3% 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% in 2019 compared to a growth of 3.5% in 2018. Advanced economies are estimated to have expanded by 1.2% in 2019 compared to a growth of 2.2% in 2018. Sub-Saharan Africa's growth slightly slowed to 3.1% in the review period from 3.3% growth in 2018. The growth was mostly supported by favorable weather conditions that led to increased agricultural production as well as high infrastructural investments.

Globally, the inflation rate eased from 2.3% in 2018 to 2.0% 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% in 2018 to 1.2% in 2019. Decelerated growth was highly pronounced in the advanced economies and the Emerging markets and developing economies (EMDE's) such as China and South Asia. The world's current account surplus as per cent of GDP remained at 0.4% in 2019, similar to 2018. The overall fiscal balance as a percentage of GDP stood at a deficit of 3.2% in 2019 compared to a deficit of 2.9% in 2018.

In the same year, unemployment rate was estimated at 5.4% compared to a 5.3% 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% in 2019 compared to 6.6% 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% in 2019 in the bloc, supported by strong growth in the private sector and infrastructure.

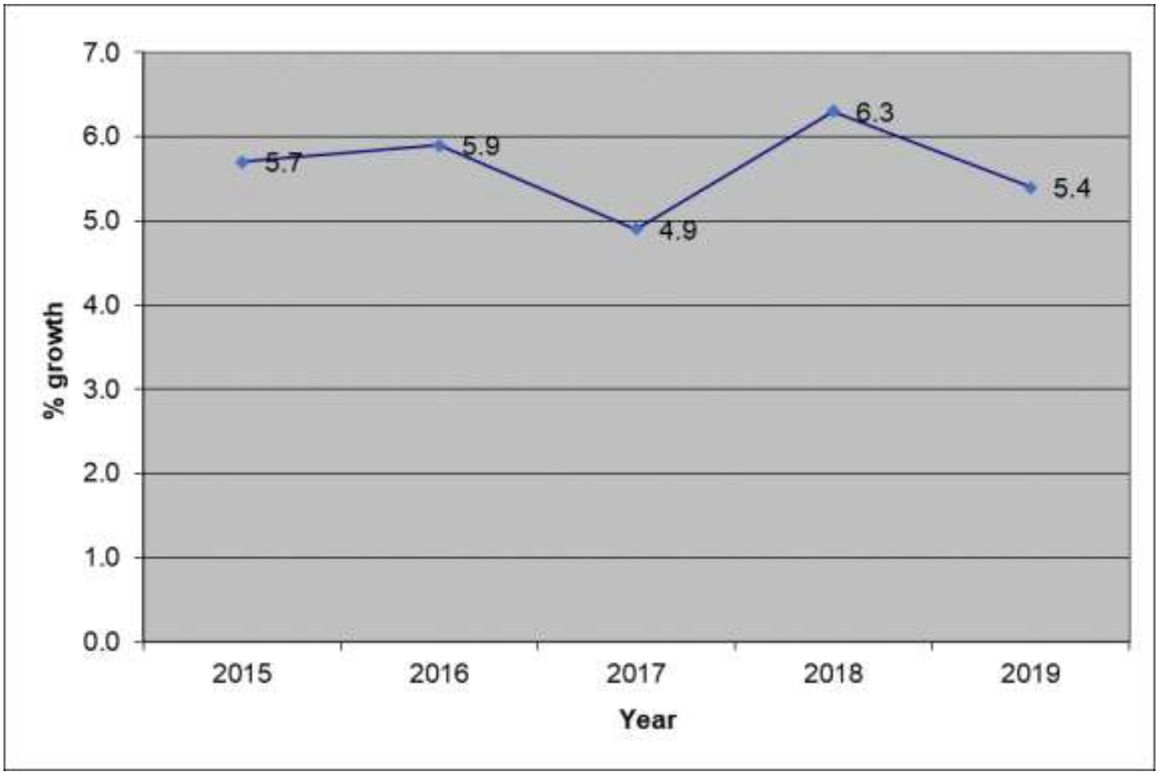
In Uganda, real GDP grew by 4.9% in 2019 compared to a growth of 6.1% in 2018.

Tanzania recorded a decelerated growth of real GDP of 6.3% in 2019 compared to a 7.0% growth in 2018.

Burundi's real GDP growth improved from 1.6% in 2018 to 1.8% in 2019 while the current account deficit as a percentage of GDP widened to 16.4% 2019 compared to 15.0% in 2018.

The Southern African Development Community (SADC) recorded a real GDP growth of 1.1% in 2019 compared to a 2.1% in 2018.

Chart 1: Real GDP growth rate (%), 2015 to 2019



Source: Economic survey, 2020

1.3 Performance by key sectors of the economy

1.3.1 Agriculture

Economic Survey 2020 reported that, 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% in 2018 to 3.6% in 2019.

The total quantity of coffee produced increased by 8.7% 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% 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% 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% from 85.8 thousand tonnes in 2018 to 72.7 thousand tonnes in 2019.

The area under cane production decreased by 2.5% 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% 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% 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% 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% 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% from 10,247.6 thousand in 2018 to 11,302.7 thousand in 2019. The number of pigs slaughtered increased by 6.5% 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% compared to a revised growth of 4.3% in 2018. The sector's volume of output expanded by 2.0% in 2019 from a revised growth of 5.6% 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% 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% to 60,383 in 2019.

Production of leather and related products contracted by 2.2% in 2019 compared to a 2.7% growth in 2018.

The beverages and tobacco sub-sector grew by 7.8% growth in 2019. Production of beverages went up by 8.2% 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%, respectively.

Production of wood and products of wood contracted by 4.8% in 2019 which was attributed to a reduction in the production of plywood by 20.3%.

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%, while that of varnishes declined by 17.8% during the review period.

Production of pharmaceutical products increased by 6.0% in 2019 after recording a 10.5% growth in the previous year.

The rubber and plastic products subsector registered a 5.7% 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%, respectively.

The production of basic metals grew by 3.9% in 2019 due to 1.5% increase in production of corrugated iron sheet. During the same period, production of iron bars and rods increased by 5.7% while fabricated 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% to 18.2 thousand tonnes in 2019. On the other hand, cement import increased by 14.6% 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.

1.3.4 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% to 828.4 MW. Total electricity demand increased by 3.9% 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% of total local generation in 2019.

Total pipeline throughput increased by 11.1% to 7,025.9 thousand cubic metres in 2019.
The value of output from the transport and storage sector increased by 12.1% 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% 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% 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% to 2,035.4 thousand in 2019, which was a slower growth compared to a 14.0% rise in 2018.

Tourism earnings grew by 3.9% from KSh 157.4 billion in 2018 to KSh 163.6 billion in 2019. Hotel bed-night occupancy expanded by 6.3% to 9,160.8 thousand during the same period. The number of international and local conferences held rose by 6.9% and 14.4% to 218 and 4,743 respectively, in 2019.

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

During the review period, the total exports declined by 2.9% 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% 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% 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% 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

According to *Economic Survey 2020*, 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 2019

2.1 Overview of the program

In 2019, the program recorded a positive growth in most of the indicators which included number of gazetted zones, local employment, investment and domestic expenditure.

Number of gazetted zones stood at 74 during the year 2019 compared to 72 in the year 2018.

Direct employment expanded by 5.8% to stand at 60,390 persons compared to 57,099 persons recorded in 2018.

Cumulative value of investments for enterprises and zones rose by 2.7% in year 2019 to stand at Kshs 107,877 million from Kshs 105,066 million in 2018. The value of local purchases declined by 6.0% mainly as a result of adverse weather conditions that affected supply of raw materials to agro processing EPZ enterprises.

Total sales stood at Kshs 77,189 million in 2019 from Kshs 77,270 million in 2018, while value of exports were Kshs 68,572 million from 72,390 million in 2018. The decrease in exports and total sales is attributed to a large extend on inadequate raw material supply for agro processing EPZ firms. Other sectors like apparels saw increase in exports.

Imports increased by 16.4% to stand at 39,840 million from Kshs 34,229 million recorded in year 2018. This was attributed to increase in raw material and machinery by the enterprises.

Domestic sales increased from Kshs 2,217 million in 2018 to Kshs 4,417 million in 2019. These was mainly attributed to high demand for print products.

