EXPORT PROCESSING ZONES:
ITS IMPACT AND EFFECTIVENESS ON THE KENYAN ECONOMY

A PROJECT

By: DAVID M. MATAEN

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EXPORT PROCESSING ZONES:
ITS IMPACT & EFFECTIVENESS ON THE KENYAN ECONOMY

A project report presented to the Graduate Faculty of the Division of Business Administration

In partial fulfilment Of the requirements of the Degree of Masters of Science in Management and Organizational Development

By
David M. Mataen
Nairobi, 1999.

United States International University
STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other College, Institution or University other than United States International University – Africa for academic credit.

Signed... Mr. David Mutunkeli Ole Mataen

This project has been presented for examinations with my approval as the appointed supervisor.

Signed... Prof. Isaac C Riak

Signed... Chair, Division of Business Administration

Signed... Dean, Academic Affairs

Date...

Date...

Date...

Date...
Acknowledgement

I would like to thank my supervisor Prof. Isaac C. Riak, for assisting and guiding me through the project. I would like particularly to single out the forbearance he demonstrated towards my inexperience; steadfastly keeping me focussed all through.

I would also like to give my appreciation to Mr. Dominic I. Muriuki, Research and Planning Officer at the Export Processing Zones Authority whose assistance made a difference.

To Rose Catherine W. Kamau formerly of Integer Limited who dutifully and without reserve typed and retyped all the paper work that has realized in this final paper. Her diligence and commitment is incalculable.

To my colleagues at USIU – A; my lecturers Dr. Afrifa Gitonga and Mr. James Karanja; to the Librarian at World Bank Library; the Librarian at EPZA library, I appreciate all the assistance you have all given me in making this project successful.
Dedication

I dedicate this Project Report to:

My father Mr. Joseph Sikoyo Ole Mataen who, though not endowed with plenty, stretched his resources to the limit to meet my educational requirements and needs.

And my mother Mrs. Annah S. Sikoyo whose prayers and love gingerly urged me on.
Abstract

The Export Processing Zone (EPZ) is an important vehicle for National development. Developing economies find profound opportunities to tap into by investing in, and facilitating private sector investment in Export Processing Zones. The purpose of this research was to study the effectiveness of the Kenyan Export Processing Zones within the formative 5 years of existence. Immediate concern lay with the impact it has had on the National employment creation drive; the National foreign exchange accumulation programme; and the Foreign Direct Investment (FDI) i.e. attraction of Long-term physical capital factor; and the substantive technological advancement as a result.

The importance of this study derived purely from a need to assess the economic sense and reality of a programme that has cost the economy so much in funds invested; valuable time and human capital commitment in training and engagements. It emerged as a fertile area for academic pursuits, to review the EPZ being one of the most recent and novel instruments prescribed to Least Developed Economies pursuant to economic independence. The preponderant question that has endured throughout this study has been, "is economic independence therefore in sight; has it increasingly become possible, and foreseeable?"

Secondary data was adapted from the Export Processing Zones Authority, which had to be transformed effectively to serve the purpose of study. Ms-Excel was used to present the data, and percentages included to depict the respective dimensions and scales of the actual factors studied i.e. employment; local expenditures; foreign exchange position; enterprises establishment; local and external export revenues; and value added. Also investigated was the existence of Export
diversification from Non-traditional exports and how substantial it has been, and therefore its consequence to the economy. Alongside, this was the extent of Backward linkages through local purchases of raw materials and semi-processed goods.

The findings revealed that the EPZ, though has not fulfilled all the intended objectives, is on track. Substantial job opportunities have been realized; there's tremendous Foreign Investing presence; and local expenditure on utilities and raw materials is considerable.

In conclusion, therefore, the EPZ bears a potential to impact positively on the Kenyan economy in the very foreseeable future. It is no doubt a strategic investment in these days of economic integration, which enhances the potential for opening up proximate and accessible markets for industrial and consumer goods in the region.
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CHAPTER ONE

1.1 INTRODUCTION

The term “Export Processing Zone” (EPZ) was first used in Taiwan in 1965. Goals from the start were to attract industrial investment, promote foreign trade, create jobs, and introduce modern industrial technology. EPZ's are therefore few of several administrative instruments for providing free trade status to manufactured exports (EPZ Policy Research and External Affairs, The World Bank, 1992, Page 1).

Along with a realistic exchange rate, sound macro-economic policies, liberalization and reform of import policies, making economy wide duty-free systems work well for manufactured exports, is a principal element of the trade policy reforms advocated by the World Bank Group since 1979. Essential for smooth entry of an EPZ as policy instrument is an appropriate policy regime, which includes adequate physical trade infrastructure and a legal and regulatory environment favorable to private business and exporting.

An EPZ is an industrial estate with rental factory buildings. “It specializes in manufacturing for export to more advanced market economies by offering exporters duty-free imports, a favorable business environment, few regulatory restrictions, and a minimum red tape.” (EPZ Policy Research and External Affairs. The World Bank, 1992, Page 1).

The Export Processing Zones Programme in Kenya was inaugurated in 1990 with the passing of an act of parliament - CAP 517 of the Laws of Kenya. The EPZ Authority
was established at the same time to spearhead and oversee the development of export oriented manufacturing activities. The scheme is one of policy initiatives taken by the Kenya Government to promote export oriented industrialization in Kenya and is World Bank assisted thorough the Export Development Programme (EDP) - (EPZA Act - CAP. 517 Laws of Kenya, 1994 EPZ).