Expenditure on local goods and services increased by 3.3% in 2019 to stand at Kshs. 31,858 million from Kshs. 30,845 million recorded in the year 2018. 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. For instance, salaries/wages paid to local workers numbering 60,390 persons employed by EPZ firms was Kshs 12,891 million in year 2019 compared to Kshs 11,728 million in 2018. Overall, of the total domestic expenditure, an average of Kshs 2,655 million being injected into the economy by EPZ firms monthly in the year 2019 compared to Kshs. 2,571 million in the previous year. These expenditures explain growth in areas surrounding EPZ zones in their respective geographic locations, especially those around Athi

River zone, of Athi River and Kitengela. This is similar in the case of Changamwe in Mombasa and Mtwapa areas among others where there is concentration of EPZ zones.

Summary of the performance indicators is outlined on table 1.

Table 1: Performance of EPZ Key Indicators: 2015 - 2019

Indicator	2015	2016	2017	2018	2019	Growth % (2018 v/s 2019)
Gazetted zones (no.)	56	65	71	72	74	2.8
Projects approved (no)	28	30	42	45	60	33.3
Enterprises Operating (no.)	89	111	131	136	137	0.7
Employment – (Kenyans) [a]	50,302	52,947	54,764	57,099	60,390	5.8
Employment - (Expatriates) [b]	597	618	722	644	665	3.3
Total Employment (No)=a+b	***50,899***	***53,565***	***55,486***	***57,743***	***61,055***	***5.7***
Total sales (Kshs. million)**	64,897	68,569	67,270	77,270	77,189	-0.1
Exports (Kshs. million)	60,879	64,151	60,729	72,390	68,572	-5.3
Domestic Sales (Kshs. million)	1,793	2,541	4,357	2,217	4,417	99.2
Imports (Kshs. million)	31,370	30,160	30,305	34,229	39,840	16.4
Investment Kshs. Million***	48,128	88,977	95,278	105,066	107,877[1]	2.7
Expenditure on local Purchases (Kshs million)[1]	8,815	10,742	11,089	10,385	9,761	-6.0
Expenditure on local Salaries (Kshs million)[2]	8,377	9,212	10,069	11,728	12,891	9.9
Expenditure on power (Kshs million)3	878	741	772	947	991	4.6
Expenditure on Telecommunication (Kshs million)4	84	77	85	90	78	-13.3
Expenditure on water (Kshs million)5	194	184	139	163	224	37.4
Other domestic expenditure (Kshs million)[6]	5,522	4,779	5,651	7,532	7,913	5.1
Total Domestic Expenditure (Kshs million) = 1+2+3+4+5+6*	***23,870***	***25,735***	***27,805***	***30,845***	***31,858***	***3.3***

** 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

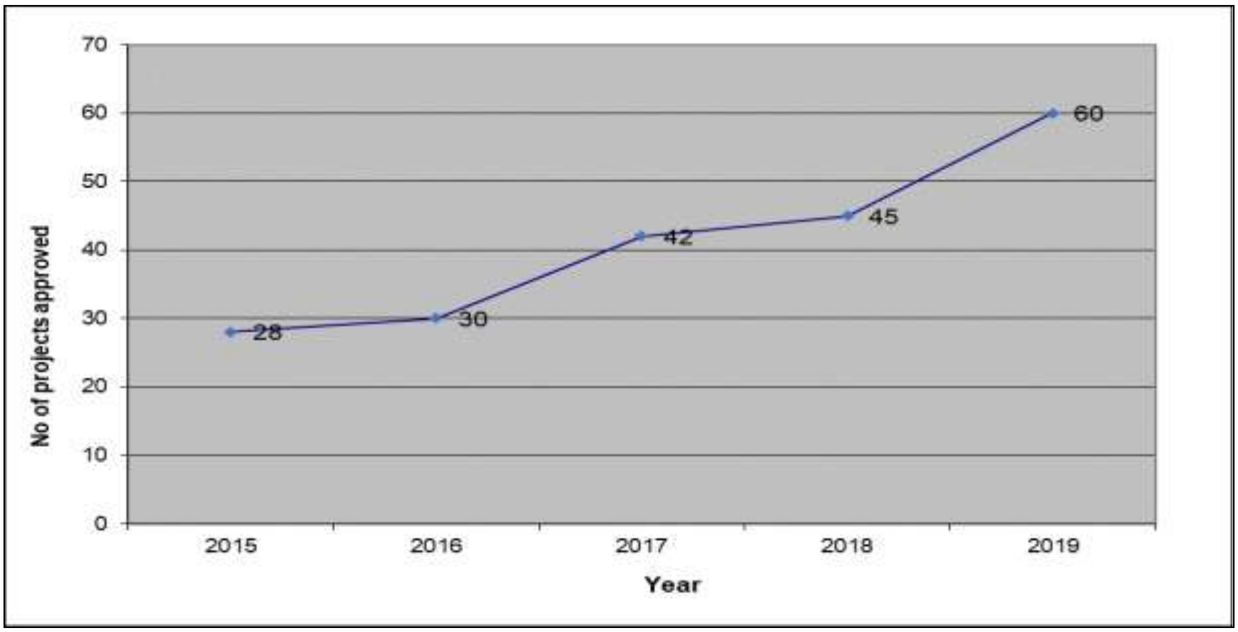
There were 60 approvals with a potential investment of Kshs.27.1 billion, 10,105 jobs and year one sales valued at Kshs 18.2 billion in the year 2019 compared with 45 approvals with a potential investment of Kshs 20.9 billion 12,087 jobs and year one sales valued at Kshs.32.1 billion in the previous year (Table 2 and chart 1).
Twelve of these projects have already been licensed and are commencing process of setting up operations so as to enhance the performance and contribution of the EPZ program.

[1] Value of enterprises' investment = **Kshs 77,692 million** while zones' (developers/operators) investment = **Kshs 30,185**. During year 2017, enterprises' investment = **Kshs 76,356** while zone investment = **Kshs 28,709.**

Table 2: Projects Approved, Expected jobs, Investment & Sales from 2015 - 2019

Year	Number of projects approved	Jobs (number)	Investment (Kshs. million)	Year One Sales (Kshs. million)
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
2019	60	10,105	27,162	18,239

Chart 2: Trend of number of projects approved from 2015 - 2019



2.3 Status on gazetted zones

The number of gazetted zones as at end of December 2019 stood at 74 compared to 72 in December 2018, out of which 69 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).

Six zones are located in the County of Nairobi, 25 in Mombasa, 10 in Kilifi, 6 in Machakos, 4 each in Bomet & Kwale, 3 each in Nakuru & Kiambu, 2 in Embu and Nandi, one each in Muranga, Kajiado, Taita Taveta, Elgeyo Marakwet, Uasin Gishu, Laikipia, Meru, Narok and Homa bay. During the course of the year one zone (Sandton Park EPZ Ltd, Road C, off Enterprise Road, Nairobi County), was degazetted due to unfavourable business environment.

Table 2 details distribution of gazetted zones.

Table 2: Geographical Distribution of Zones per County, year 2019

County	Former Province	Number of zones
Nairobi	Nairobi	6
Machakos	Eastern	6
Kajiado	Rift Valley	1
Mombasa	Coast	25
Kilifi	Coast	10
Taita Taveta	Coast	1
Kiambu	Central	3
Muranga	Central	1
Elgeyo Marakwet	Rift Valley	1
Uasin Gishu	Rift Valley	1
Laikipia	Rift Valley	1
Nandi	Rift Valley	2
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**	**74**

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. 3,060 million) to put up the infrastructure and initial industrial buildings and associated infrastructure.

Investment used to develop phases I & II of Export Business Accelerator (Incubator) is Kshs.252 million while additional infrastructural projects are estimated at Kshs. 6,700 million bringing cumulative zone investment to Kshs 10,012 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. Thereafter, SME/Export Business

Accelerator (EBA) phases I & II were put up with a total built up space of 79,000 square feet. SME unit III with a space of 64,500 square feet has been completed together with an additional industrial space of 372,600 square feet. This brings to a cumulative industrial space constructed using public resources to 676,100 square feet.

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 is constructing phase II of industrial go downs of 308,160 square feet 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; Fair oils EPZ Ltd, Ethical Fashions Artisan EPZ Ltd and Dala Textiles Kenya EPZ Ltd occupied cumulative built up space of 145,000 square feet; representing occupancy of 66%.

Property Vision EPZ Ltd has constructed seven units totaling 43,000 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 150,300 square feet to cater for investors' needs in which about 40% 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.

Industrial space constructed by the private developers is estimated at 928,120 square feet, bringing cumulative industrial space within Athi River zone to 1,604,220 square feet.