1.2 THEORETICAL FRAMEWORK

Every successful development programme must have critical success - factors. Export processing zones anywhere are associated with five broad areas; through which we can gauge the success or failure of the programme. They are thus: Foreign Direct Investments (FDI); Backward economic linkages; Technology transfer; Employment; and Value added and Net earnings from exports.

1.2.1 Foreign Direct Investments.

One feasible way for a developing economy to supplement its insufficient export manufacturing is to collaborate with foreign investors. These investors contribute not only capital, but more important, a package of marketing and technical know-how, access to established overseas market networks, and the managerial capacity to combine them with local resources. An EPZ’s free trade status and liberal regulatory environment, combined with an efficient industrial estate, generally make it more attractive to foreign investments than a location elsewhere in the economy. An internationally competitive business environment is also essential.
In practical terms this means a policy environment that does not get in the way of private sector development, low real wages relative to worker performance, easy access to external markets and inputs for export processing, good physical trade infrastructure, and a reasonably favorable living environment. Readily available information on the EPZ and the host economy and on local firms that are potential suppliers or collaborators is also important.

It would be an interesting matter to establish the level of Foreign Direct Investment in the EPZ and thereby measure its attractiveness to foreign investors. It is my clear understanding that Foreign Direct Investment also enhances a breakthrough to foreign markets since most of these foreign investors come with already established overseas markets. The levels of FDI can therefore be expected to be directly related to export markets. My study would seek to unravel this relationship.

1.2.2 Backward Linkages.

This happens when foreign investors identify opportunities for sourcing materials and components from domestic suppliers. Operationally the EPZ structure seems to undermine this. EPZ are typically insulated from the domestic market on the basis of high costs, poor quality materials and the defects of the poor economy-wide policy environment.

From the preceding backdrop, backward linkages have been seen to occur effectively, therefore, in those economies which extended equal-footing policies to firms outside the
EPZ which therefore developed capacity to produce competitive indirect export items.

The potential for backward linkages depends on a number of factors:-

- The nature of the industry attracted to the zone;
- The ability of the domestic suppliers to meet delivery dates and quality standards for zone producers and
- The attitude of zone companies toward sourcing materials and services domestically.

While delving into this study a look at probable specialization of domestic firms to serve EPZ firms or the establishment of new firms as support sector to help meet EPZ domestic demand for raw materials, semi-processed products or even the provision of utilities would help rationalize this concept of backward linkages.

1.2.3 Technology Transfer.

Most technology transfers in EPZ's occur through the movement of people trained on the job in EPZ firms into the domestic economy. Firms in the EPZ may also transfer technology by giving assistance to local suppliers as they develop backward linkages. They would often work with the domestic suppliers to achieve the desired quality standards and delivery schedule. Often to guarantee quality, technological instruction is transferred to the outprocessing firms from the resident foreign firms.

Careful micro-studies have concluded that the only feasible way to acquire export skills at an early stage of a country's development is through on-the-job training and learning-
by-doing, not at training centers, neither in formal courses, nor from written materials (Rhee, Katterbach, and White 1990, Page 8).

For mobility to be effective, however, the domestic economy must be attractive; i.e.
- The domestic firms must be willing to pay attractive salaries and offer good career opportunities to trained EPZ staff;
- Conditions exist in the domestic sector where EPZ staff can easily establish new businesses.

When the business environment outside the zone is not attractive, technology transfer effect tends not to be fruitful or to contribute much to the local economy. It remains cloudy to me this business of technology transfer in the light of the above. The Kenyan EPZ, being young and fledgling would perhaps not pass this manner of test.

1.2.4 Employment

This includes availability of job opportunities and career paths for locals in fulfilment of the economywide obligation for employment creation. The EPZ is principally an employment provider, it is touted as a potential employer of numbers - as large as 1.2m in the case of China, and 73% of the labour force in the case of Mauritius, to come closer home (Free Trade Zones in Export Strategies: Policy, Research, and External Affairs, the World Bank Group. Page 16).

The Kenyan EPZ boasts employment of 2718 as of October 1995. The question that lingers is what has been achieved in employment creation; are we near target or way far
from it? What are the figures of fixed employment? Is there evidence of indirect job
creation through demand for services and construction? What are the real wages in
comparison with comparable jobs outside the zones? Has the EPZ really got potential
for employment creation; and how far is that realized?

1.2.5 Value Added and Net Earnings from Exports

Value added in EPZ’s is commonly around 25% or slightly less, particularly where
zones import almost all their material inputs. Of this 25% typically at least half is
labour costs, some of the rest is payment for rent utilities, transport, services and goods
inside the country; and some goes to the owners and their creditors abroad. Thus net
foreign exchange earnings for a country from the exports of a foreign owned EPZ plant
are 15 - 20% of the value of the export. These margins are however as large as the
earnings in the world prices from a country’s export manufacturing outside EPZ’s.

Whereas these figures give the actual financial performance of the EPZ, it is not enough
to go by them only. The EPZ, apart from earning real revenue to the exchequer, also in
the main gives economic services to the economy. So a comprehensive review of the
value added should of necessity accommodate the value of employment and skills
transferred.
CHAPTER TWO

2.1 PROBLEM STATEMENT

The EPZ is a policy instrument designed to initiate substantial economic growth, create enormous opportunities for gainful employment and rake in badly needed foreign exchange. The EPZ is also phenomenally designed to attract cherished Foreign Direct Investment, necessary as a vehicle of economic growth for fledgling economies. The question is, to what extent has the EPZ achieved these goals?