The zone had 73 operating enterprises in the year 2019 compared to 72 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, Tensenses Africa EPZ Ltd; Kentegra Biotechnology EPZ Ltd; Agrofirst EPZ Ltd; Acacia EPZ Ltd; Kenkor Joinery EPZ Ltd; Navios Services EPZ Ltd and Omra Meat Processing EPZ Ltd; T3 EPZ Ltd; Farmica EPZ Ltd; B.Braun Pharmaceuticals EPZ Ltd. However, some of the enterprises within the zone remained dormant due to various constraints. These included; Redington Kenya EPZ Ltd, Life Sciences EPZ Ltd; Softrace EPZ Ltd and Njuwa Tannery EPZ Ltd among others.

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 735,000 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 has a cumulative built up area of 120,423 square feet. Total area occupied was 99,756 square feet representing occupancy of 82.8%. It housed eight enterprises that dealt with activities which included agro processing, relief supplies, gemstones and macadamia among others.

2.4.4 Vipingo Business Park EPZ Ltd

This is a private zone located in M, Kilifi County, gazetted in February 2015. It is being occupied by newly operating firms namely; Balala Trading EPZ Ltd (agro processing) and Mega Coture Clothing EPZ Ltd (garments). The zone has a total built up area of 112,612 square feet of which whole was being occupied, recording 100% occupancy.

2.4.5 Taurus EPZ Ltd

This zone was gazetted in September 2007 with industrial & office built up space of 64,200 square feet, fully occupied. It is located in Mlolongo area of Machakos County. It hosts Dinlas Pharma EPZ Ltd, a pharmaceutical enterprise which commenced operation in July 2017.

It is important to note that the development of the zone is one of the most remarkable as it took a while before it became operation as it weathered a series of challenges.

2.4.6 Mara Tea Factory EPZ Ltd

This zone was gazetted in October 2017 with industrial & office built up space of 279,655 square feet; fully occupied. The zone is located in Transmara area in Narok County. It hosts Mara Tea Factory EPZ Ltd, a tea processing 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 417,500 square feet, which was fully occupied by two garment firms namely; Brilliant Garments EPZ Ltd and Mombasa Apparel EPZ Ltd (unit 3).

Notes

* Zones hosting branches of an enterprise as follows; Laburnum Investments EPZ Ltd – Miritini (Simba Apparel EPZ Ltd; unit 2), Kingorani EPZ Ltd (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).

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.

Three zones were gazetted in the year 2019; namely Mini Holdings Mikindani EPZ Ltd (Mombasa County), Mini Holdings Kilifi EPZ Ltd (Kilifi County) and Choimim Tea Factory EPZ Ltd (Nandi County).

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

These include Mini Holdings Kilifi EPZ Ltd and Choimim Tea Factory EPZ Ltd. While Tropical Macs EPZ Ltd EPZ Ltd (in Embu), Huawen Foods Kenya EPZ Ltd (Kwale) and Mini Holdings Mikindani EPZ Ltd (Mombasa) 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). Similarly, 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 53.28% compared to 52.94% recorded in the year 2018. Sameer Industrial Park EPZ Ltd followed with 5.84% compared to 5.88% respectively in the previous year.

In terms of local employment, Athi River accounted for 35.19%, Balaji EPZ Ltd at 15.24% and Ammar EPZ Ltd (Jomvu) at 8.14% compared to 38.15%, 15.84% and 7.93%, respectively in the year 2018. With respect to exports, Athi River zone contributed 35.72%, Balaji EPZ Ltd 10.60%, Ammar EPZ Ltd (Jomvu) 9.60%, Talab EPZ Ltd (Mtwapa II) 4.24% and Halai Brothers EPZ Ltd 3.87% compared to 36.00%, 9.66%, 11.20%, 3.31% and 4.50% in the year 2018.

As regards investment by the enterprises, Athi River zone attracted 45.73%; Balaji EPZ Ltd 11.88%, De La Rue 4.83% and Gold Crown Foods EPZ Ltd 3.18% respectively compared to 44.65%, 9.37%, 5.24% and 3.50% in the previous year. Pertaining to local resource utilization, Athi River contributed 31.20%, Balaji EPZ Ltd 12.15%, Gold Crown Foods EPZ Ltd 4.88%, Ammar EPZ Ltd (Jomvu) 4.27% and De La Rue 3.69% compared with 32.24%, 10.45%, 4.50%,3.84% and 2.70% in 2018.

Regarding zone investment, Athi River zone constituted 33.17%, Balaji EPZ Ltd 11.32%, Taurus EPZ Ltd 7.83% and Comarco Properties EPZ Ltd at 3.91%% compared to 34.79%, 4.82%, 7.12% and 4.11% respectively in the year 2018.

On average, Athi River zone emerged as the highest performer with respect to the selected indicators outlined above. It scored an average of 39.05%, Balaji EPZ Ltd 10.44%, Ammar EPZ Ltd (Jomvu) 4.38%, Sameer Industrial Park EPZ Ltd 2.34% and Africa Apparels EPZ Ltd 2.31% respectively compared with 39.79%, 8.60%, 4.55%, 2.22% and 2.15% in the year 2018.

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 II) 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 2019 fifteen industrial sub sectors were operational, namely, agro processing, Business Service Permit (BSP), chemicals, commercial & commercial craft and leather, dartboard, electrical/electronics, food processing, garments, garment support services, pharmaceuticals & medical supplies, plastics, printing, relief supplies, services and other (joinery works, leather, minerals/gemstones, beverages/spirits and silicone products).

During the year 2018, there were seventeen industrial subsectors namely, agro processing, beverages/spirits, 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 (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 17.52% of enterprises, 81.95% of total local jobs, 68.83% of exports, 63.16% of total sales, 46.64% of expenditure on local goods & services and 23.25% of private investment compared to 16.18%, 81.00%, 65.33%, 62.91%, 42.32% and 21.15% respectively in the year 2018.

However, agro processing sector which is the second dominant sector within the program was the highest performer in number of enterprises at 34.31% compared to garment sector in which it recorded 17.52% respectively in year 2019. During the year 2018, agro processing contributed 32.35% in number of firms while garments sector recorded 16.18%.

On average, garment sector contributed 50.22%, agro processing at 23.36%, services at 7.12%, food processing at 3.29%, printing at 2.76% and pharmaceuticals at 2.77% on all of the above indicators compared to 48.15%, 24.47%, 8.93%, 2.96%, 2.73% and 2.35%respectively in the previous year.

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

Table 3: Sectoral Performance year 2019 (Kshs)

sector	no of firms	local jobs	exports	total sales	local resource	investment
Agro processing	47	6,923	12,945,199,875	13,101,402,469	11,337,877,347	17,851,380,580
BSP	6	363	0	0	204,282,826	16,253,867,893
chemicals	2	251	107,182,752	129,711,495	221,734,578	3,312,477,461
commercial & commercial	2	88	80,905,535	80,905,535	62,994,467	171,184,406
Dartboard	1	516	983,896,420	985,820,420	482,800,626	903,459,571
Electricals/electronics	2	3	0	0	4,599,340	50,200,000
Food processing	5	310	2,362,882,871	4,410,537,517	1,096,000,273	2,303,723,402
Garments	24	49,489	47,196,415,832	48,752,652,954	14,857,543,512	18,064,712,263
Garments support services	3	61	26,484,675	225,950,629	60,121,077	223,944,207
Pharmaceuticals & medical supplies	5	655	388,394,368	705,747,550	596,187,440	6,641,928,237
Plastics	3	121	116,691,217	116,691,217	153,394,016	628,000,000
printing	1	303	1,109,302,917	4,915,506,315	1,175,097,761	3,751,601,500
Relief supplies	2	62	882,851,594	1,086,241,082	399,314,214	88,908,300
services	29	1,167	2,351,089,632	2,657,470,095	1,173,525,911	7,052,056,994
other	5	78	20,869,198	20,869,198	32,766,913	394,128,442
Total	**137**	**60,390**	**68,572,166,886**	**77,189,506,476**	**31,858,240,301**	**77,691,573,256**

Table 4: Proportion of sector contribution year 2019 (%)

Sector	no of firms	local jobs	exports	total sales	local resource	investment	average
Agro processing	34.31%	11.46%	18.88%	16.97%	35.59%	22.98%	23.36%
BSP	4.38%	0.60%	0.00%	0.00%	0.64%	20.92%	4.42%
chemicals	1.46%	0.42%	0.16%	0.17%	0.70%	4.26%	1.19%
commercial craft	1.46%	0.15%	0.12%	0.10%	0.20%	0.22%	0.37%
Dartboard	0.73%	0.85%	1.43%	1.28%	1.52%	1.16%	1.16%
Electricals	1.46%	0.00%	0.00%	0.00%	0.01%	0.06%	0.26%
Food processing	3.65%	0.51%	3.45%	5.71%	3.44%	2.97%	3.29%
Garments	17.52%	81.95%	68.83%	63.16%	46.64%	23.25%	50.22%
Garments support services	2.19%	0.10%	0.04%	0.29%	0.19%	0.29%	0.52%
Pharmaceuticals & medical supplies	3.65%	1.08%	0.57%	0.91%	1.87%	8.55%	2.77%
plastics	2.19%	0.20%	0.17%	0.15%	0.48%	0.81%	0.67%
printing	0.73%	0.50%	1.62%	6.37%	3.69%	4.83%	2.96%
Relief supplies	1.46%	0.10%	1.29%	1.41%	1.25%	0.11%	0.94%
services	21.17%	1.93%	3.43%	3.44%	3.68%	9.08%	7.12%
other	3.65%	0.13%	0.03%	0.03%	0.10%	0.51%	0.74%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	100.00%

Chart 3: Sector contribution to local employment 2019

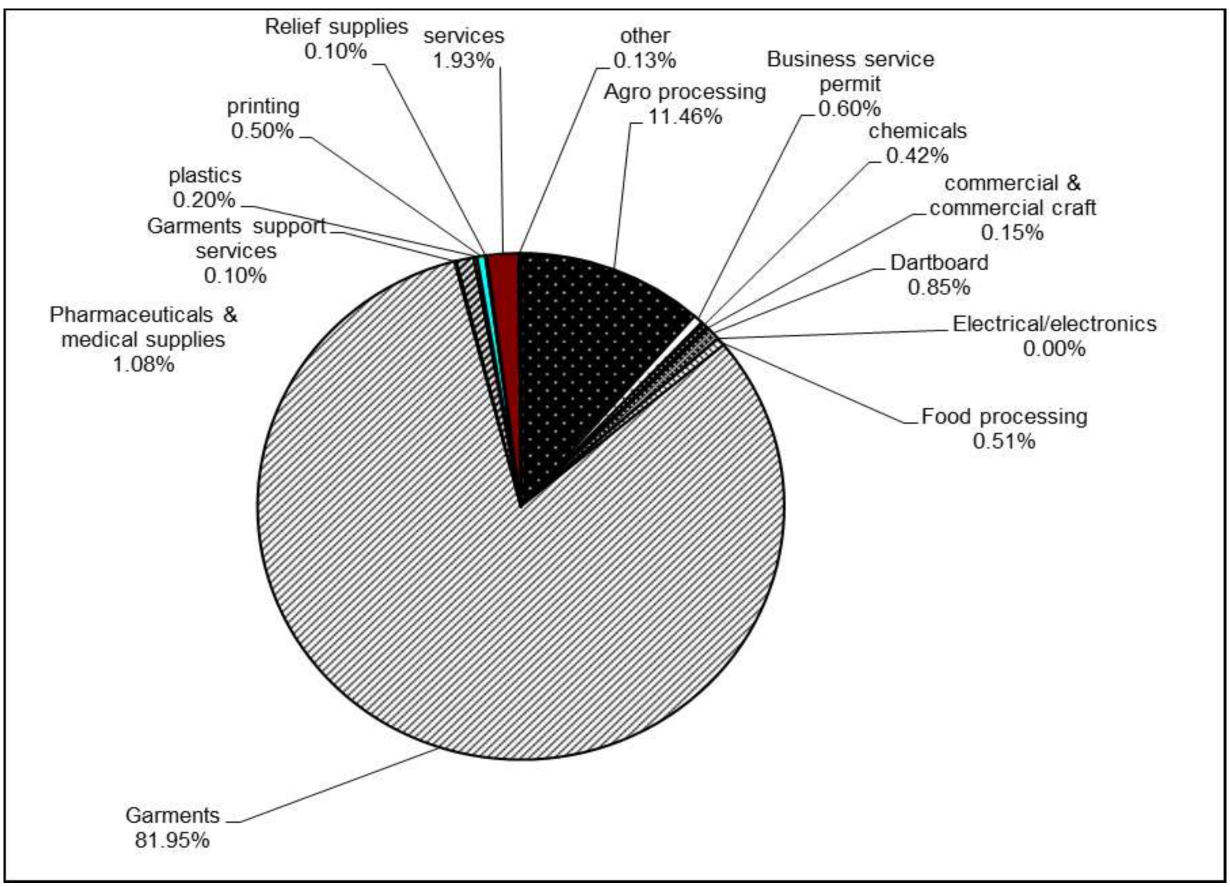
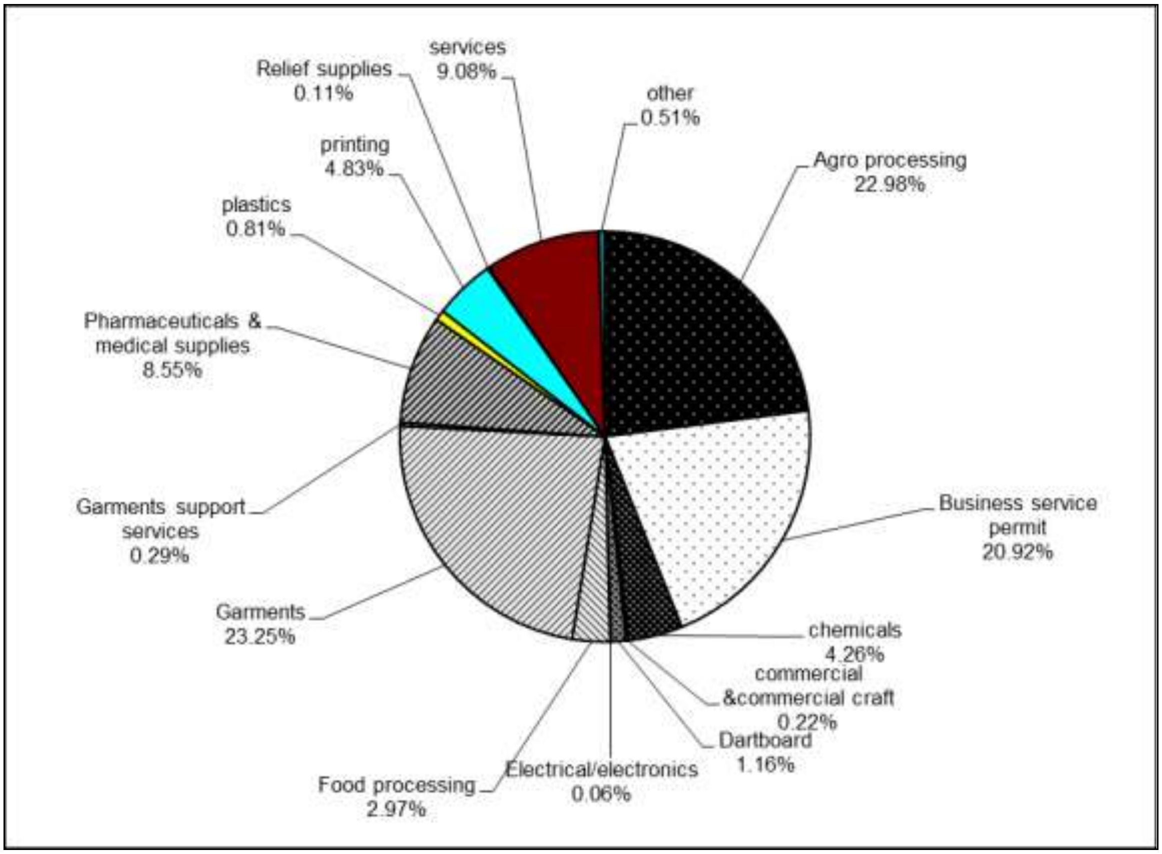