In reviewing the last six years of the operation for the EPZ in Kenya, this paper seeks to find out:-

1. The level of Foreign Direct Investment in place vis-à-vis the projected levels, in a bid to answer the questions; what is the capacity of the EPZ, as a policy regime, to attract foreign investment? Do these foreign investment bring with them any form of backward linkages and foreign exchange? If so, to what extent and relevance?

2. Employment creation within the EPZ, and explore the areas of job security, training and skill development, and wage issues. In essence the mood of this research gravitates around the question 'what is the impact and effectiveness of EPZ?'

2.2 RESEARCH OBJECTIVES

Export processing zones have been found to be effective elsewhere most notably in such comparable environment as Mauritius (Free Trade Zones in Export Strategies - 1990 Page 39). By looking at the past records on investments, export income and
employment on a yearly basis and comparing these with the projections on EPZ forecasts, I hope to come up with understanding of the effectiveness of the EPZ.

Through interviews conducted across the spectrum of the professional staff of the EPZ Authority and by relating the research variables - employment, investment levels, export income, local expenditure (akin to backward linkage), I hope to study the economic impact of the EPZ. The overall objective is to bring out the present position in relation to met or unmet expectations, a review of the performance so far with a view to develop sound policy recommendations.

2.3 STUDY LIMITATIONS

1. To effectively determine the level of performance and efficiency of the EPZ, there is a need to have a good data base of past performances - indicating reviews and recording clearly the patterns of the EPZ performances since inception. The limiting factor is that there has been one documented comprehensive review of the EPZ in Kenya since. This review was carried out in 1995 by the Authority itself. In this regard therefore, the scene is scarcely documented.

2. As objective as this research may have been wished to be, a salient limiting factor was time. To be able to gauge the effectiveness of the EPZ and quantify it, one needs to look at it against other EPZs established along the same circumstances and scale. Painstaking study is required since information is not easily available on these EPZs. Time would therefore be a good thing. Now, this is an invariably scarce commodity.
3. One of the economic indicators for success, namely technology transfer proved unquantifiable and therefore largely unmeasureable. It became necessary therefore to make certain assumptions so as to incorporate this variable - which no doubt is an important measure of the success of the EPZ (assumption in Page 28).
CHAPTER THREE

3.0 LITERATURE REVIEW

3.1 Employment

In a study carried out by Tom Kellehar (1995) to review the progress of the Kenyan Export Processing Zones he looked at two broad areas:- Employment and Projects and Job approvals.

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of Workers</th>
<th>Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1992</td>
<td>534</td>
<td>-</td>
</tr>
<tr>
<td>December 1993</td>
<td>1653</td>
<td>210%</td>
</tr>
<tr>
<td>December 1994</td>
<td>2720</td>
<td>64.5%</td>
</tr>
<tr>
<td>December 1995</td>
<td>2911</td>
<td>7%</td>
</tr>
</tbody>
</table>


According to Kellehar, (Kellehar, 1995, Page 11) the Kenyan EPZ Programme has averaged above 1960 jobs a year since 1992. He says that most zones in Central America and the Caribbean averaged around 1000 to 3000 jobs a year. By this comparison, therefore, the Kenya EPZ has had a good start. The report indicates that the prospects in the coming years (after 1995) for continued employment growth were good. This was backed by a total of 7074 jobs having been approved then in 48 projects.
<table>
<thead>
<tr>
<th>Year</th>
<th>Never Started</th>
<th>Closed</th>
<th>Waiting to Start</th>
<th>In Operation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>Project</td>
<td>4</td>
<td>6</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Jobs</td>
<td>259</td>
<td>110</td>
<td>-</td>
<td>776</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>22.6%</td>
<td>9.6%</td>
<td>-</td>
<td>67.8%</td>
</tr>
<tr>
<td>1993</td>
<td>Project</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Jobs</td>
<td>-</td>
<td>186</td>
<td>253</td>
<td>849</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>-</td>
<td>14.4%</td>
<td>19.6%</td>
<td>66.0%</td>
</tr>
<tr>
<td>1994</td>
<td>Project</td>
<td>2</td>
<td>-</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Jobs</td>
<td>61</td>
<td>-</td>
<td>1051</td>
<td>2939</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>1.5%</td>
<td>-</td>
<td>25.9%</td>
<td>72.6%</td>
</tr>
<tr>
<td>1995</td>
<td>Project</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Jobs</td>
<td>-</td>
<td>-</td>
<td>291</td>
<td>299</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>-</td>
<td>-</td>
<td>49.3%</td>
<td>50.7%</td>
</tr>
<tr>
<td>Total</td>
<td>Project</td>
<td>6</td>
<td>7</td>
<td>13</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>12.5%</td>
<td>14.5%</td>
<td>27%</td>
<td>46%</td>
</tr>
<tr>
<td></td>
<td>Jobs</td>
<td>320</td>
<td>296</td>
<td>1595</td>
<td>4863</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>4.5%</td>
<td>4%</td>
<td>22.5%</td>
<td>69%</td>
</tr>
</tbody>
</table>

Source: Tom Kellchar - Review of the Kenyan Export Processing Zones Programme.