Chart 4: Sector contribution to investments, 2019



2.8 Ownership of EPZ enterprises

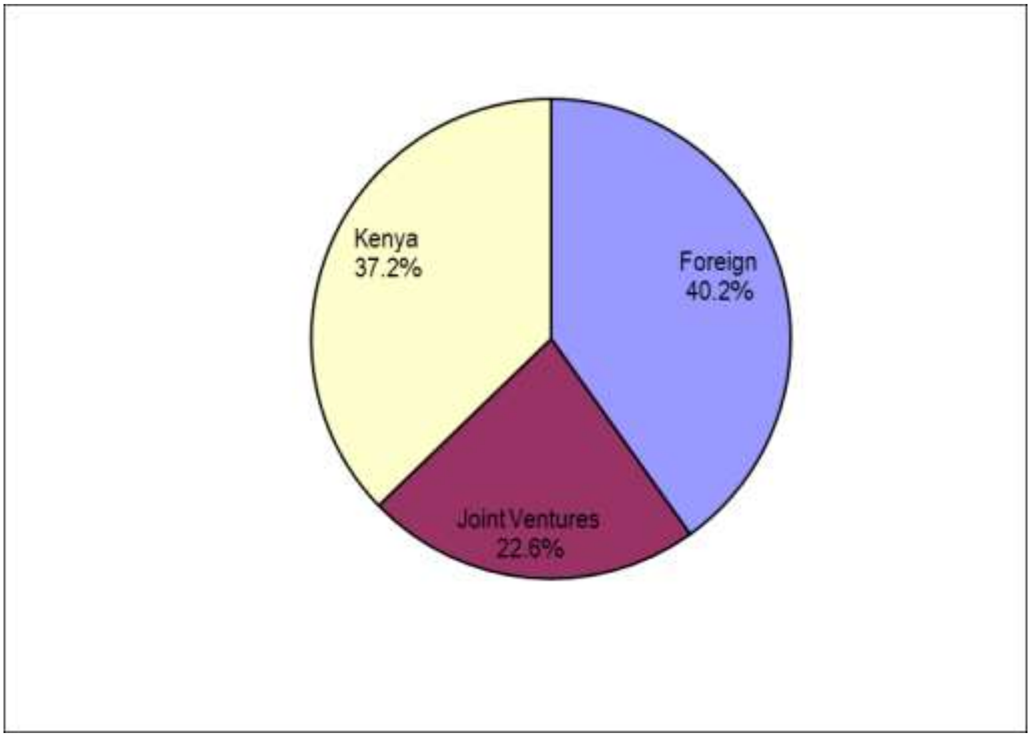
During the year 2019, 37.2% of total EPZ enterprises were wholly Kenyan, Joint ventures were 22.6% while foreign investments constituted 40.2%. In 2018, 37.5% were wholly Kenyan owned, 23.5% were joint ventures and 39.0% were foreign owned.

One of the reasons contributing to 37.2% of wholly owned Kenya EPZ enterprises is the implementation of small and medium enterprise programme which stemmed from export business accelerator/incubator.

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

Chart 5 shows the ownership structure of EPZ enterprises in the year 2019.

Chart 5: Ownership of EPZ enterprises, 2019



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. 77,691 million in 2019 from Kshs. 76,356 million in the year 2018.

When infrastructure investment of Kshs. 30,185 million undertaken by EPZ developers included, the figure becomes Kshs. 107,877 million compared with Kshs. 105,066 million in the year 2018. 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 enterprises' investments, 58.6% (Kshs. 45,563 million) were foreign owned while Kenyan accounted for 41.4% (Kshs. 32,128 million) in 2019 compared to 60.1% (Kshs. 45,856 million) foreign owned and 39.9% (Kshs. 30,500 million) Kenyan respectively in the year 2018 (table 5).

Table 5: Value of EPZ enterprises' investments: 2015 – 2019

Indicator	2015	2016	2017	2018	2019
Value of Kenya/Local investments (Kshs million)	12,788	22,783	27,052	30,500	32,128
Value of Foreign investment (Kshs million)	35,340	48,459	47,534	45,856	45,563
Total Investment (Kshs million)	**48,128**	**71,242**	**74,586**	**76,356**	**77,691**
Ratio of value of Kenya/Local investment to Total (%)	26.6	32.0	36.3	39.9	41.4
Ratio of value of Foreign investment to Total (%)	73.4	68.0	63.7	60.1	58.6

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 close to 70% of exports.

Exports of articles of apparels to USA increased in value by 10.8% to stand at Kshs. 46,066 million in 2019 from Kshs 41,578 million recorded in the year 2018. Quantity of apparels exported to US increased from 94.0 million pieces in 2018 to 105.4 million pieces in 2019.

During the year under review, there were some market diversification on apparel other than to the USA; which included Europe, Canada, Mexico, Brazil and Peru among others. During the year 2019, these alternative markets were a destination of Kshs.1.1 billion (5.7million pieces) worth of apparel compared to Kshs. 5.7 billion (9.8 million pieces) of apparel consigned to these markets during the year 2018 (table 9b).

Direct employment expanded by 7.0% to stand at 49,489 from 46,248 recorded in the previous year. During the year 2019, garment sector contributed 81.9% of total local employment compared with 81.0% in 2018.

Investment on the other hand registered an increase of 11.9% to stand at Kshs. 18,065 million from Kshs. 16,146 million in year 2018 as result of continued investment by firms on machinery.

The trend is as shown in table 6and 6b

Table 6a: Impact of AGOA on EPZ Garment Sector: 2015 - 2019

Indicator	2015	2016	2017	2018	2019	% growth (2018 v/s 2019
Number of Enterprises	21	21	21	22	24	9.1
Employment (No.)	41,597	42,496	43,987	46,248	49,489	7.0
Investment (Kshs million)	15,708	15,300	15,880	16,146	18,065	11.9
Exports (Kshs million)	35,224	34,410	33,051	41,578	46,066	10.8
Quantity of exports (million pieces)	84.6	74.0	76.2	94.0	105.4	12.1
Imports (Kshs million)	19,028	17,468	22,656	25,323	28,387	12.1

Table 7 b: Value & quantity of apparel export to USA and to rest of the world: 2015 - 2019

Indicator	2015	2016	2017	2018	2019
Value of apparel exports to USA (Kshs m)	35,225	34,410	33,051	41,578	46,066
Value of apparel export rest of world (Kshs m)	2,165	2,472	4,115	5,674	1,130
Total value	**37,390**	**36,882**	**37,166**	**47,252**	**47,196**
Quantity apparel of exports to USA (million pieces)	84.6	74.0	76.2	94.0	105.4
Quantity of apparel export to rest of the world (million pieces)	4.3	4.3	8.5	9.8	5.7
Total quantity	**88.9**	**78.3**	**84.7**	**103.8**	**111.1**

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 upward trend during the year 2019.

Total apparel exports from Kenya to US increased by 15.7% in year 2019 to stand at US$ 453.7 million from US$ 392.2 million recorded in 2018.

Madagascar apparel exports rose by 24.0% to stand at US$243.3 million in 2019 from US$ 196.2 million recorded in 2018.

On the other hand, apparel exports from Lesotho saw a decrease of 5.4% to stand at US$303.4 million while those from Mauritius declined by 4.2% to US$140.8 million.

Overall, Kenya maintained her SSA top apparel exporter to US for the last six consecutive years in 2019. However, there is a threat emanating from Ethiopia in which it saw its exports to USA growing by 88.6% in year 2019 to stand at US$211.3 million from US$ 112.0 million 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 2015 – 2019 (US $ ‘000)

Country	2015	2016	2017	2018	2019	% change 2018 - 2019
Kenya	368,273	339,630	339,745	392,217	453,730	15.7
Lesotho	299,690	294,531	290,435	320,613	303,418	-5.4
Madagascar	48,978	102,527	158,994	196,181	243,331	24.0
Mauritius	215,255	197,037	146,574	146,988	140,884	-4.2
Ghana	9,204	6,255	7,899	13,840	17,326	25.2
Ethiopia	17,647	32,668	52,901	112,047	211,280	88.6
Tanzania	27,316	36,955	40,643	41,868	52,237	24.8
South Africa	8,370	7,584	6,164	7,872	9,554	21.4

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 18th AGOA Forum was held in Ivory Coast in Africa in August 2019 with the next Forum expected to be hosted by USA in August 2020 subjected to the Covid – 19 pandemics.

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.

Mombasa region generated the highest number of employments of 23,322 in the year 2019 while Athi River region had 21,458 persons. During the year 2018, Athi River region employed 21,894 while Mombasa had 19,708 persons.

Average performance for the regions with respect to the selected indicators were 42.1%, 31.0%, 18.2%, 2.6%, 2.3%, 2.7% and 1.4% for Athi River/Mlolongo, Mombasa, Nairobi, Thika/Kiambu/Muranga/Embu, Laikipia/Naivasha/Nakuru, Bomet/Narok and Eldoret/Nandi for 2019 compared with 41.3%, 33.0%, 16.9%, 2.4%, 2.2%, 2.8% and 1.4% respectively in 2018.

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

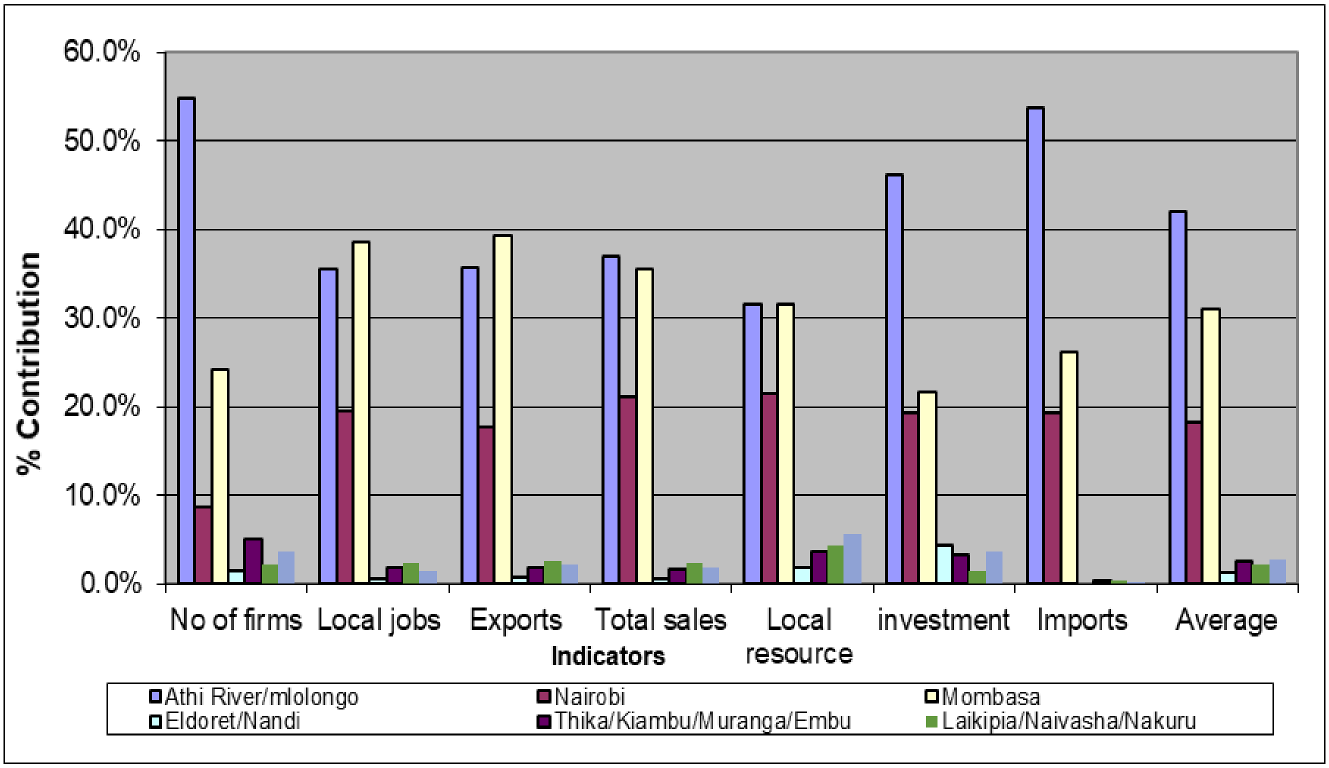
Table 9: Regional performances year 2019

Zone	Firms (no)	Local jobs (no)	Exports (Kshs m)	Total sales (Kshs m)	Local resource (Kshs m)	investment (Kshs m)	Imports (Kshs m)
Athi River/mlolongo	75.0	21,458.0	24,494.0	28,510.0	10,046.0	35,913.0	21,382.0
Nairobi	12.0	11,769.0	12,097.0	16,239.0	6,832.0	15,030.0	7,718.0
Mombasa	33.0	23,322.0	26,995.0	27,379.0	10,029.0	16,769.0	10,425.0
Eldoret/Nandi	2.0	303.0	464.0	492.0	606.0	3,381.0	0.0
Thika/Kiambu/Muranga/Embu	7.0	1,158.0	1,269.0	1,299.0	1,177.0	2,548.0	152.0
Laikipia/Naivasha/Nakuru	3.0	1,433.0	1,777.0	1,792.0	1,404.0	1,209.0	125.0
Bomet/Narok	5.0	947.0	1,476.0	1,478.0	1,764.0	2,841.0	38.0
Total	**137**	**60,390**	**68,572**	**77,189**	**31,858**	**77,691**	**39,840**

Table 10: Contribution by region, 2019 (%)

Zone	No of firms	Local jobs	Exports	Total sales	Local resource	investment	Imports	Average
Athi River/mlolongo	54.7%	35.5%	35.7%	36.9%	31.5%	46.2%	53.7%	42.1%
Nairobi	8.8%	19.5%	17.6%	21.0%	21.4%	19.3%	19.4%	18.2%
Mombasa	24.1%	38.6%	39.4%	35.5%	31.5%	21.6%	26.2%	31.0%
Eldoret/Nandi	1.5%	0.5%	0.7%	0.6%	1.9%	4.4%	0.0%	1.4%
Thika/Kiambu/Muranga/Embu	5.1%	1.9%	1.9%	1.7%	3.7%	3.3%	0.4%	2.6%
Laikipia/Naivasha/Nakuru	2.2%	2.4%	2.6%	2.3%	4.4%	1.6%	0.3%	2.3%
Bomet/Narok	3.6%	1.6%	2.2%	1.9%	5.5%	3.7%	0.1%	2.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Chart 6: Contribution by region (%) year 2019

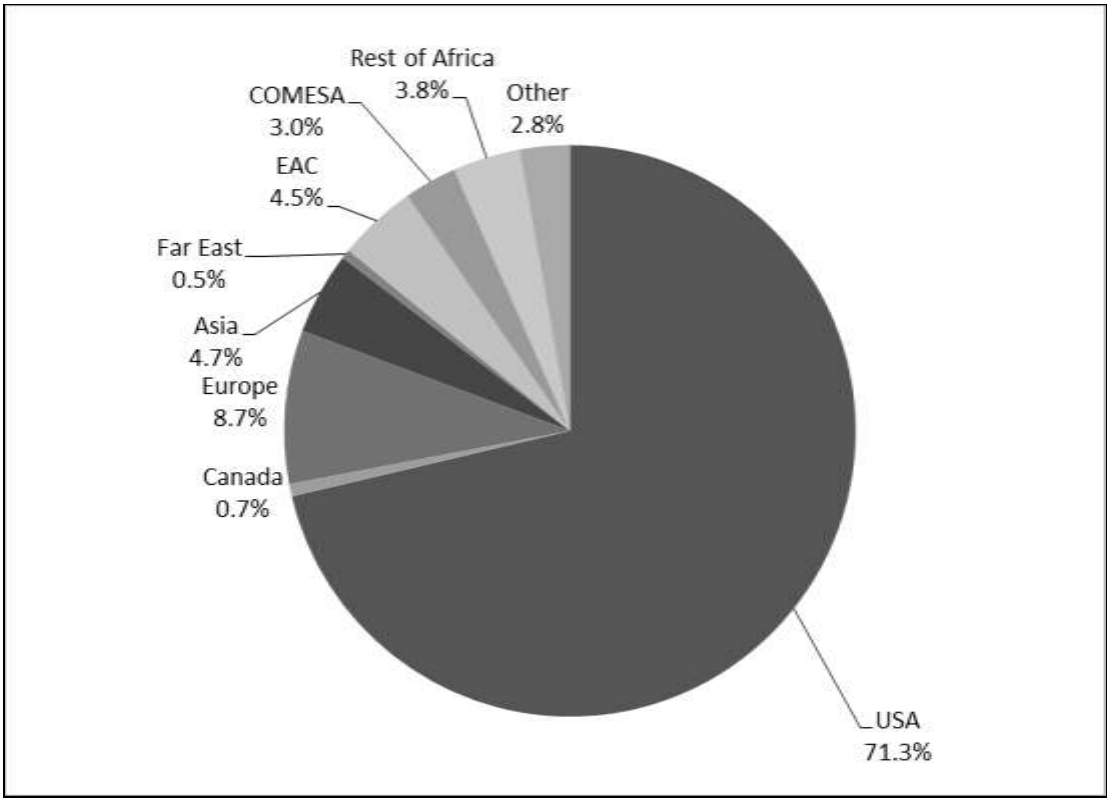


5.0 Destination of Exports

During the year 2019, 71.3% (Kshs. 48,903 million) of all exports were consigned to USA market out of which 94.2% (Kshs. 46,067 million) constituted exports of garment products. In the year 2018, 61.6% (Kshs. 44,561 million) were exported to US out of which 93.3% (Kshs. 41,578 million) were accounted for by garment exports.

Europe accounted for 8.7% (Kshs. 5,955 million) of the export market, EAC 4.5% (Kshs. 3,064 million), Asia 4.7% (Kshs. 3,198 million), COMESA 3.0%(Kshs. 2,065 million), Rest of Africa 3.8%(Kshs. 2,603 million), Far East 0.5 %(Kshs.361 million) and 2.8% (Kshs. 1,941million) was destined to the rest of the world. During the previous year, Europe accounted for 9.9% (Kshs. 7,134 million), 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) to the rest of the world (chart 7).