(Page 9).
According to this report the number of approved projects which have failed to start is quite small compared with other countries. In a number of countries over 30% of approved projects have failed to materialize (Kellehar, 1995, Page 11). In Kenya, however, the figure is 12.5% in terms of projects approved (i.e. 6 projects in the first 48 approved) and 4.5% in terms of jobs approved. The failure rate at 10% of project accounting for 4% of approved jobs - is reasonable according to Kellehar. This in my view is a good departure point for an economy that has had no similar adventures in the past. However, a sustained investment programme is necessary to keep it relevant.

3.2 Export Diversification: EPZ’s are also meant to contribute to the growth of non-traditional export sector in attracting manufacturing and light industry thereby diversifying economic activity in the country as a whole and reducing dependence on traditional exports. (Export Processing Zones - Review of the Global Experience and Implications for Kenya. Panel discussion April 18th - 19th 1990, Page 6). In view of the above declaration, Kenya by October 1995 had two operational enterprises in the pharmaceutical sector and another two in the electronics sector - two non-traditional manufacturing sectors.

However, dependence on clothing and raw material processing was still very high with a total of 13 operational enterprises representing 81% of jobs. There were 7 approved projects in these sectors waiting to start vis-à-vis only 1 for electronics sector and none for pharmaceuticals as at October 1995 (Kellehar: Review of the Kenya Export Processing Zones Programme - October 1995, Page 10). Regarding this, the EPZ has
had no substantive impact so far and there is no evidence of a deliberate policy of diversification.

3.3 Wages: According to a report on Labour conditions in the EPZ enterprises 1996, as of June (1996), thirteen employers paid above the national minimum, four employers had not adjusted their salaries to the new guidelines. However, all were expected to adjust to the new national minimum of Kshs. 2,300/= per month effective 1st May 1996. Out of 2649 workers employed, 451 were permanent, while the rest were on probation or casual. The textile sector, which is the largest employer, does not seem to have sufficient orders to guarantee permanent employment, there are regular closures while the firms await materials.

This clearly indicates that the EPZ has no qualification as an “alternative” employer. That some enterprises within it still pay below the national minimum wage, testifies that the EPZ also takes advantages of the vast unemployment situation in the country, which allows it to maintain 83% of the workforce on casual and probation basis.

3.4 Training and Skill Development: According to the same report, majority of enterprises do not have training programmes for workers. It states that there is little evidence of skill development particularly in the textile industry and that there has been no effort to train the locals in design cutting and garment making. Majority of enterprises offered no incentive to their workers. The effects have been low motivation and low productivity. The report cites high labour turnover and lack of job security as the probable causes of sit-in, strikes and go-slow prevalent in the EPZ parks. These are
compounded by the fact that the workers are not entitled to leave, sick-off nor
maternity leave.

The report recommended to the EPZ authority the need to address the issue of
employment. The argument being that if an enterprise operated for three or more
years, there's little justification to retain a large workforce of casual labour as it is
assumed that this time steady markets and orders have been brought. (EPZ - Report on
Labour Conditions in EPZ Enterprises: Prepared by Industrial Relation Section
Operations Division, August, 1996, Page 3 - 5). The manifest absence of training and
skill development, without which there can be no manufacturing independence, leaves a
lot to be desired. The EPZ being a national drive to fuel the vehicle of economic and
social development would not be so pertinent with the exclusion of a feature so cardinal
as training.

3.5 Linkages in Technology: Most technology transfer in the EPZ's occur if the
business environment in the domestic economy is favorable for establishing new
Industrialized Countries (NIC's) and a few other developing countries, significant
backward linkages have hardly developed from EPZ's. Overall development of
linkages is a slow and difficult process - not easily definable in a span of ten years.
(Expert Group meeting on EPZ's, Development, Management & Promotion Report -
Vienna, Austria, December 1992 - organized by UNIDO, Page 30).
According to Mwi Mugambi, in his project paper, “The influence of establishing an EPZ within Athi-River Town” 1997, Page 47, the problems that beset effective linkages are thus: Poor location, and the Absence of indigenous subcontracting capacity.

He says that similar short comings were once responsible for disappointing early results in Mauritius - but once removed there was subsequent rapid growth in EPZ productivity and linkages capacity.

Technological linkages therefore, being an advanced spin-off of the EPZ anywhere, are understandably not worthy of inclusion of any study of the Kenya EPZ at this point.

In conclusion, in his dissertation submitted to Bandari College, Mombasa, “International Trade new patterns of Trade EPZ - Investment. Kenya case,” (November 1997, Page 12), Mr. Simon Kithumbu contends that the Kenyan EPZ programme is showing signs of success. His trigger points are thus:

With fourteen zones gazetted in Nairobi, Mombasa, Nakuru and Athi-River, sixty EPZ enterprises with potential investment of Kshs. 7 billion approved; of this 24 already in operation attracting an investment in capital and equipment worth Kshs. 4 billion over the last six years; total employment in the last years at 2950; the Kenyan EPZ compares favorably with other upstart EPZ’s in similar circumstances.

The EPZ programme has attracted a wide range of companies including computer assembly, agro-processing, garment and textile sector, pharmaceuticals and printing. Most of these companies are foreign-owned, consequently attracting substantial foreign
investment from United Kingdom, Germany, Korea, Hong Kong, Philippines, Sri Lanka and Pakistan, among others, while also successfully attracting substantial investment from Kenya. Forty percent of the investors are foreign, 30% foreign / domestic joint ventures and the remaining 30% are domestic (Status Report on EPZ, 1997, Page 8 - EPZA Research Department).
CHAPTER FOUR

4.0 RESEARCH METHODOLOGY

4.1 Research Design

The bulk of this research relies on historical data on the EPZ, including mainly figures collected and compiled by the EPZ on export revenue in yearly figures, employment data, and local expenditures by foreign owned enterprises. The latter found necessary as a way of presenting the often abstruse backward linkages phenomena.

A look at historical record of the past six years of existence, relating these to the expectations placed on the EPZ enabled a realistic analysis of the EPZ’s reason for existence and its sustainability. In view of this, therefore, much of the research data is adopted from the EPZ records. However, there often was need for answers to questions arising from studying the data and the ensuing trends. Also in areas where collected data was not sufficient, interviews were carried out among professional staff of the EPZ Authority, notably the new Investments Manager, Research Manager, Planning Officer, and the Librarian who gave invaluable information and assistance to beef up the existing records, to explain trends, to give insights into the focus of the EPZ, to articulate the EPZ present policies and a professional view of the EPZ policy achievements and drawbacks and even failures.

The questions asked range from explaining the tables i.e. “What precipitated the drop in export figures in 1994 from 1993?”, to explanation of the nature of local expenditure by foreign owned firms, leading to the break up of gross expenditure figures into office
equipment and communication and utilities expenses etc., local purchase of raw materials and semi-processed products, and salaries and wages.

The interviews also revealed the catalogue of ownership i.e. whether foreign owned or foreign and local joint venture or purely local. Answers to why local purchases were remarkably very high in 1993 than in any other year of existence emerged from this session too. Also featured were the identity of those firms sourcing raw materials locally among other questions which all went to explain the available information in a clear and appreciable way.

4.2 Data Analysis & Research Findings

<table>
<thead>
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<tbody>
<tr>
<td><strong>YEAR</strong></td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>Investments (Kshs.)</td>
</tr>
<tr>
<td>% Increase</td>
</tr>
<tr>
<td>Zones</td>
</tr>
<tr>
<td>% Increase</td>
</tr>
<tr>
<td>Enterprises</td>
</tr>
<tr>
<td>% Increase</td>
</tr>
</tbody>
</table>


4.2.1 Investments: A look at the investment table 3, reveals that the last five years have seen investments almost double in terms of operational enterprises. By 1993, the EPZ had 12 operational enterprises and the tally stood at 22 as at December 1997, an increase of 10 new enterprises. The picture is more telling from the point of view of investment value in Kenya shillings which has dramatically increased from Kshs. 1,667,875,730 in 1993 to a colossal Kshs. 4,657,976,733 in 1997 representing a whooping 180% increase or 30% per annum. There has been a steady build up, but a
jump was experienced in 1994 - 1995 from Kshs. 2,097,941,128 to Kshs. 3,899,984,199 almost a 100% increase.

Of the 22 enterprises operational in December 1997, 9 or 41% are fully foreign controlled, and another 7 or 32%, are foreign / domestic joint ventures. This 73% of foreign and foreign / domestic point ventures augurs well for the EPZ objective of attracting Foreign Direct Investment. In Tom Kellehar’s report, October 1995: “A total of 48 projects had been approved. Two years later only 22 projects are in operation, less than half of the total approved. This has been as a result largely of most of these enterprises failing to get started and a minimal figure closing down.” (Kellehar, 1995, Page 11).

By relating the investment trends with export revenues there emerges proportionate reality between Foreign Direct Investment and export markets. There is a clear indication that with every increase in investment there is a corresponding increase in exports, a case that has not effectively applied to local sales revenues. This is explained by the fact that foreign investors export directly to already existing markets in their home countries or associated establishments in other countries; according to the EPZA Interviews.
TABLE 4: EMPLOYMENT

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenyans</td>
<td>1,594</td>
<td>2,632</td>
<td>2,718</td>
<td>2,884</td>
<td>2,855</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
<td>-</td>
<td>65%</td>
<td>3.3%</td>
<td>6.1%</td>
<td>(1%)</td>
</tr>
<tr>
<td>Expatriates</td>
<td>59</td>
<td>88</td>
<td>79</td>
<td>66</td>
<td>74</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
<td>-</td>
<td>49%</td>
<td>(10%)</td>
<td>(16.6%)</td>
<td>12%</td>
</tr>
<tr>
<td>Totals</td>
<td>1,653</td>
<td>2,720</td>
<td>2,797</td>
<td>2,950</td>
<td>2,829</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
<td>-</td>
<td>64.5%</td>
<td>2.8%</td>
<td>5.5%</td>
<td>(1%)</td>
</tr>
</tbody>
</table>


4.2.2 Employment: From 534 in 1992 to 2855 in 1997 the EPZ has managed to give an extra 2,321 Kenyans a means of livelihood in five years. The EPZ employment increased four fold in five years or over 86.8 percent per annum. Securing employment being the number one objective of the EPZ policy, it is imperative that job creation be a first agenda.