Chart 7: Market destination for all exports, 2019



6.0 Employment and wages

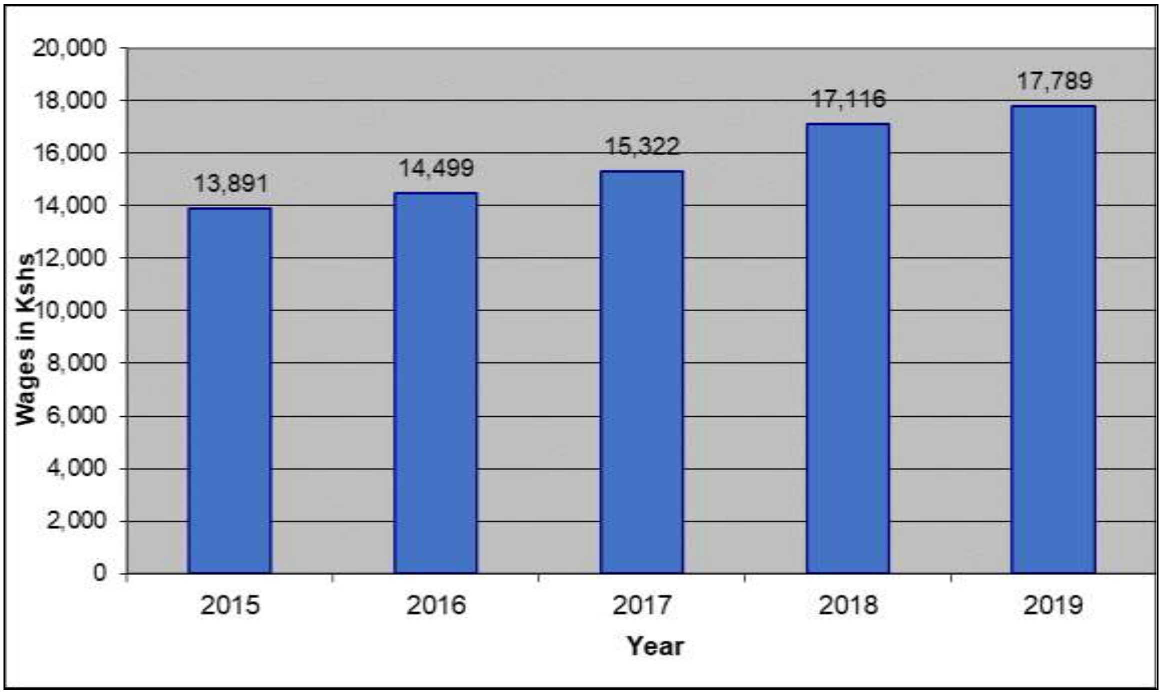
The monthly average wage for local employment within the EPZ has been on steady increase over the years as shown by table 13 and Chart 8. The average monthly wages have increased from Kshs 13,891 in the year 2015 to Kshs 17,789 in the year 2019, representing 28.1% increase. This meant that there has been an average of over 5.6 % increase in local wages per annum in the last five years.

Table 11: Employment and Wages: 2015 – 2019

Indicator	2015	2016	2017	2018	2019
Local employees (Number)	50,302	52,947	54,764	57,099	60,390
Expatriates (Number)	597	618	722	644	665
Total employment (Number)	50,899	53,565	55,486	57,743	61,055
Local wages (Kshs)	8,376,738,910	9,212,279,985	10,069,320,267	11,727,644,428	12,891,138,230
Expatriate wages (Kshs)	683,747,557	768,274,397	893,338,136	994,682,828	1,051,048,787
Total wages (Kshs)	9,060,486,467	9,980,554,382	10,962,658,403	12,722,327,256	13,942,187,017
Average Annual wages locals (Kshs)	166,691	173,991	183,867	205,391	213,465
Average Annual wages expatriates (Kshs)	1,145,306	1,243,162	1,237,310	1,549,350	1,580,525
Average monthly wage locals (Kshs)	13,891	14,499	15,322	17,116	17,789
Average monthly wage expatriates (Kshs)	95,442	103,597	103,109	129,112	131,710
Average monthly wage locals (US$)	142	143	148	169	174
Average monthly wage expatriates (US$)	973	1,021	997	1,276	1,291
Average annual exchange rate(Kshs/US$)	98.1	101.5	103.4	101.2	102.0

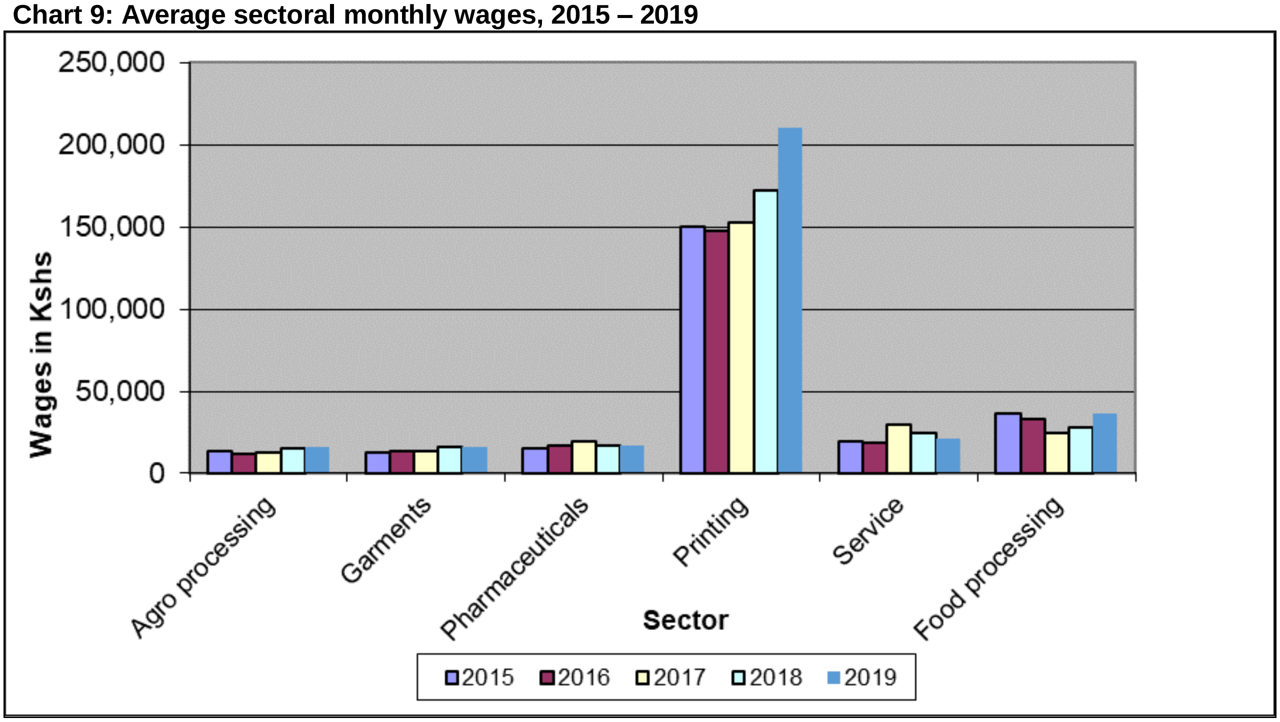
Source: EPZA records

Chart 8: Average monthly wages for local employees, 2015 to 2019 (Kshs)



With respect to selected sectoral wages, the printing sector continued to offer high remuneration to its employees in 2019 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, 2015 – 2019



6.1 Training of local workers and transfer of technology

In the year 2019, 62 enterprises (45.3%) trained local employees in various industrial disciplines compared to 65 (47.8%) 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, in-house/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 2019, the export processing zones contribution to the total manufacturing sector employment accounted for 17.09% from 16.41% posted in the year 2018.

In the year under review, EPZ contribution to manufacturing sector output stood at 3.00% in year 2019 from 3.21% registered in the previous year.

EPZ exports to total Kenya exports stood at 11.49% in 2019 from 11.78% in the year 2018.

Contribution to Gross Domestic Product (GDP) at market price of the economy averaged 0.33% over the years.

Growth in performance of EPZ program increases its contribution to national economy. However, annual revision of various national performance indicators influences EPZ contribution. A case in point is the manufacturing sector employment whose figures were revised to 347,900 persons for year 2019 from 307,592 persons captured in Economic Survey 2019.