In actual fact this figure only represents 40 percent of all jobs ever approved as of 1995 going by Tom Kellehar 1995 i.e. of the 7074 jobs approved. On a normal setting, allowing for failure rate of 10 percent in projects approved (Tom Kellehar, 1995, Page 11), and 12.5 percent failing to get started, thus a total of 22.5 percent, we should therefore be talking of 5482 jobs in December 1997, the shortfall of 2553 is enormous.
The EPZ firms' expenditure on salaries and wages has over the years seen a sharp rise from Kshs. 35,804,116 in 1993 to Kshs. 187,863,560 in 1997 representing a 4.2 times upswing or an average annual increase of about 85 percent.

The employment of expatriates rose from 59 in 1993 to 88 in 1994 with the increase in new investments. However, this figure has been on a sustained decline from 1994, and then stood at 74 in 1997. This is a result of expatriate substitution in consistency with the EPA policy for national employment. In view of the thickening employment slate, and the expanding budget on labour, there is certainly no evidence of retrogression. If progress is not seen to trickle in projected terms, it is admittedly trickling anyhow.

4.2.3 Backward Linkages:

**TABLE 5: LOCAL EXPENDITURE OF EPZ COMPANIES (KSHS.)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Purchases</td>
<td>207,953,520</td>
<td>71,343,124</td>
<td>49,784,017</td>
<td>90,618,240</td>
<td>73,756,536</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
<td>-</td>
<td>(66%)</td>
<td>(30%)</td>
<td>82%</td>
<td>(17.6%)</td>
</tr>
<tr>
<td>Salaries / Wages</td>
<td>35,804,116</td>
<td>97,765,751</td>
<td>129,250,927</td>
<td>149,467,766</td>
<td>187,863,560</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
<td>-</td>
<td>73%</td>
<td>32%</td>
<td>15.6%</td>
<td>25.7%</td>
</tr>
<tr>
<td>Expenditure on Utilities</td>
<td>11,974,334</td>
<td>23,236,006</td>
<td>30,623,768</td>
<td>52,121,403</td>
<td>140,791,051</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
<td>-</td>
<td>94%</td>
<td>32%</td>
<td>70%</td>
<td>170%</td>
</tr>
<tr>
<td>Totals</td>
<td>255,731,970</td>
<td>192,344,881</td>
<td>209,838,710</td>
<td>292,207,409</td>
<td>402,411,147</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
<td>-</td>
<td>(25%)</td>
<td>9%</td>
<td>39.4%</td>
<td>37.7%</td>
</tr>
</tbody>
</table>

**Source:** EPZA, 1998.
Local purchases of raw materials and locally assembled machinery have experienced mixed fortunes over the past 5 years. The highest ever such expenditure was Kshs. 207,953,520 in 1993. This is attributed to the fact that most companies started or were starting to operate then (12 enterprises) and were therefore setting up offices and factory premises. A great deal of this expenditure went into office and factory furnishing, vehicles and communication systems and other equipment, (according to the New Investments Manager, EPZA).

Expenditure on raw materials has continued to veer on both sides of Kshs. 70 million. The only significant commitments to this drive are seen in the case of Eltex EPZ Ltd., manufacturer of cotton yarn, sourcing almost all its cotton from local ginneries; and also WES Exports EPZ Ltd., processor of fruits and vegetables also sourcing all horticultural produce locally. Others are Kenko Industrial Co. EPZ Ltd. which manufactures sisal cloth from locally produced sisal and exports to Korea, Philippines and Indonesia and also Rayven EPZ Ltd., manufacturer of stationery. The combined sales revenue for these firms in 1997 were Kshs. 441 millions (Table 9). For firms processing local resources, this is not a mean contribution to an economy that has long sought to substitute raw material exports with exports of fully processed products. This though compares dismally with external sourcing of raw materials and equipment. In 1997, for every one shilling the EPZ firms put in local hands, they put 12.5 shillings in foreign hands (comparison of Local Purchases - Table 5; and Raw Materials Imports - Table 7).
However, expenditure on utilities i.e., water, telephone, postal, fax, sewerage services etc. has increased tremendously, scaling Kshs. 140,411,147/= in 1997. This is a means of backward linkage because it gives business to the local companies which provide these services. It is essentially also an indirect employment creation instrument because it sustains the jobs of those in direct provision of the services in the companies involved.

4.2.4 Export Income:

<table>
<thead>
<tr>
<th>TABLE 6: EPZ REVENUES FOR PERIOD 1993 TO 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>--------------------------------</td>
</tr>
<tr>
<td>1. External Exports</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
</tr>
<tr>
<td>2. Local Sales</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
</tr>
<tr>
<td>Totals</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
</tr>
</tbody>
</table>


The EPZ firms export both to foreign markets and into the domestic market. Exports into the domestic markets are subject to excise duty in fulfilment of a statutory requirement. The foreign markets exports tallies have continued to grow significantly. Now they stood at Kshs. 1,407,612,217/= in 1997. Local sales dropped from Kshs. 620 million in 1995 to stand at Kshs. 476 million in 1997. This is largely a result of domestic economic slump according to the EPZ Authority, and new Investments concentrating on export markets mainly.
In total the export revenues have increased by 64% between 1993 and 1997, with a noticeable dip 1994 to Kshs. 946,708,052/= from Kshs. 1,147,227,442/= in 1993. This was occasioned by a quota imposed on textile imports by the government of the United States earlier that year. This saw the textile and fabric sector of the EPZ, which is mainly dependent on the US market, stop further investment and reduce production.