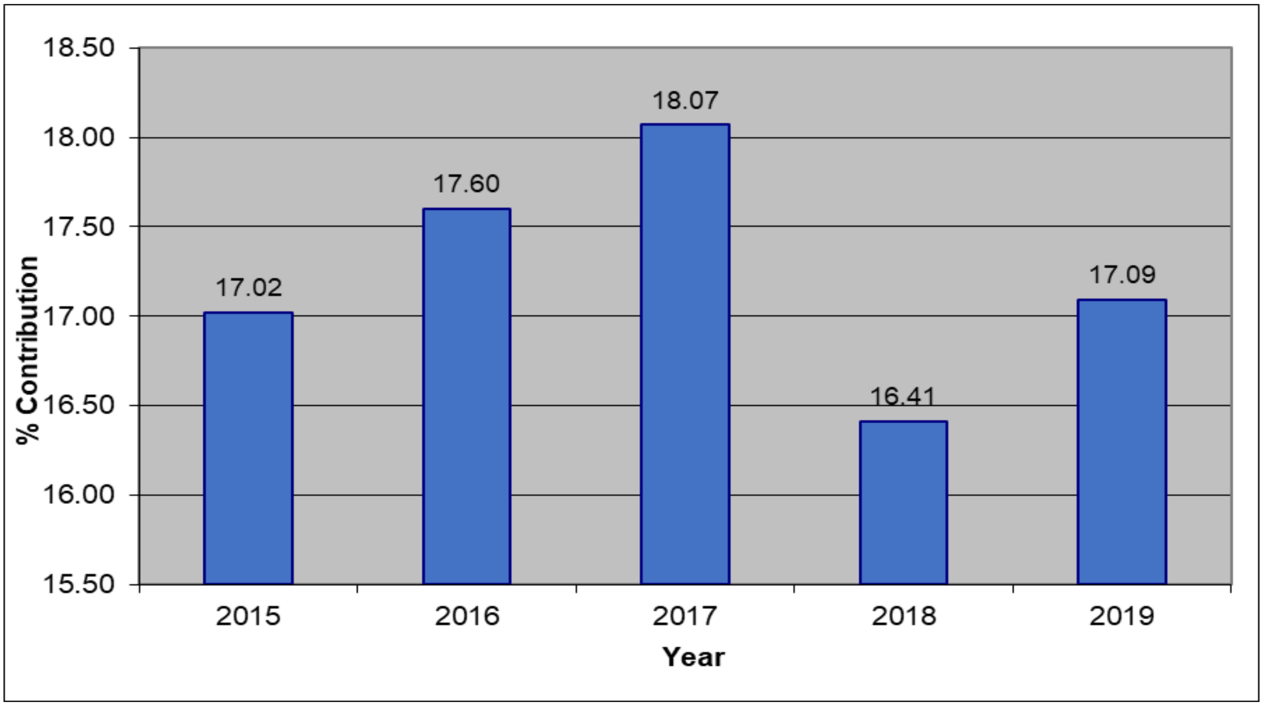
A summary on table 12 and Chart 10 shows EPZs contribution to the national economy.

Table 12: EPZ contribution to the national economy: 2015 – 2019

Indicator	Units	2015	2016	2017	2018	2019
Total Kenya Exports	Kshs Million	584,360	581,561	597,904	614,316	596,677
Manufacturing sector Value of Output	Kshs Million	1,977,169	2,131,907	2,255,687	2,409,981	2,568,758
GDP at market prices	Kshs Million	6,284,185	7,022,963	8,165,842	8,892,111	9,740,360
Total national employment	number	14,758,500	15,565,600	16,471,400	17,295,800	18,142,700
Manufacturing sector employment	Number	295,500	300,900	303,000	347,900	353,300
Total output EPZ	Kshs Million	64,897	68,569	67,270	77,271	77,189
Exports EPZ	Kshs Million	*60,879*	*64,151*	*60,729*	*72,390*	*68,572*
Employment EPZ (local)	*Number*	*50,302*	*52,947*	*54,764*	*57,099*	*60,390*
EPZ contribution to total Kenya Exports	Percent	10.42	11.03	10.16	11.78	11.49
EPZ contribution to manufacturing sector value of output	Percent	3.28	3.22	2.98	3.21	3.00
EPZ contribution to total national employment	Percent	0.34	0.34	0.33	0.33	0.33
EPZ contribution to manufacturing sector employment	Percent	17.02	17.60	18.07	16.41	17.09
EPZ contribution to GDP market prices)	Percent	1.03	0.98	0.82	0.87	0.79

Source: Economic Survey 2020 and EPZA reports

Chart 10: EPZ Contribution to manufacturing sector employment; 2015 – 2019



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 2019 are tabulated on table 13.

Table 13: Constraints/ impediments reported by EPZ enterprises, 2019.

Constraints/impediment	Number of firms which reported/affected (2017)	% of enterprises affected to total no. of operating firms in (2017)	Number of firms which reported/ affected (2018)	% of enterprises affected to total no. of operating firms in (2018)	Number of firms which reported/ affected (2019)	% of enterprises affected to total no. of operating firms in (2019)
Labour productivity/turn over/efficiency, labour unrest	8	6.1	8	5.9	6	4.4
Unfavourable economic condition/inflation	6	4.6	5	3.7	8	5.8
High cost of production	12	9.2	12	8.8	14	10.2
Customs regulation/KRA	13	9.9	1	0.7	7	5.1
High cost of power/electricity	20	15.3	10	7.4	11	8.0
Competition from other countries	10	7.6	10	7.4	11	8.0
High cost of water/unreliable water supply	4	3.1	5	3.7	5	3.6
Local currency fluctuation	1	0.8	2	1.5	6	4.4
Poor infrastructure	9	6.9	5	3.7	6	4.4
Shortage of raw materials	14	10.7	13	9.6	20	14.6
Market access/market barriers	10	7.6	7	5.1	4	2.9
Diminishing demand	11	8.4	10	7.4	8	5.8
Inadequate finances					**13**	**9.5**
Adverse weather conditions	13	9.9	5	3.7	12	8.6
Others(lack of locally sourced inputs, lead time, insecurity, price factor, delays, unfamiliarity with EPZ operations, bureaucracy, corruption, insensitiveness to investor, dependency on the other EPZs, lack of appropriate machines/technology by subcontract EPZ garment firms, marketing, political instability, security concern, congestion among others	41	31.3	52	38.2	35	25.5

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 European 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 interferences 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 6.5% (i.e. Import Declaration Form = 2%; Poison Board = 0.75%; Railway Development Levy = 1.5% & surcharge = 2.25%). 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 177 million which includes 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 up to 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 competiveness;

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 Kenya Industrial Transformation Programme (KITP), National Export Development & Promotion Strategy 2017 – 2022 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) **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;

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

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

vii) **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;

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.

11.0 Set targets and Actual performance.

The projections for the year 2020 took into account the challenges and opportunities facing the EPZ program.

Forecast on performance of selected EPZ indicators is based on conservative estimates while taking into account objectives and targets outlined in the Strategic Plan for 2019 to 2023.

Operating firms are expected to rise to 160 based on facilitation of new enterprises to commence operation by end of year 2020, 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 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 5%, while domestic expenditure is expected to average 40% of total sales.

A summary of set and actual targets for years 2017 to 2019 and projections for year 2020 are outlined on table 14.

Table 14: Set and Actual Targets for 2017 to 2019 and Projections for 2020

Indicator	Target			Actual			% attained			Target
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2020
Operating enterprises (Number)	120	160	160	131	136	137	100	85.0	85.6	160
Employment (Kenyans) Number.	56,672	60,000	63,000	54,764	57,099	60,390	96.6	95.2	95.9	66,429
Investment (Kshs million)	73,242	76,486	80,234	74,586	76,356	77,691	100	99.8	96.8	81,575
Total sales (Kshs million)	74,740	73,147	83,451	67,270	77,270	77,189	90.0	100	92.5	84,136
Exports (Kshs million)	68,989	66,729	78,443	60,729	72,390	68,572	88.0	100	87.4	74,057
Ratio of domestic sales to total sales (%)	20	10	5%	6.5	2.9	5.7	100	100	87.7	5%
Domestic expenditure (Kshs million)	28,234	30,000	33,380	27,805	30,845	31,858	98.5	100	95.4	33,654

Average attainment of set targets for the year 2019 was 91.6% compared to 97.1% in the previous year.

Some of the targets set for the year 2019 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.

EPZ program performance in 2020 will depend on the addressing some challenges and constraints outlined in this report. In addition, the mitigation measures on the impact of Covid -19 on EPZ program is crucial in sustainining growth momentum.

Research Planning & Innovation Department
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