With outward exports totaling to Kshs. 1.4 billion versus raw material imports of Kshs. 950 million in 1997, and imports substitution to the tune of Kshs. 467 million in the same period, the Kenyan EPZ has demonstrated capacity for a significant role in shaping the present and future balance of trade features of the Kenyan economy.

4.2.5 Value Added and Net Earnings from Exports:

<table>
<thead>
<tr>
<th>TABLE 7: RAW MATERIALS IMPORTS &amp; VALUE ADDED FROM 1993 TO 1997.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Materials Imports</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
</tr>
<tr>
<td>Value - Added</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
</tr>
</tbody>
</table>


To arrive at convincing figures of value added is not easy since it does involve many assumptions and is often done in more than one way. A generally accepted rule is to
take the sum total of export sales, less imports and local expenditures excluding expenses of salaries, purchases and utilities. For example, in 1997 total value added was Kshs. 894,256,183/= Value added and net earnings, like total export revenue, have also been increasing steadily from Kshs. 186,030,832 in 1994 to Kshs. 894,256,183/= in 1997. Value added or net earnings from exports is important because it is a measure of the difference the EPZ has made in its productive life. 1993 being the first year of operation did not see many enterprises operating at full capacity, others got started deep into the year.

Because of this, therefore, there was no credible way to compute value added to represent the entire EPZ for that year; as most had invested in large quantities of raw materials which were rolled over to 1994. It therefore became necessary to incorporate the 1993 figures into 1994.

4.2.6 Foreign Exchange:

<table>
<thead>
<tr>
<th>TABLE 8: NET FOREIGN EXCHANGE POSITION IN KSHS. BETWEEN 1993 TO 1997.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YEAR</strong></td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Total Imports (Kshs.)</td>
</tr>
<tr>
<td>Total External Exports</td>
</tr>
<tr>
<td>Net Foreign Exchange Position</td>
</tr>
<tr>
<td>% Increase (decrease)</td>
</tr>
</tbody>
</table>

The difference between total exports and total imports is the net effect on the national foreign exchange position attributable to the EPZ. A quick glance at Table 8 reveals that not until 1996 did the EPZ programme realize in a surplus foreign exchange position. In the preceding 3 years it has imported more than it exported. In 1997 alone it realized a net surplus of Kshs. 491,200,403/=; however the overall position is still negative with a combined deficit of Kshs. 285,388,709/= to recoup before we can talk of breaking-even in foreign exchange terms. This arises from total exports for the 5 years of Kshs. 4,257,497,956/= against total imports for the same period at Kshs. 4,542,886,665/=.
<table>
<thead>
<tr>
<th>NO</th>
<th>COMPANY NAME</th>
<th>PRODUCTS</th>
<th>LOCAL SALES</th>
<th>EXPORTS</th>
<th>TOTAL REVENUES</th>
<th>DESTINATIONS OF EXPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Thomas De la Rue EPZ Ltd.</td>
<td>Bank notes &amp; Security documents</td>
<td>345,730,000</td>
<td>14,130,000</td>
<td>568,860,000</td>
<td>Poland, Ghana, Lesotho, Guinea Rep. Venezuela</td>
</tr>
<tr>
<td>2</td>
<td>Birch investments EPZ Ltd.</td>
<td>Shirts</td>
<td>-</td>
<td>131,553,365</td>
<td>131,553,365</td>
<td>USA</td>
</tr>
<tr>
<td>3</td>
<td>Oil Tanking EPZ Ltd.</td>
<td>Commercial - bitumen &amp; bitumen products</td>
<td>59,468,101</td>
<td>26,389,738</td>
<td>85,856,839</td>
<td>Tanzania, Uganda</td>
</tr>
<tr>
<td>4</td>
<td>Kenko Industrial Co. EPZ Ltd.</td>
<td>Sisal cloth and disk buffs</td>
<td>-</td>
<td>27,076,880</td>
<td>27,076,880</td>
<td>Korea, Philippines, Indonesia</td>
</tr>
<tr>
<td>5</td>
<td>Tai Tung Garments EPZ Ltd.</td>
<td>Long and short jeans</td>
<td>-</td>
<td>256,763,102</td>
<td>256,763,102</td>
<td>USA</td>
</tr>
<tr>
<td>6</td>
<td>Legend Technologies EPZ Ltd.</td>
<td>Personal computers</td>
<td>19,847,192</td>
<td>123,221,039</td>
<td>143,068,231</td>
<td>Tanzania, Uganda, Rwanda, Belgium, Italy</td>
</tr>
<tr>
<td>7</td>
<td>Rayven EPZ Ltd.</td>
<td>Stationery</td>
<td>-</td>
<td>11,355,246</td>
<td>11,355,246</td>
<td>Tanzania, Uganda</td>
</tr>
<tr>
<td>8</td>
<td>Legend Technologies EPZ Ltd.</td>
<td>Shirts</td>
<td>-</td>
<td>37,642,436</td>
<td>37,642,436</td>
<td>USA, Uganda</td>
</tr>
<tr>
<td>9</td>
<td>Wes Exports EPZ Ltd.</td>
<td>Processing fruits and vegetables</td>
<td>-</td>
<td>109,654,000</td>
<td>109,654,000</td>
<td>Europe / Middle East</td>
</tr>
<tr>
<td>10</td>
<td>Tri-Star EPZ Ltd.</td>
<td>Shorts</td>
<td>15,147,116</td>
<td>130,811,393</td>
<td>145,958,509</td>
<td>USA</td>
</tr>
<tr>
<td>11</td>
<td>Iovue Aqua EPZ Ltd.</td>
<td>Pharmaceuticals</td>
<td>-</td>
<td>10,800,000</td>
<td>10,800,000</td>
<td>U.K., East Africa</td>
</tr>
<tr>
<td>12</td>
<td>Mohabab EPZ Ltd.</td>
<td>Foam mattresses</td>
<td>-</td>
<td>4,779,480</td>
<td>4,779,480</td>
<td>Ethiopia, Uganda, Tanzania</td>
</tr>
<tr>
<td>13</td>
<td>Norbrook EPZ Ltd.</td>
<td>Veterinary medicine</td>
<td>25,259,537</td>
<td>19,215,772</td>
<td>44,475,309</td>
<td>Uganda, Tanzania, Middle East</td>
</tr>
<tr>
<td>14</td>
<td>Yarena EPZ Ltd.</td>
<td>Plastic products</td>
<td>-</td>
<td>5,433,730</td>
<td>5,433,730</td>
<td>Ethiopia</td>
</tr>
<tr>
<td>15</td>
<td>Eltex EPZ Ltd.</td>
<td>Cotton yarn</td>
<td>-</td>
<td>293,203,756</td>
<td>293,203,756</td>
<td>Europe, USA</td>
</tr>
<tr>
<td>16</td>
<td>Keat EPZ Ltd.</td>
<td>Garments</td>
<td>2,361,370</td>
<td>5,782,500</td>
<td>8,143,870</td>
<td>Ghana, Madagascar, Uganda, DRC</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td>487,311,316</td>
<td>1,447,812,217</td>
<td>1,884,423,533</td>
<td></td>
</tr>
</tbody>
</table>

4.2.7 **Technology Transfer**: As is evident from the preceding facts the EPZ is still groping for identity as an economic reality. Being in its early stages, there is no tangible technology transfer reportable. However, on the strength of a panel discussion, April 1991 - EPZ, Review of the Global Experience & Implication for Kenya, Page 9. I'd like to make one assumption; that contribution to the development of practical labour skills and business practice in the local workforce is a form of technology transfer.

In this vein therefore the Kenyan EPZ has so far contributed to impart labour skills. There is absolutely no evidence of any real technology transfer medium in place (EPZ - Interviews).

4.2.8 **Export Diversification**: By 1997 there were 5 enterprises exporting from non-traditional industries with combined sales of Kshs. 953,039,479/=. Industries represented were security documents manufacture; bitumen products, computers and pharmaceuticals. However, it is only the security documents and computers enterprises which have a substantial turnover (Table 9).
CHAPTER FIVE

5.0 CONCLUSION & RECOMMENDATIONS

5.1 Conclusions

1. With 16 enterprises out of 22 with either full or partial foreign control representing Kshs. 3.4 billion in investment value there is good evidence of foreign presence in the form of direct investment.

2. In an economy where unemployment has gone out of hand and in which employment creation has actually stagnated, if not on a reverse mode, the EPZ does well to give 2,855 Kenyans jobs directly and the economic impact of this is no doubt great.

3. With 2 companies processing and exporting locally produced raw materials with combine sales of over Kshs. 402 million in 1997 and local purchases and expenditures on utilities exceeding Kshs. 200 million annually the EPZ is emerging as an important contributor to the national economy.

4. Until today there is no dividends paid in by the EPZ to the exchequer as foreign exchange surplus. However, this is not to say the economic viability of the programme is nil. Studying the trends, there is evidence of surplus turns in the long-term. 1997 alone realized in Kshs. 491 million equivalent of foreign exchange surplus; 1996 was Kshs. 154 million. In this regard, therefore, the trends seem favorable, but so far there has been no impact.
5. No evidence of technology transfer. Enterprises are still relying on expatriates for specialized technical expertise and skills.

6. Though we have occasional evidence of diversification, there is no deliberate policy or programme that articulates this end in the EPZ. We continue therefore to experience haphazard performance in this area.

7. The EPZ has not yet made substantial input on the domestic economy. However, the policy is sound, the trends are good and effective. It is a matter of time and the EPZ will be an economic colossus. Five years of operational life is not long enough to determine the impact of such a long term programme. The potential is there and there is still some learning to do.

5.2 Recommendations:

1. The authority should pursue and maintain a policy of expatriate substitution by locals trained and skilled in the specific jobs requiring relatively specialized expertise. This way the EPZ can manage a programme of technology transfer.

2. There is need for a re-focus on the EPZ policy objectives. Most urgently the foreign exchange accumulation. It is important that enterprises skimp on the foreign exchange available to them - by buying locally as much as possible. The authority should identify and make available to EPZ investors areas of possible linkages.
3. There is need for the Authority and the Government to enhance promotional campaigns. There is a great potential for foreign direct investment and its only by constantly reminding possible investors that they can be attracted. Advertising always makes sense whether it meets instant response or not.

4. In the spirit of “Industrial Status by the 2020” there is need to seek and attract those industries which will make maximum utilization of the resources available locally. This will help to curb the tide of raw material exports when they can be processed locally and exported for better proceeds. The EPZ can spearhead this crusade, being at the threshold of the export trade.

5. With the “Emerging markets” phenomena, and the present regional integrationist policy, the EPZ does stand in good stead to benefit from proximate, large market opening up next doors. I would recommend the East African Community and the COMESA region.
REFERENCES:


